SME

# World Bank Group Review of Small Business Activities

2001



IFC

MIGA

# Our Mission

**Improving lives**

**by creating opportunities**

**in small business.**

*World Bank Group SME Department*

*Cover:*
*The Hagar Project (see p. 25), operator of a small business and a source of income and hope for some of Cambodia's poorest women and their children. Hagar's business and training activities are being supported by the World Bank Group.*
(Robert Grossman photo)

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*"People don't want charity.*

*They want a chance."*

**James D. Wolfensohn**
**President, World Bank Group**

## Message from James D. Wolfensohn

ever before has there been such broad consensus about what needs to be done to reduce poverty. And this consensus includes realization of the importance of the role of the private sector, including micro, small and medium enterprises.

The private sector clearly is a key engine of growth, and one of the best ways to build it is from the bottom up—focusing on small-scale entrepreneurs. This means listening to their concerns, identifying their biggest obstacles, and helping them compete in an increasingly global economy. Given the right tools, they can create many of the jobs, and much of the wealth, that their societies so badly require.

Small entrepreneurs must be part of the development equation. So often SMEs *are* the private sector, and the sustainable growth and employment generation that are the keys to reducing poverty cannot be achieved without them.

In March 2000 the World Bank Group created a new SME Department, bringing together for the first time the policy reform expertise of the World Bank with the business focus of IFC and MIGA to benefit the small businesses of the developing world. From the outset, this new team has taken a partnership approach, working with various parts of the Bank Group and with leading outside organizations to provide more and better assistance to small businesses. I am quite pleased with the results so far, the highlights of which you will see in the following pages. But there is far more to do.
In 25 years, the world's population will increase by 2 billion, almost all of which will come in developing countries. Already 2.8 billion people survive on less than $2 a day. If these numbers are not to swell further, a vigorous and sustained effort on behalf of smaller businesses will have to be an important part of the larger response.

But we will make progress in fighting poverty only if we all work together—developing and developed countries, international institutions, civil society in all its forms, and the private sector. Ours must be a true and effective partnership to leverage our efforts in the fight against poverty.

James D. Wolfensohn
*President, World Bank Group*

## Message from Peter Woicke

It was time to take another look. Not to start again from scratch, but rather to rethink the way the World Bank Group and its partners were working to promote small business growth around the developing world.

Many organizations, including the World Bank Group, had long supported SME initiatives in most developing countries. Yet the overall results were less than they could have been, and often fell short of what was needed. Some excellent work had been done, but too often in isolation, with few of the most critical lessons circulating to those who most needed to learn from and build upon them. The bottom line: not enough countries were seeing their small business sectors strengthened to the necessary degree.

In reviewing this situation, we felt that the Bank Group's best response would be to create a new focal point for international SME support—one to pull together global knowledge from existing efforts and help it add up to more. The Bank Group clearly has no monopoly of expertise in this area, and indeed has much to learn from other participants in SME development, many of whom have time-honored track records and successful models. But the Bank Group *is* in a position to provide some global leadership, working with the best partners we can, focused on "what works" and a strong commitment to sustainability.

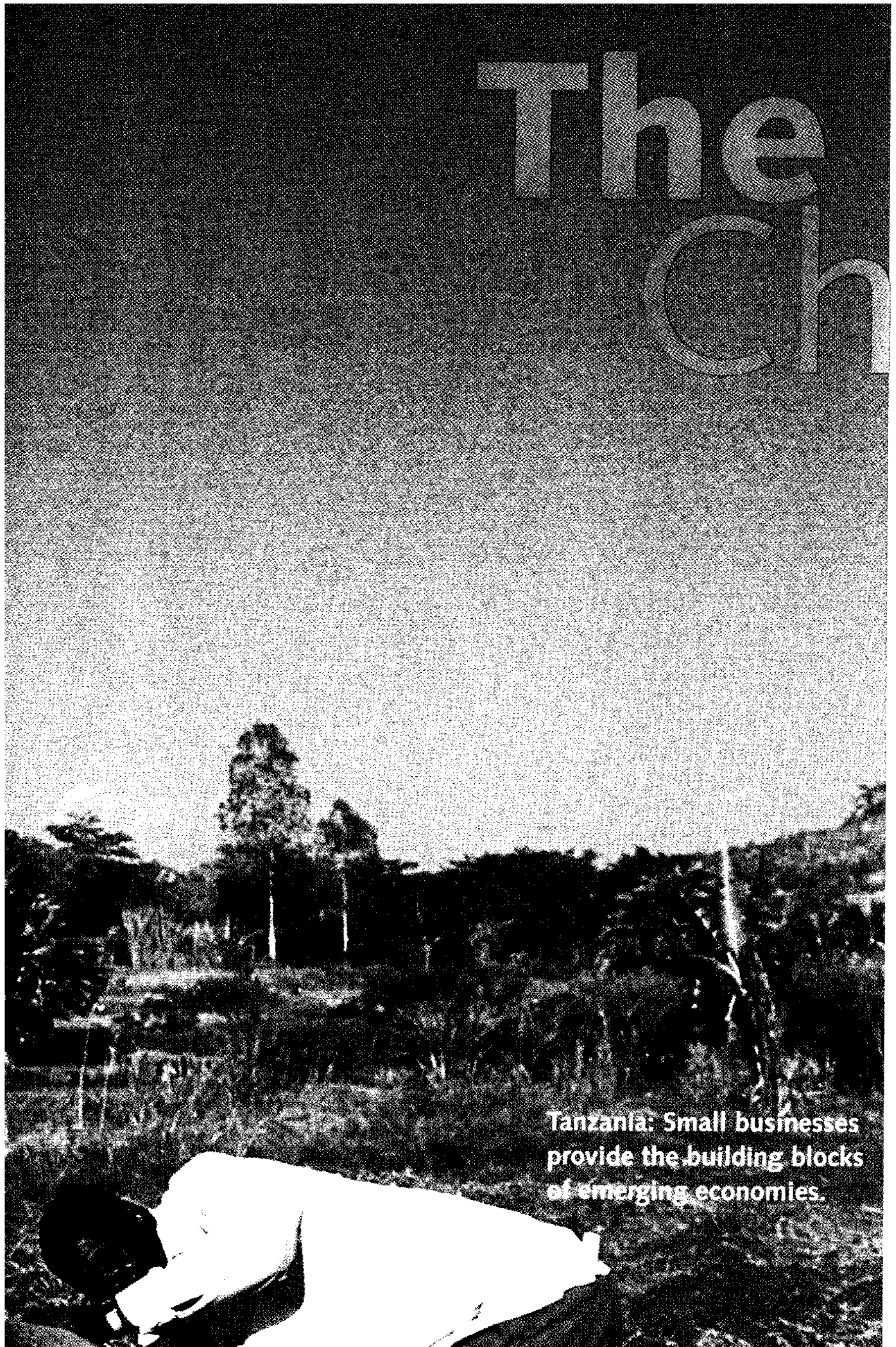
SMEs are often far more affected than larger companies by difficulties in the local business environment, which is something the World Bank is well equipped to address. Local intermediaries are usually the most effective delivery vehicles for the new investment, technical assistance, and other inputs SMEs need. By strengthening and working through the right intermediaries, IFC can make an important contribution.

Putting together these two functions—improving the local business environment and building local capacity—is the essence of our new Bank Group strategy. We have set up an SME Department positioned to coordinate the World Bank Group's roughly $2.8 billion of annual loans, equity investments, technical assistance and other work in this area. This department reviews small business sectors in many of our developing member countries to help the development community and host governments prioritize and coordinate their efforts; manages SME Facilities in several regions; and operates a new SME Capacity Building Facility to fund, learn from, and build upon innovative new pilots and partnerships. We feel strongly that this collaborative approach is the best way to move ahead.

These are still early days. But as I travel, meeting with government and industry leaders throughout the world, it is clear that there is great demand for this work. It is something that is critical to our member countries, and for which the Bank Group has great energy. We want to do all we can to help emerging entrepreneurs create the growth and lasting jobs that will help pull their nations out of poverty.

Peter Woicke
*Executive Vice President, International Finance Corporation*
*Managing Director, World Bank*

# The Challenge



Tanzania: Small businesses provide the building blocks of emerging economies.

**Building better businesses—micro, small and medium enterprises that create lasting jobs and raise incomes in an era of growing global competition.**

# The Case for Supporting Small Business

The World Bank Group has a substantial portfolio of SME-related investments and other activities. Along with its partners, it provides direct and indirect financing, training, technology, support for improvements in the business environment, better corporate governance and many other things that small businesses in developing countries need to grow.

Why?

Because small business is a powerful force for poverty reduction. It creates jobs—jobs through which people can acquire skills and raise their incomes. And because these jobs build a foundation for a middle class, something that increases opportunities and promotes more open and pluralistic societies.

Last year the World Bank conducted a landmark survey, interviewing more than 20,000 poor people in 23 countries. The respondents spoke of their marginalization—their powerlessness, lack of a voice, and little freedom of choice or action. No matter where they lived, the poor said the same thing: they could move up in society only by gaining greater employment options, whether through working informally in a microenterprise or through the chance to earn steadier wages in a formal sector job.

For many, this would mean working in micro, small, and medium enterprises, a sphere of economic activity that accounts for the major share of employment in many developing countries. Yet despite its size, it is a fragile sector. Its jobs are not always enough to lift people out of poverty. They can also carry unsafe working conditions and be highly vulnerable to today's pressures of globalization.

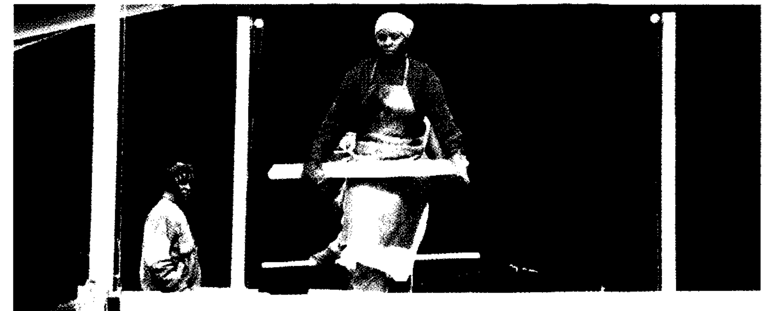
What is needed are healthier, more competitive, and more sustainable small business sectors that can take full advantage of the opportunities before them, creating stable, safe and secure jobs. But experience shows they rarely evolve on their own. Carefully chosen, transparent, and well-designed interventions are important, especially in expanding access to critical resources such as capital, skills, and industry information that help small businesses move on faster, straighter growth paths.

Development institutions worldwide have long tried to do just this, but found the micro/SME sector especially difficult to serve. While many outstanding individual programs have been put in place, lasting and far-reaching results have been few. Meanwhile, income gaps have widened in many countries, and population growth has increased the numbers of poor people.

The policy expertise of the World Bank and the transactional knowledge of IFC have now come together to tackle this issue. The integrated effort comes at a time when a growing international consensus suggests primary emphasis be put on addressing weaknesses in local business environments. SMEs are usually far more vulnerable to heavy regulatory burdens and other such constraints than larger companies, and have fewer opportunities to have their voices heard in pressing for change. Governments that adopt the right reforms in this area can spark considerable new entrepreneurial activity.

But working on that front alone is not enough. Small businesses' unmet need for capital, information, and knowledge is also greater than that of larger ones. There is no better way to help them access needed resources on a sustainable basis than by building up effective local service providers: financial intermediaries, consulting companies, e-businesses outlets, and others. These efforts are especially important in the many low-income countries that receive little foreign investment and thus do not have many multinational corporations on the ground serving as a conduit for the introduction of vital new skills, technology and capital. This leaves a major role for the World Bank Group and its partners in helping local SMEs obtain these key inputs for growth.

Improving access to these key resources and strengthening the business environment can make all the difference. Once freed up in this manner, entrepreneurs the world over have shown they can find their niche and build on it.



SOUTH AFRICA

UGANDA

INDIA

GEORGIA

# WORLD BANK GROUP SUPPORT FOR SMALL BUSINESS

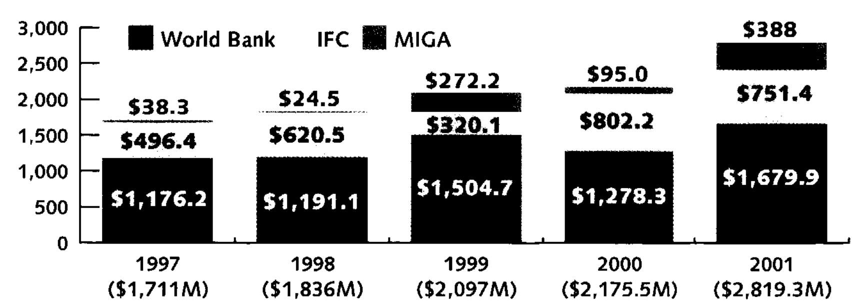
This year the World Bank Group approved roughly $2.8 billion in support of micro, small and medium enterprises. The largest share comes from the World Bank itself, followed in turn by IFC and the Multilateral Investment Guarantee Agency (MIGA).

Each institution employs its own instruments in reaching SMEs. The World Bank lends to governments and their agencies. Its SME products include credit lines channeled through local banks, training programs for small firms, and capacity building operations for SME support institutions. World Bank loans also often include provisions to ease business environment constraints that SMEs face.

World Bank lending for SMEs is currently found in a wide range of sectors. Most of its SME funding appears in the form of components of larger loans for agriculture, financial sector restructuring, private sector development, and other purposes. IFC's investment in SMEs mainly comes through its financial markets projects–i.e., creating, strengthening, and financing financial intermediaries that can efficiently channel capital to SMEs–with IFC also making small amounts of direct investments in SMEs as well.

IFC also offers significant support for SMEs through its project development facilities and Technical Assistance Trust Funds. MIGA's support for SMEs comes in the form of guarantees.

Aggregate figures for the past five years show that more than $10 billion has been approved in SME support programs. In terms of products, 80 percent offer financial assistance to SMEs, while 20 percent comprise technical assistance for SMEs and for support institutions.




Note: This chart shows approval trends of World Bank projects with micro/SME components, IFC SME direct investment and financial markets projects, and MIGA SME contracts. The figures include both currently active projects and closed (or dropped in the case of IFC) projects. The totals exclude World Bank contribution to CGAP, IFC's Technical Assistance Trust Funds, SME Facilities and Private Enterprise Partnership, the SME Capacity Building Facility, and GEF SME projects.

The SME Department is currently working with the following definitions: microenterprise – up to 10 employees, total assets of up to $100,000 and total annual sales of up to $100,000; small enterprise – up to 50 employees, total assets of up to $3 million and total sales of up to $3 million; medium enterprise – up to 300 employees, total assets of up to $15 million, and total annual sales of up to $15 million. While these definitions are admittedly subjective and still under review, they are broadly consistent with those used by most other international financial institutions. Still, it should be noted that the numbers shown above depend heavily on choice of this (or any other) definition.

## Highlights of the Year

**In the fiscal year running from June 30, 2000 to July 1, 2001, the World Bank Group:**

- **Provided approximately $2.8 billion in SME support**
- **Approved 32 pilots and five new partnerships through the SME Capacity Building Facility (see Annex 4), many of which complement or are a part of new or existing IFC projects**
- **Enhanced the impact of the IFC-managed SME Facilities (see Annex 3) by bringing them all under one organization and management structure and doing more to help them build a broader range of services, including development of local capacity**
- **Assembled comprehensive pictures of the World Bank Group's regional programs for SMEs (see Annex 1), and completed an initial set of SME "country maps" (see Annex 2)**
- **Produced new metrics analyzing the outputs and impacts of the IFC/World Bank SME activities**
- **Distilled and disseminated examples of micro/SME "best practice" through a variety of new communications products (web page, newsletters, fact sheets, issues papers, editorials, etc.)**

# Broadening Our Approach

The World Bank Group is reaching out further in its drive to assist small and medium enterprises, working with a broader range of partners than in the past, and building on a growing set of positive experiences. The key is collaboration—whether through taking the small-scale, grass-roots successes of nongovernmental organization (NGO) partners and helping them become more effective and responsive to commercial discipline, or by working at higher levels, partnering with other development institutions to build a more far-reaching approach to SME development.

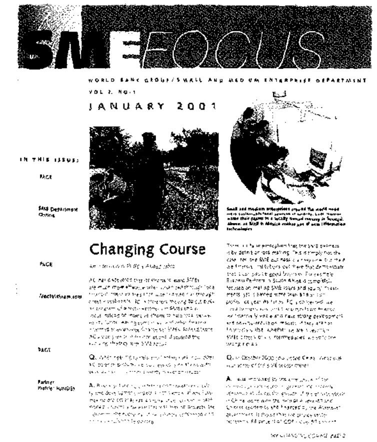
A new IFC instrument, the SME Capacity Building Facility (see page 23 and Annex 4), provides an important vehicle for launching partnerships with other world-class players in the field, thus widening the Bank Group's channels for learning, as well as delivery of financing, technical assistance, and other essential forms of support. In its first year of operations it has helped scale up many proven external models, and strengthen partners so that they can begin reaching a far wider audience than before. One example: ACCION International, a microfinance organization with a strong track record in Latin America and the Caribbean, has used support from this funding source to assist its expansion into Africa.

The new approach is also leading to many initiatives, such as efforts to link local SMEs into the supply chain of major foreign direct investment projects (see pages 38-41). In Chad and Cameroon, for example, the Bank Group has helped finance one of Africa's largest foreign investments ever, a $3.7 billion petroleum and development project sponsored by an ExxonMobil-led consortium. To sell goods and services to this project, local SMEs must upgrade their skills and gain better access to capital, which IFC is helping foster through a training and technical assistance package financed through the Capacity Building Facility. It will involve close collaboration with the Association of Chadian Construction Companies.

Another example of the Bank Group's externally driven, collaborative approach is the International Financial Institutions SME Working Group. Bringing together several leading bilateral and multilateral organizations, it is working in three key areas:

- Best practices
- Innovations in finance
- Measuring impact

These efforts complement those of the Committee of Donor Agencies for Small Enterprise Development, a long-standing networking group comprising all major bilateral and multilateral development institutions. Coordinated by the World Bank Group, this committee recently produced an increasingly utilized set of guidelines, *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention.* It also hosts five working groups in the areas of SME finance, performance measurement, dissemination of business development services principles, business environment, and information technology.




## Knowledge Management

**In the past year the World Bank Group has launched several initiatives to disseminate information on "what works" in small business development. As part of a broader knowledge management campaign, the SME Department's web page (www.ifc.org/sme) now includes several new publications intended for a wide public audience, including:**

- **SME Focus—a quarterly eight-page newsletter keeping readers abreast of important emerging themes in the Bank Group's SME work**

- **SME Facts—an illustrated fact sheet series profiling high-impact small business development projects**

- **SME Issues—a series of issues papers sharing best practice in key areas, many of which are written by Bank Group partner organizations**

**These publications help get the word out on successful projects and functional disciplines that have not attracted much publicity until now, thus increasing their chances for replication and adaptation in new markets.**

# Setting Country Strategy

The World Bank Group has begun taking a more proactive approach to help countries diagnose their key constraints to small business growth and identify integrated approaches to addressing them. A new series of SME "country maps" (see Annex 2), done in collaboration with a wide range of stakeholders, is helping bring this important perspective into the analysis and programming of the World Bank Group and others. Efforts are also underway to integrate SME issues into two key strategic planning tools of the Bank Group and its borrowing countries:

[illegible]

a three-year strategic overview prepared by member countries through a participatory process involving domestic stakeholders and external development partners, including the World Bank and International Monetary Fund. (Available for selected countries at www.worldbank.org/prsp)

[illegible]

a multi-year internal planning document forming the basis for all World Bank/IFC/MIGA operations in a country.

**Mineral water manufacturer Ilidzanska Dijamant is a model company in Sarajevo being strengthened by Southeast Europe Enterprise Development (SEED).**

© Mark Fallander

## An Integrated Strategy in Bosnia and Herzegovina

Many of Bosnia and Herzegovina's productive assets were destroyed in the 1992–1995 conflict, Europe's bloodiest since World War II. Recovery since has been slow. Unemployment is estimated at nearly 60 percent today. Opportunities clearly exist, given Bosnia's highly educated workforce and proximity to Western European markets. But a restrictive business climate stands in the way of further development, being full of costly and unpredictable holdovers from the socialist era.

Many, often uncoordinated, aid programs have been organized for Bosnian SMEs. But the overall impact has been disappointing. Local institutions remain weak, rarely able to absorb all the resources offered from abroad or to develop organically from within. An improved business environment is essential but hard to create under today's complex tripartite government structure. A new, more collaborative approach is sorely needed.

Last year the World Bank Group surveyed the SME sector's key needs. The findings supported an upcoming Business Environment Adjustment Credit targeting solutions for several key impediments, including streamlining business registration and licensing procedures, bringing local business groups into the policy debate, and increasing transparency in customs administration.

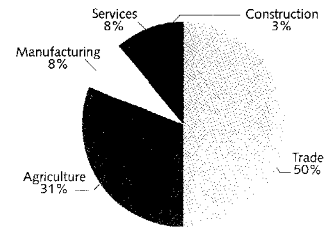
IFC manages, and is one of nine partners supporting, a new Sarajevo-based SME support initiative, Southeast Europe Enterprise Development (SEED). Its agenda includes on-the-ground work on revitalizing the business environment (see Annex 3). With SEED's strong support, three new locally led government/private sector task forces are now working in close collaboration with the international development community on an achievable policy reform agenda. Coupled with various other World Bank and IFC transactions in microfinance, the World Bank's support for export promotion, and MIGA's insurance of three foreign investment projects, the World Bank Group is making a broad contribution to SMEs and microenterprises in Bosnia.

**A new tool for analyzing a local SME sector's key constraints and identifying appropriate responses by the international community:**

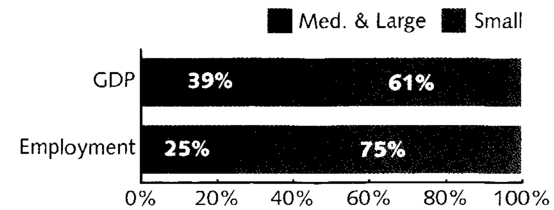
# COUNTRY MAP
(summary page only)

## BOSNIA AND HERZEGOVINA

**Sectoral SME Distribution**




**SME Share of Economy**




### Summary of Country Facts

| | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|
| ECONOMIC INDICATORS | | | | |
| GDP Growth | 30% | 14.9% | 12.8% | 10% |
| Annual Rate of Inflation (Federation) | 14% | 5% | 0% | 4% |
| Annual Rate of Inflation (Rep. Srpska) | -7% | 2% | 13% | 16% |
| POVERTY INDICATORS | | | | |
| Unemployment Rate | -- | 37% | 37% | 42% |
| POLICY INDICATORS | | | | |
| *Degree of Liberalization* | | | | |
| Banking Sector | Medium | | Improving | |
| Trade Regime | Low | | Improving | |
| Interest Rate | High | | Steady | |
| Tax Regime | Medium | | Improving | |

### Defining Features

1. Political and ethnic issues negatively affect economic reform efforts/lack of political will to make important but difficult economic reforms.
2. Strong sub-national/weak central government complicates privatization efforts and development of common business laws and regulations.
3. Wood processing/forestry, agribusiness, and construction are competitive sectors,and offer good growth potential.
4. Inflation is controlled – currency linked to DM.
5. High donor interest in and commitment to private sector development projects.
6. Labor costs higher than other countries in the region.
7. Regional trade obstructed by ethnic and political tensions.
8. SME competitiveness negatively affected by gray economy and inconsistent application of law and regulations.

### Diagnostics

**Business Environment:** Difficult, complex, inconsistent legal and regulatory environment is a result of, and complicated by, political structures/ethnic divisions. Good business legislation passed but enforcement poor. Little organized public/private dialogue.

**Capital:** Donor credit lines help to fill in gaps in access to long-term capital (1-3 years) for SMEs but demand for investment credit of 5-10 years and for amounts ranging from $0.5-2.5 million is not well addressed. Efficiency of credit lines administration (disbursement) needs to be improved. Poor access to working capital.

**Enterprise Services:** Few business support centers/organizations/businesses operate, and those that do offer limited training or consulting to SMEs. Limited SME readiness to pay for these services because of traditional donor subsidy approach.

**Information:** Little well-organized information on domestic or foreign market opportunities. Insufficient information on characteristics of the SME sector and relationship to GDP, employment and other macroeconomic factors.

### Recommended Actions

**Business Environment**: Harmonize and rationalize business laws especially those affecting cross-entity businesses; simplify registration and other administrative barriers to investment; promote regular public/private dialogue; provide means for more effective dispute resolution and create means for efficient processing of bankruptcy.

**Capital:** Improve access to working capital and loans; create decentralized cross-entity register of secured pledges; catalyze establishment of leasing operations.

**Enterprise Services:** Through seminars, workshops, and consultations build awareness of benefits of business support services. Support development of sustainable domestic consulting business. Enhance skills of trainers and improve training quality. Support development of independent associations.

**Information Technology:** Liberalize telecom/Internet market; reduce taxes/duties on computer equipment to stimulate sector; support dissemination of market and trade information.

# IFC-Managed SME Facilities

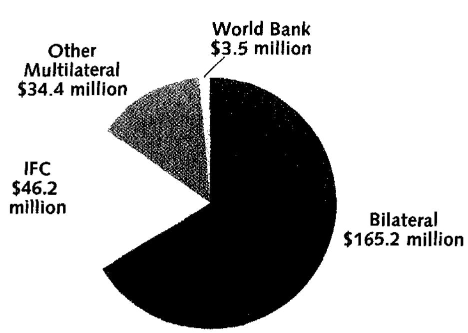
One of IFC's key tools in small business development is the family of SME Facilities (see Annex 3) that it manages on behalf of a broad range of donors. They offer a variety of important services to the small business community in countries that receive little in the way of private capital—ranging from preparation of business plans for investment projects to broader capacity building initiatives such as training, support for business associations, development of local consulting companies and financial and non-financial institutions that target smaller firms, and others. New Facilities for China's Sichuan Province and South Asia have recently been approved and will begin operations in fiscal 2002.

| NAME | DONORS | REGION | YEAR STARTED | HQ/WEB PAGE ADDRESSES |
|---|---|---|---|---|
| **Africa Project Development Facility (APDF)** | African Development Bank, Belgium, Canada, Denmark, Finland, France, Germany, IFC, Italy, Japan, Netherlands, Norway, Portugal, Sweden, Switzerland, United Kingdom, United States | Sub-Saharan Africa | 1986 | APDF Johannesburg<br>Hyde Park Lane<br>Victoria Gate West<br>Hyde Park 2196<br>Johannesburg<br>South Africa<br>**www.apdf.org** |
| **African Management Services Company (AMSCO)** | **1)** Shareholding structure: 70% development finance institutions (AfDB, IFC, UNDP, development banks from Finland, Denmark, Netherlands, United Kingdom); 30% private companies.<br>**2)** Also manages the ATMS management training project on behalf of donors such as World Bank, IFC, UNDP, FMO, Denmark, Finland, Germany, India (through EXIM Bank), Italy, Portugal, the Netherlands, Sweden, and Switzerland | Sub-Saharan Africa | 1989 | Friedman Building<br>Hogehilweg 4<br>1101 CC Amsterdam-Zuidoost<br>The Netherlands<br>**www.amsco.org** |
| **Mekong Project Development Facility (MPDF)** | Asian Development Bank, Australia, Canada, European Union, Finland, IFC, Japan, Norway, Sweden, Switzerland, United Kingdom | Vietnam, Cambodia, Lao PDR | 1997 | MPDF Hanoi<br>7th floor<br>63 Ly Thai To St<br>Hanoi<br>Vietnam<br>**www.mpdf.org** |
| **Southeast Europe Enterprise Development (SEED)** | Austria, Canada, Greece, IFC, Netherlands, Norway, Slovenia, Sweden, Switzerland, United Kingdom | Bosnia and Herzegovina, Albania, FYR Macedonia, Kosovo, Federal Republic of Yugoslavia | 2000 | Hamdije Kresevljakovica 19/IV<br>71000 Sarajevo<br>Bosnia and Herzegovina<br>**www.ifc.org/test/seed** |
| **South Pacific Project Facility (SPPF)** | Asian Development Bank, Australia, Fiji, IFC, Japan, Kiribati, New Zealand, Samoa | Pacific Islands | 1990 | SPPF, Sydney<br>Level 18, CML Building<br>14 Martin Place<br>Sydney NSW 2000<br>Australia<br>**www.sppf.ifc.org** |

# DONOR SUPPORT

The five SME Facilities noted at left have involved extensive support from a broad range of donors over the years. Operated as partnerships, as of June 30, 2001 they had received a total of $249.3 million in cumulative financial commitments from several bilateral entities and multilaterals such as the African Development Bank, Asian Development Bank, European Union, and UNDP in addition to the amounts contributed by IFC and the World Bank directly.

Pooling these resources in an efficient, multi-year structure under IFC management and with a strong local presence in each region enables the donors to achieve many different SME development outcomes beyond those that are possible in their own individual programs. Funding has been received from the following sources:




# Donor Partnerships

External donor partners have been extremely supportive of IFC-managed SME initiatives, especially the Facilities and related activities. For the existing Facilities, external donors have contributed a cumulative amount of more than $200 million. This is in addition to their support for many other SME activities at IFC and the World Bank.

With the creation of the World Bank Group SME Department, which now has responsibility for management of all the Facilities, a coordinated strategy is being adopted for donor relationships in the SME area. This calls for:

- More structured and coordinated dialogue with donors, including coordination of existing donor-supported initiatives
- Development of strategic and thematic partnership arrangements
- Increased emphasis on development impact, sustainability, capacity building, and eventual exit arrangements
- Building new partnerships and collaborative initiatives with independent foundations supporting private sector micro/SME programs
- Focus on involving our donors, listening to them, learning from them, collaborating with them—establishing strategic, long-term, effective and mutually supportive partnerships

During fiscal 2001, several consultations were held with donor countries to outline the new SME strategy and to obtain feedback from key donors and other stakeholders on objectives, strategies and new areas of collaboration. These discussions will continue during fiscal 2002.

# A Strategy with Four Pillars

India: The World Bank Group is developing an integrated approach to SME development in the world's second most populous country.

**Meeting SMEs' most essential needs:**

- Better business environments
- Technical assistance and capacity building
- Access to capital
- Access to information technology

# 1 Business Environment

SMEs do not operate in a vacuum. They operate in business environments determined by government policies, public and private sector institutions, physical infrastructure, and other factors. Weaknesses in this environment impose major constraints to their development in most World Bank Group member countries. Unless these weaknesses are addressed, international efforts to strengthen SMEs are likely to have uneven results.

**Rwanda: Small businesses dominate African economies, but often struggle under unfavorable conditions.**

The Bank Group's new integrated strategy on SME development combines the World Bank's policy reform leverage with governments with IFC's enterprise-level and financial sector experience. It offers governments a powerful tool for improving the local business environment.

Experience from many different parts of the world—Hong Kong and Singapore, Poland and Hungary, Chile and elsewhere in Latin America—shows the gains that can occur when the public sector plays the proper role in business development. Encouraging investment, for example, was a key factor in allowing countries as diverse as China and Botswana to double personal income within about 10 years. So far, however, rapid successes have been the exception, not the rule.

A recent World Bank survey of more than 10,000 firms in 80 countries found that SMEs were at a considerable disadvantage compared to larger companies. The research detected a systematic pattern of bias closely correlated to firm size—the smaller the firm, the lower the likelihood of having the political influence needed to counter rules and regulations favoring the biggest corporate players, and of being able to generate the necessary economies of scale to overcome the most difficult barriers to entry.

Independent economists who have analyzed these findings for a new IFC Discussion Paper have reached an inescapable conclusion: rare indeed are the cases of equal opportunity for smaller entrepreneurs. Frequently, and especially in the poorest countries, the business climate remains inhospitable, or even hostile. Local businesses struggle at the outset against macroeconomic uncertainty, weak physical infrastructure, widespread corruption, and difficulty enforcing contracts and property rights. Other factors also stand in their way, including excessive demands for licenses, permits, inspections, and fees, burdensome tax and regulatory regimes, and a lack of appropriate institutions.

Big businesses have the resources to overcome these obstacles, but not small ones. SMEs rarely have the clout, even collectively, to press their governments for change. More than anything else, they need a more level playing field.

**Uganda: World Bank data show poverty has fallen from 68% to 35% of the population in recent years.**

Building one, however, is far from easy. While much progress has been made in getting good legal and regulatory structures in place, outcomes are hampered by weak institutional and implementation capacity at the national and subnational levels. In many countries, creation of a more favorable overall business environment is a challenging long-term goal. But opportunities do exist for making practical, near-term progress on specific constraints facing SMEs.

The process begins with setting the local business community as an important stakeholder in development, listening to its concerns, and including it in a country's assistance strategy. The best external models for promoting business environment reform must be identified and adapted, and their leading proponents strengthened and connected with more local authorities. This can lead to specific steps forward inside a country—such as training local business associations to be advocates for their cause, which helps them enter the policy debate and press for specific changes.

Governments that want to reduce poverty must encourage the creation and growth of new small businesses, not hold them back. A collaborative public-private partnership approach is the key to achieving lasting results. In Kosovo, for example, the World Bank Group and the Soros Foundations' Open Society Institute are teaming to bring municipal officials together with private sector and community organization leaders for joint training in local economic development. Through a series of interactive and practical goal-setting exercises, these programs are helping the local governments promote SME growth in a more comprehensive way than has been possible until now.

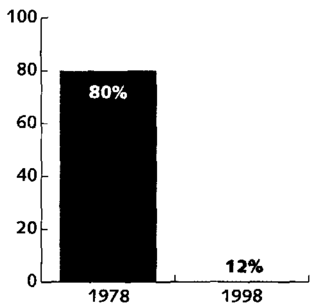
Other recent examples of how the World Bank Group is working to help improve the local business environment for SMEs are:

- **Kyrgyz Republic:** Business environment reform components are included in the recent World Bank Consolidation Structural Adjustment Credit, including measures to reduce regulatory barriers to the entry and operation of businesses, and the IFC-managed Private Enterprise Partnership has been expanded to the country with a mandate to work on business environment reform efforts.

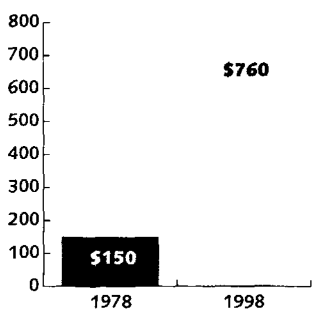
- **Federal Republic of Yugoslavia:** A World Bank Technical Assistance Grant focused on business environment initiatives such as deregulation, local economic development, and strengthening of SME support initiatives has been approved; the IFC-managed Southeast Europe Enterprise Development is also expanding into the country and will work on business environment reform.

China: Large-scale poverty reduction.

China: Percentage of population with incomes below $1/day*




China: GDP per Capita*




*in constant dollars

## The Impact in China

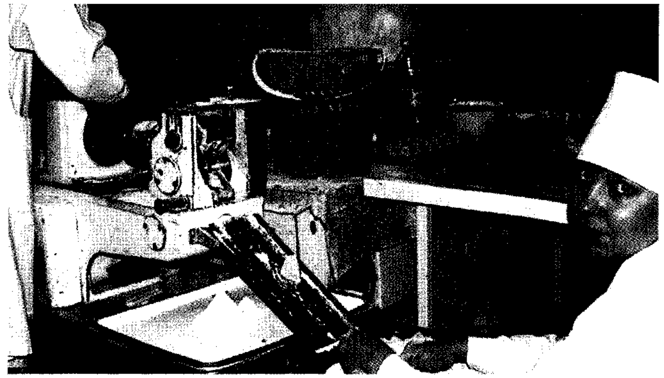
When economic reform began in 1978, China was one of the world's poorest countries, almost entirely cut off from the world economy. Since then nearly 200 million people have escaped extreme poverty, an event likely never before seen on such a scale.

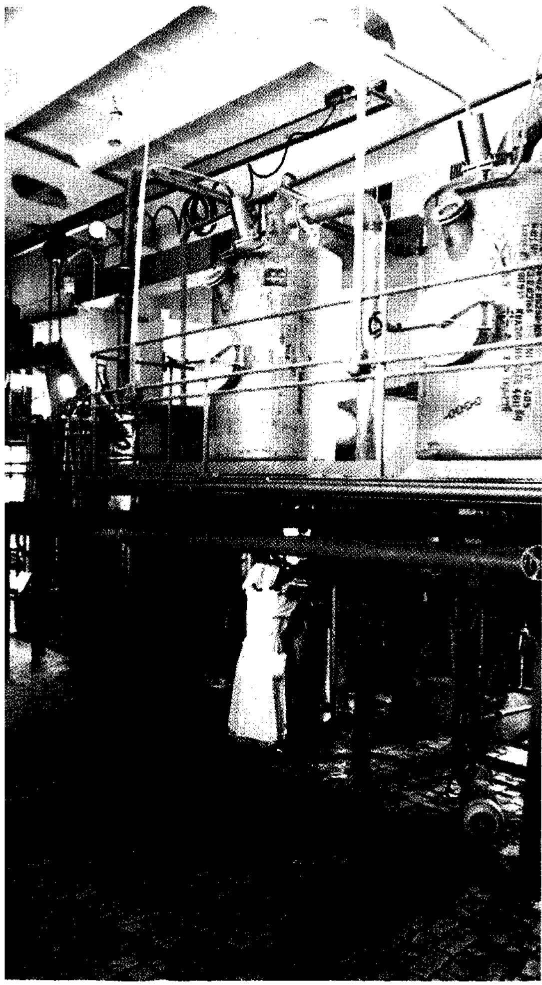
A climate of ongoing economic growth has made it possible, underpinned by moves to support private farming and entrepreneurship at home, and to attract investment from abroad. Negligible before 1985, the private sector accounted for approximately 33 percent of GDP by 1998—51 percent if agriculture is considered as mostly private.

Shanghai has become China's wealthiest city, with an employment base dominated by SMEs that collectively generate $71 billion in annual sales. Even so, more than 110 million Chinese remain in extreme poverty today. Most are in the western provinces, and they too must share in the gains. One province, Sichuan, has long been a pioneer in private sector reform. It has also been a target of special IFC initiatives such as the new China Project Development Facility (CPDF), expected to open by the end of 2001 and help further the growth of local SMEs, in part by supporting additional improvements in the local business environment.

CPDF's launch is the latest in a series of recent World Bank Group SME development initiatives in Sichuan that began with the release of IFC's 2000 study *China's Emerging Private Enterprises: Prospects for the New Century*, which was supported by AusAID of Australia. It was followed in April 2001 by a business environment seminar held in Sichuan's capital city of Chengdu. The event brought together key leaders of the local private sector and financial institutions with key government officials and World Bank Group staff and consultants. Participants reviewed key findings of the IFC study, identified key business environment constraints and agreed on ways that all parties could move ahead and address these constraints. Sponsored by CPDF and AusAID, the seminar also identified key business environment issues for the new Facility to address once it is formally launched.

IFC-donor partnerships help Ukrainian SMEs despite the difficult local business environment.





## UKRAINE: Ten Years Later

Ukraine's business environment is one of Europe's most challenging.

GDP declined by roughly 60 percent in the years immediately following the collapse of the Soviet Union, with many social consequences. Wages and pensions are low and unemployment high. Yet at the grassroots level, impediments to entrepreneurship are diminishing considerably, making a big difference in everyday lives.

Many of these improvements have been encouraged by IFC's continuous efforts to build a more positive business environment for Ukraine's SMEs through legislative change since 1992. Among them:

**Business Start-ups**—In 1996 a USAID-funded IFC technical assistance project began privatizing unfinished construction sites across the country through auctions. More than 1,300 shops, cafés and other businesses have now completed construction and begun operating, creating 62,000 jobs and generating local tax contributions of about $25 million a year. Input from the project has contributed to a new law encouraging this innovative way of starting up businesses, most of which will be SMEs. The law will further this growing entrepreneurial trend with tax incentives and other measures.

**Access to Capital**—IFC's Business Development Project, also funded by USAID, helped draft a new leasing bill that has recently passed its third reading in the Ukrainian Parliament. The measure will set the stage for development of a financial leasing market in Ukraine, which would create a viable alternative to bank loans for SMEs needing new equipment.

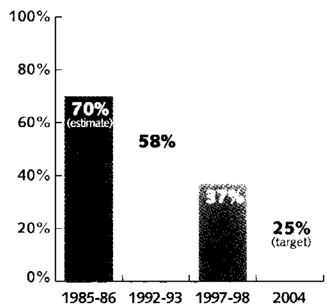
**Cutting Red Tape**—The World Bank and IFC have together addressed Ukraine's burdensome permitting process and over-regulation of business activities. These efforts resulted in the passage of laws deregulating entrepreneurial activity and easing the licensing burden. Since passage, the number of inspections for smaller businesses dropped from an average of 76 to 10 per year, and business registration procedures have been drastically simplified.

Much work remains. But efforts thus far are paying off. Ukrainian entrepreneurs now contribute heavily to the local economy, and similar business environment projects are being considered in other regions. Ukraine's experience is seen as a model for efforts in other former Soviet republics by IFC's Private Enterprise Partnership, a new initiative that builds on 10 years of technical assistance in the former Soviet Union, and further integrates it with IFC's investment expertise for maximum impact on local economies.

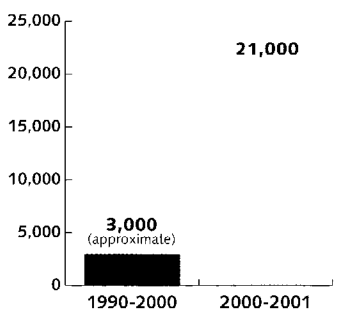
World Bank Regional Vice President Jemal-ud-din Kassum visits MPDF client Kim Truc Ceramic, Ho Chi Minh City.

## Climate Change: SMEs in Vietnam

Vietnam:
Poverty as Share of Population




Vietnam:
Annual New Registrations of Private Firms




Small businesses dominate Vietnam's private sector—and will need to be the key source of jobs for the roughly 11 million workers who will enter its labor force over the next decade. They are starting to benefit from a business environment that improved considerably with passage of the Law on Enterprises in 2000, a breakthrough in encouraging entrepreneurship for this large and growing transition economy.

The law instituted some key SME-friendly administrative reforms, such as removing more than 100 previously required licenses and cutting the time needed to register a new business. As a result, 21,000 SMEs have been officially registered since the law was passed. Streamlining of procedures and increased predictability of relations with government authorities give business owners far more time to do what they do best: running their businesses. It also provides important new "formal sector" status that makes it easier for them to obtain commercial financing, export, build competitiveness, and create jobs—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.

The private sector is one of the keys to continued poverty reduction. The regions of Vietnam with the most dynamic private sectors have emerged as those with the lowest poverty percentages. Ho Chi Minh City, the center of business activity, has only 2 percent of its people under the poverty line.

Further reforms are still needed to build on this momentum. A recent survey of newly registered companies carried out by the Mekong Project Development Facility (MPDF) and Vietnam's Center for Economic Management found that SMEs continue to face many obstacles. These include unclear administrative procedures and ongoing problems with capital mobilization, land and construction permits, tax issues, investment incentives, and inspections. A new $250 million Poverty Reduction Support Credit from the World Bank targets a further cut in the poverty rate to 25 percent by 2004. In support of this goal, the credit lays out specific commitments on the part of the government to be made to the business climate for private companies, including:

- **Removing restrictions to private sector entry in remaining subsectors**
- **Moving toward a unified legal framework for all enterprises irrespective of ownership**
- **Facilitating access to and private transactions in land use rights**

It all adds up to an area of considerable activity for the World Bank Group's SME development efforts, and one with potential for an even larger role in the future.

## FUNDES International: SME Specialist

FUNDES

Business seminar in Argentina sponsored by new IFC partner FUNDES.

Support from the SME Capacity Building Facility (see Annex 4) is leading to a new partnership between IFC and one of the world's cutting-edge players in SME development, the Latin-American-focused foundation FUNDES International. One of the key early objectives will be expanding FUNDES' widely respected "Entorno" (business environment) Program.

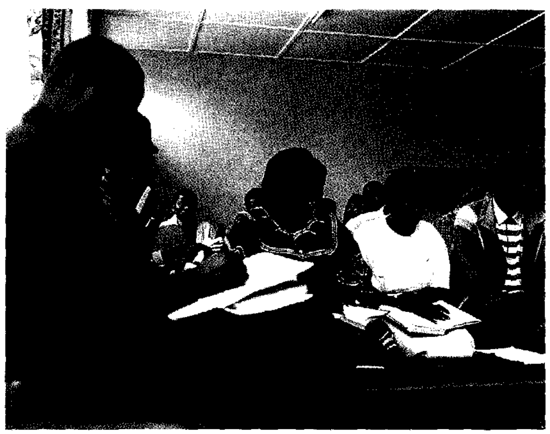
FUNDES (www.fundes.org) oversees a network of 10 country affiliates in Latin America. Each involves strong support from the local business community and provides a broad range of SME support services, including Entorno's advocacy for improved business environments.

Using a well-defined methodology that can be easily adapted to local conditions, the FUNDES Entorno program conducts comprehensive private and public sector surveys that allow a thorough diagnostic analysis of the key impediments to small business, then fosters public-private dialogue to achieve practical, measurable results.

In Argentina, for example, the FUNDES program has teamed with a leading national university to assess key exogenous factors restricting SMEs' competitiveness in an increasingly open and globalized economy. A resulting survey identified high consensus among entrepreneurs on difficulties with access to financing, public utility costs, and legal insecurity, while also detecting a lack of correspondence between local institutions' activities and these priority needs. The high degree of isolation under which the firms operate led FUNDES to propose a series of recommendations for improvements that were widely covered in the local media and became part of the national political debate. Among other things, this has facilitated joint initiatives at the national, provincial, and municipal levels, and consultations with local business associations and other stakeholders intended to help local authorities define and carry out new SME development strategies.

As part of its partnership with IFC, FUNDES will now work to consolidate and further develop Entorno throughout its network, including expansion of the program into Bolivia for the first time. The overall objective is to pull together the lessons learned from Entorno to date, firm up its existing alliances with public and private sector agents, and launch other related new initatives for SMEs—all steps that will construct a business environment more conducive to small business growth in Latin America.

# 2 Technical Assistance and Capacity Building



**Training classes give African entrepreneurs important new skills.**

he World Bank Group's own experience in the SME business has revealed the critical need to improve the skills and capabilities of entrepreneurs, financial intermediaries, and SME support agencies in the developing world.

To build up these skills and broaden its development impact, the Bank Group and its partners must increasingly take a wholesale approach to business development services, focusing on training of trainers, curriculum development and institutional capacity building, rather than providing such services directly. It can endeavor to set up new institutions, or strengthen existing ones, that provide targeted types of SME training. The wide range of available technologies—from the Internet to videoconferencing for long-distance learning—offers unprecedented opportunities to disseminate information rapidly and at reasonable cost to a worldwide audience.

SMEs need more than just money. Before receiving new investment, they often need to learn to do more with the human and financial resources they already have. Well-targeted advice from outside specialists can help them learn this, building their productivity, competitiveness, management, and corporate governance–just as it does in the world of big business.

Small enterprise owners and managers need this exposure if they are to remain competitive in an age of globalization. But few have it today. Filling this gap is what capacity building is all about.

As the Latin American SME support organization FUNDES International puts it, many SMEs "don't know what they don't know." To move forward, they need affordable, easy access to accountants, management and marketing consultants, technical experts, and others who can bring them direct bottom-line benefits. The institutions and individuals that provide these services in the local market, however, often target only the largest firms. Market-based mechanisms must emerge that will provide SMEs with similar high-quality training packages and support services.

It is essential to help these SMEs and local service providers grow smarter and more effective and sustainable in their work. The IFC-managed SME Facilities (see Annex 3) do just this, partnering with donors and other stakeholders to build capacity in countries often overlooked by foreign investors. In Ghana, the Africa Project Development Facility found local consultants to help the CEO of a profitable urban hospital set a strategy for a new rural health care initiative. The Mekong Project Development Facility is supporting the launch of a new regional training center for Vietnamese banks that lend to SMEs, and is helping small hotel owners in the Lao PDR learn to market themselves on the Internet, with input from a leading tourism industry consulting firm based in Hong Kong.

Small steps? On their own, perhaps, but together they can help companies evolve—and economies grow.

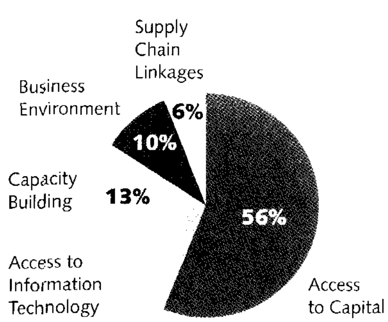
## SME Capacity Building Facility

**This year IFC provided $7.1 million to launch the SME Capacity Building Facility (CBF, see Annex 4). This new instrument helps external partners develop envelope-pushing projects that are scalable, replicable and sustainable—and provide quality services to SMEs with minimal reliance on government or donor subsidies.**

**While some of these projects will probably not lead directly to IFC investments, they will generally have high development impact and good prospects for duplication.**

**The CBF was created to support innovative projects, especially those in low-income countries that receive little private investment. Of its 32 pilots approved in FY01, more than half of them were in the poorest countries (i.e., with per capita incomes of $885 or less that leave them IDA or IDA/IBRD-eligible).**

**The breakdown of CBF funding by strategic priority for the initial year of operations was as follows:**




# SME FACILITIES

The five IFC-managed SME Facilities (see pages 12-13 and Annex 3) are one of the World Bank Group's key tools for delivering the technical assistance needed to build capacity in the small business sector. With funding from both IFC and a broad network of donors, in the past year these Facilities have completed 102 financial and 86 non-financial advisory projects and trained 1,853 SME and financial institution staff.

In general, these efforts address priority sectoral needs such as:

- Providing high-quality, affordable management training to local SMEs
- Developing the provision of credit and other financial services to SMEs
- Building the capacity of local consultants and other business service providers to serve the SME market effectively

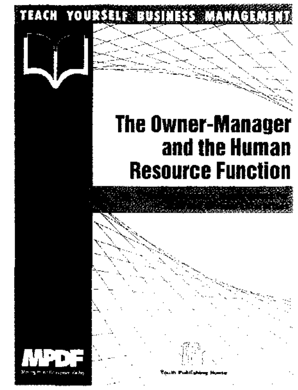
In many cases, the Facilities' technical assistance efforts help individual SMEs improve their performance, providing key inputs in areas such as management consulting, financial planning, quality assurance, marketing, and others that would otherwise not be available. At the same time, however, the Facilities are now taking on a broader mandate that goes beyond direct assistance at the enterprise level.

Southeast Europe Enterprise Development, for example, is partnering with a consortium of leading schools of higher learning from Slovenia to assess the management development needs of Bosnian mid-sized companies. Led by the IEDC-Bled School of Management, the consortium will then design and deliver a comprehensive package of management training courses and build local capacity through train-the-trainer programs. The Africa Project Development Facility is also taking a more sectoral approach. In West Africa it worked with an association of Nigerian businesswomen on seminars outlining practical steps that can help increase the number of women-owned firms, and boosted a Ghanaian export council's ability to help its SME members use Internet-based marketing to access new markets.

**APDF-organized meeting of Nigerian businesswomen.**

# Flexible Learning

MANAGEMENT TRAINING WORKBOOKS: Translated into local languages, these inexpensive workbooks developed by MPDF help Vietnamese and Cambodian managers sharpen their skills.




Like businesses of any size, anywhere, SMEs in Vietnam and Cambodia must be well-managed to reach their full potential. But too often, training classes in key management skills are targeted only at larger firms—and priced beyond the reach of small businesses.

IFC's Mekong Project Development Facility (MPDF, see Annex 3) partnered with Vietnamese business schools on an innovative response in 1998, launching a management training program that offered practical, performance-enhancing courses in Vietnamese specifically designed for local small business managers. The curriculum was based on material supplied by international SME training experts and reworked by Vietnamese lecturers, covering:

- **Marketing**
- **Finance and Accounting**
- **Production and Operations Management**
- **Human Resource Management**

MPDF supported the creation of four 36-hour courses in these disciplines, taught in Vietnamese at 10 local universities and drawing on relevant examples from everyday business in that country. Attendees found the training valuable, paying the universities about $70 for each course. More than 2,000 SME managers in Vietnam have now benefited from the training, which is also being extended to the Lao PDR and Cambodia.

Impact studies, however, showed that there was also a large potential market for this training among those who could not take so much time away from their jobs. For this reason, MPDF recently launched a new project to widen the impact. The budget came from MPDF, the Canadian donor agency CIDA, and the SME Capacity Building Facility, enabling MPDF to hire Canada's Open Learning Agency to adapt the existing material into an inexpensive, self-study format that would be more accessible to smaller firms. In May, Vietnamese- and Khmer-language workbooks went on sale in Hanoi, Ho Chi Minh City, and Phnom Penh. Each volume in this *Teach Yourself Business Management* series costs less than $2, carrying titles such as:

- *Introduction to Marketing Concepts*
- *Product Planning and Development*
- *The Owner/Manager and the Human Resource Function*

Within a month of the launch, local publishers had sold more than 25,000 of these workbooks in the two countries. *Ho Chi Minh City Woman* newspaper has named them the best-selling business books in Vietnam. They offer an interesting new model of sustainable management training that can now be considered for adaptation in other regions as well.

© Hagar Project

Cambodia's Queen Monieath Sihanouk visits the Hagar Project.

## CAMBODIA: Reaching Out to Women

One of Cambodia's most effective poverty-fighting initiatives is the Hagar Project, an integrated housing and job training program for destitute women and their children. It is a locally established NGO with an excellent record of helping impoverished women stabilize their lives and learn the skills needed for sustainable income generation. But its impact has been limited until now by a lack of financing and other resources.

With technical assistance from the IFC-managed Mekong Project Development Facility (MPDF), Hagar is now expanding its most successful component, a handicraft business currently providing training and stable employment for approximately 50 low-income women, who stay for six months, then generally return to their villages and are replaced at Hagar by others. Operational since 1997, Hagar Crafts sells locally made goods to foreign tourists in Phnom Penh, Siem Riep, and selected export markets, making a small profit in the process.

MPDF is helping transform Hagar Crafts from a donor-funded project into a commercial entity, enabling it to expand its production capacity and increase exports. The SME Capacity Building Facility also provided $65,000 to improve Hagar's technology and access to new markets. The expansion is expected to increase profits and create an additional 20 jobs, which means 20 more opportunities for women to escape the streets and do more to provide for their children. The project is also one of several where the World Bank Group is strengthening the business arms of NGOs, making them into more sustainable and effective organizations. These early cases are generating valuable experience and building new models for possible replication elsewhere.

# 3 Access to Capital

**China: IFC-investee Bank of Shanghai is a model SME lender.**

Money for new investment will not, by itself, solve all of the key problems of a small business. But most developing country entrepreneurs say it is their number one need. What is the best way to get it to them? One of the main lessons of the World Bank Group's experience is that intermediary-based models work better than direct financing of SMEs by international financial institutions. Still, traditional intermediaries are often not sufficient. To address SMEs' financing needs, new and better financial products and initiatives must be designed and quickly made available.

It is important that Bank Group efforts to assist local SMEs result in creation of good quality, *local* capacity–for example, access to financial markets and products from local institutions that are affordable, appropriate, and accessible to SMEs.

Established financial institutions are reluctant to lend to small businesses they don't know, leaving SMEs dependent on their own cash flows or less reliable informal sources of capital. A sector that should be an economy's most dynamic can stagnate as a result.

The traditional response from development institutions—providing resources for direct or indirect foreign lending to SMEs—has not always been ideal. Successful in some cases, in others it has had the unintended result of distorting local markets, offering a disincentive to loan repayment, and discouraging local financial intermediaries from entering the potentially lucrative small business market.

Today the emphasis is on helping local banks, leasing companies, equity investors, credit rating agencies and others see the bottom-line benefits that can come from providing SMEs with properly structured financing packages. Once these financial institutions start to receive reliable financial statements from SMEs and new lending techniques that bring down the costs of reaching them, they can begin to build up a potentially strong new line of business. In the Philippines, for example, PlantersBank is a profitable, privately owned institution that focuses on SME lending and has a healthy $400 million loan portfolio. Its local currency lending sets a good example for others to follow. IFC recently invested $27.3 million to scale up PlantersBank's operations and has brought in PlantersBank to train local banks in Vietnam as well.

Increasing local small business owners' financing options is an essential step on the road to economic growth. There is only one way to get there: finding the right partners.

**One of the key ways in which the World Bank Group improves small businesses' access to capital is by providing lines of credit for local financial intermediaries. Some recent examples:**

## WORLD BANK

**In Mozambique, the $26 million Enterprise Development Project is helping broaden the base of private participation in the economy. In addition to components that build the technical capabilities of majority Mozambican-owned firms and help private and public institutions to deliver business support services, it provides two financial products available for firms in all sectors:**

- **A special facility designed to provide small, first-time bank borrowers with loans amounting to a maximum of $15,000**

- **A traditional facility to finance loans up to $300,000 for small and medium-scale borrowers**

**The financing facilities supported by this IDA credit provide medium-term loans for private borrowers' investments in the industrial, agro-processing, tourism, transportation, construction, and services sectors. The project is being carried out by a steering committee overseen by the Ministry of Industry, Trade, and Tourism.**

## IFC

**IFC is helping the American Bank of Albania (ABA) build a new $5 million portfolio of SME loans. Under the facility, IFC will guarantee 50 percent of each loan approved by ABA to finance eligible subprojects within IFC's maximum aggregate exposure of up to $2.5 million. The subprojects will be identified by ABA in close collaboration with Southeast Europe Enterprise Development.**

## Institute for SME Finance

To help ease the small business capital crunch, IFC recently took part in the creation of a new global nonprofit organization, the Institute for SME Finance (www.smeinstitute.org). Launched in Washington, DC in July 2000, the Institute promotes greater and more effective use of risk capital–based investment in growing entrepreneurial firms—specifically those with no more than 100 employees and annual revenues of $5 million or less. Often the only kind of financing these companies can obtain is short- or medium-term debt secured by extensive collateral. In many cases a better alternative would be straight equity, debt/equity combinations, or long-term unsecured subordinated debt combined with a hands-on approach to investing.

The Institute, founded and managed by one of the world's leading experts in SME equity investment, Tom Gibson, is working on several fronts with investors, governments, development institutions, and others to help more SMEs obtain these appropriate forms of financing. Its key objectives include:

- **Improving the SME sector's reputation among financial institutions**
- **Expanding access to long-term investment capital**
- **Improving enterprise performance through active investment strategies**
- **Promoting a local culture of equity investment**
- **Furthering linkages between the SME sector and local and international capital markets**

The Institute also received start-up funding from FUNDES International, the Multilateral Investment Fund, the Johns Hopkins University School for Advanced International Studies, and USAID.

## New Thinking

While continuing to provide its traditional hard-currency lines of credit, IFC is also taking other new steps to help local financial institutions increase their levels of SME lending.

One area of activity involves helping these banks adapt proven lending technologies that can reduce the high transaction costs that currently keep them from targeting SMEs. Well-designed technical assistance packages are needed to assist them in developing SME lending strategies based on industry best practice in sales, product standardization, and other areas. The Mekong Project Development Facility, for example, is helping some of the leading joint-stock banks in Vietnam jointly develop and deliver training programs. A new bank training center is being developed that will help them obtain state-of-the-art curriculum material in small business lending and customize it to local conditions. A similar Facility is also beginning operations in China's Sichuan Province. From the outset it will help local banks there learn how Western banks evaluate cash flows of SMEs, use that as a basis for individual lending decisions, then build a full set of small business finance products that optimize revenue opportunities while minimizing costs.

IFC is also considering new ways to make term financing in local currency available to the SME sector through a combination of appropriate credit enhancement instruments and technical assistance. Studies are underway that may lead to new activities in this area within the next year, based in part on lessons from IFC's existing portfolio of local currency guarantees, primarily in Africa.

Bangladeshi microfinance institutions are receiving $255 million in IDA funds channeled through a local intermediary.

# Microfinance

Expanding the poor's access to essential financial services is central to the fight against poverty. Microfinance—the provision of small loans to the self-employed poor—gives recipients a chance to start up food stands, tailor shops, and other tiny businesses and build them into enduring sources of steady income.

A number of different microfinance models have proven successful over the years. But in many countries, demand still outpaces supply by a wide margin. Overall, microfinance only reaches a small fraction of its potential market in developing countries, despite the fact that the poor often exhibit excellent repayment discipline.

The World Bank Group works on a variety of fronts to expand the reach of microfinance institutions (MFIs). The World Bank helps microfinance institutions scale up operations with long-term loans channeled through intermediaries (see box) and helps coordinate the global microfinance effort by hosting the Consultative Group to Assist the Poorest, a consortium of 27 bilateral and multilateral donors that support microfinance. IFC complements this work by providing private-sector know-how, technical training, and financing that helps existing institutions strengthen themselves and expand by becoming full-fledged commercial enterprises.

## An Intermediary Approach in Bangladesh

Homeless and without work, Sadia once struggled to support her sick husband and two hungry children in the village of Kuliarchar. Today, however, she makes a living by running her own shop. It was first financed by a $40 loan facilitated by the Palli Karma Sahayak Foundation (PKSF), a quasi-governmental microfinance intermediary in Bangladesh.

Through its 1996 Poverty Alleviation Microcredit Project, the International Development Association (IDA), the World Bank's concessional lending arm, provided PKSF with $105 million so it could help meet the growing demand for microfinance in Bangladesh. The financing has allowed PKSF to expand its reach dramatically—the foundation now onlends to more than 170 microfinance groups, reaching an estimated 1.4 million poor borrowers throughout the country.

Most borrowers are poor women like Sadia, who have proven that they can greatly improve their living standards with modest amounts of capital. "Once a woman finds that credit can change her lifestyle, she dreams of going higher and higher, and the demand also grows," says Aminul Islam, director of the Bangladesh Rural Action Committee, one of the groups receiving funding through this project. "We found that grant money couldn't keep up with the large demand, so we opted to take funds from PKSF."

The partnership is expanding. IDA this year approved a second credit of $150 million seeking to reach another 1.5 million people in Bangladesh.

**Working through its new SME Capacity Building Facility (see Annex 4), IFC has been able to develop partnerships with several leading players in microfinance in the past year. New strategic relationships are emerging that combine both partners' strengths—blending the outside organizations' on-the-ground, grassroots presence and industry leadership role with IFC's financing and advisory skills and global development perspective. The result should be creation of many more commercial MFIs that will be able to sustainably reach large numbers of low-income borrowers in the coming years.**

| NAME | HEADQUARTERS | DESCRIPTION |
|---|---|---|
| **ACCION** | US | NGO that builds sustainable MFIs in Latin America, the US, and Africa, currently lending to approximately 500,000 low-income borrowers a year. |
| **FINCA** | US | NGO that provides financial services to the world's poorest families. Currently serving 180,000 clients in 21 countries, it uses the Village Banking™ method and delivers these services through a global network of locally managed, self-supporting institutions. |
| **International Projekt Consult (IPC)** | Germany | Commercial firm that builds and provides initial management support for MFIs in Latin America, Africa, Asia and Eastern Europe and the former Soviet Union with approximately 120,000 low-income borrowers. |
| **Women's World Banking** | US | NGO that helps a network of 41 affiliated women-led MFIs in Asia, Africa, Latin America, Europe and North America provide more responsive, efficient, and sustainable microfinance services. |

## CGAP: Helping Build a Microfinance Industry

The Consultative Group to Assist the Poorest (CGAP) was formed in 1995 by a group of leading microfinance practitioners and donor agencies, including the World Bank, who recognized that microfinance was rapidly evolving beyond projects and programs into an actual industry capable of providing financial services to hundreds of millions of the world's poor on a permanent and sustainable basis. They created CGAP to set standards and guidelines for the microfinance industry, and to act as a convener, disseminator and catalyst for best practices for donors, microfinance institutions and the industry as a whole. Since then, CGAP has grown to 29 member donors consisting of 27 bilateral and multilateral development institutions and two private foundations.

CGAP's mission is to build microfinance institutions' capacity to provide flexible, high-quality financial services to the poor and the very poor on a sustainable basis. CGAP's work is centered around the following key strategic themes:

- **Institutional development of microfinance institutions**
- **Improving member donors' practices**
- **Deepening the poverty outreach of microfinance**
- **Improving the policy and regulatory environment for microfinance**
- **Facilitating the commercialization of microfinance**

CGAP serves three sets of clients: member donors, individual microfinance institutions, and the broader microfinance industry as a whole.

To each of these three type of clients, CGAP offers several types of services: CGAP develops technical tools and services, designs and delivers training courses, provides technical assistance and strategic advice, conducts action research, and disseminates lessons learned and best practices. CGAP also has a small grant facility that provides funding for these activities and for strategic investments in selected microfinance institutions.

**Services for the Microfinance Industry.** CGAP holds a distinct comparative advantage in addressing issues that affect the entire microfinance industry. Some examples of CGAP services to the microfinance industry:

- **The Microfinance Gateway,** a resource center and industry knowledge platform
- **The MicroBanking Bulletin,** which provides benchmark financial data on microfinance institutions worldwide
- **The CGAP-IDB Rating Fund,** which provides funding for ratings or assessments of microfinance institutions
- **The Audit Center,** a web-based service that offers information and direct online support on how to commission, conduct, and use microfinance audits
- **Consensus guidelines on regulation and supervision,** standardization of financial ratios, and other tools
- **Online consumer reports services and help desks**
- **The Microfinance Training Program** in Boulder, Colorado

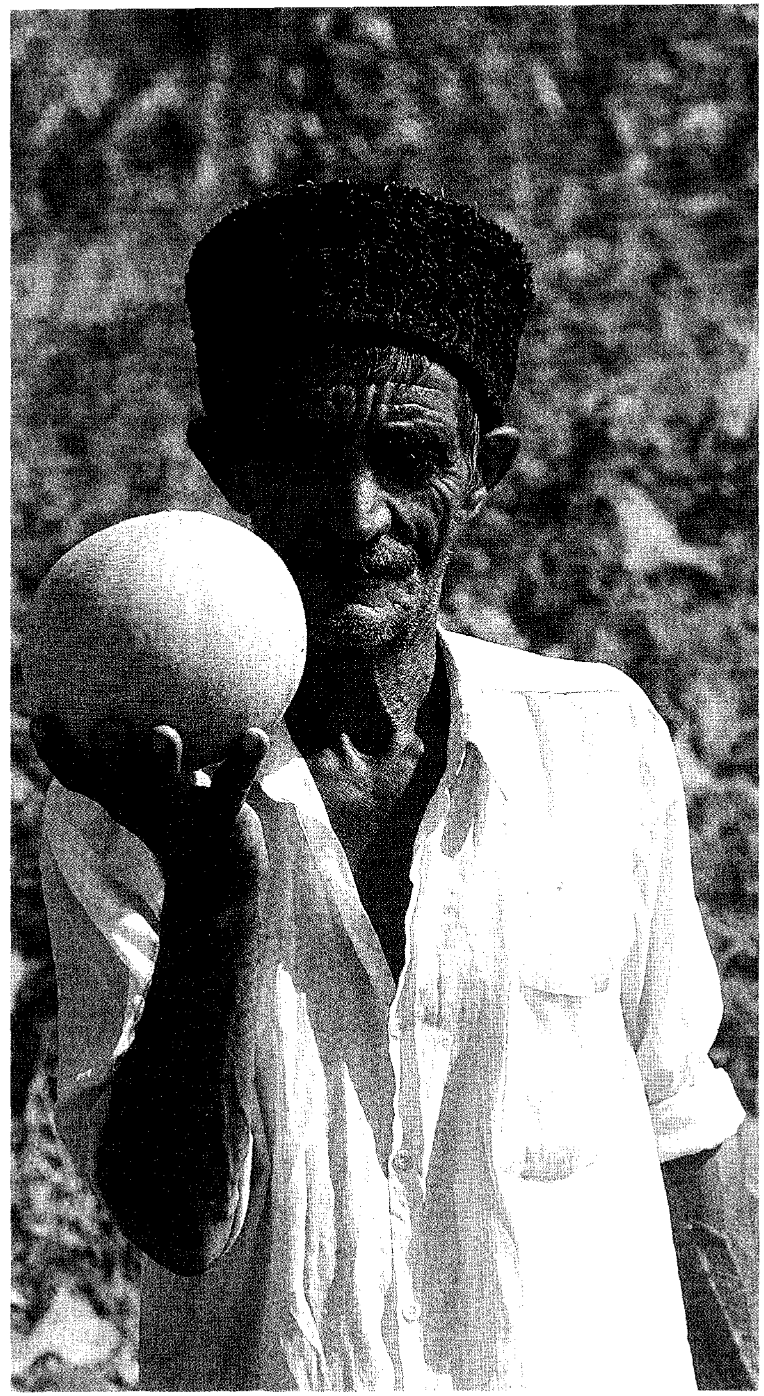
**Services to Member Donors.** CGAP services to member donors are designed to mitigate factors that can undermine donor support for building a sustainable microfinance industry. Examples include limited staff experience, lack of in-house or inter-agency coordination, or bad practices driven by disbursement pressures that can impede development of sound local institutions. CGAP services to member donors include:

- **The Global Donor Portfolio Database,** which provides information on individual donor projects to help donors connect with each other
- **The Appraisal Format**, a comprehensive methodology for evaluating the performance of microfinance institutions
- **The Appraisal and Monitoring Service,** which offers unified appraisal, performance targets, and reporting for multiple donors funding the same microfinance institution

- **Training** for donor staff
- **Facilitating in-country donor coordination**
- **Strategic or evaluative reviews of donor microfinance portfolios**
- **The Poverty Assessment Tool,** to determine the poverty levels of clients reached by microfinance institutions

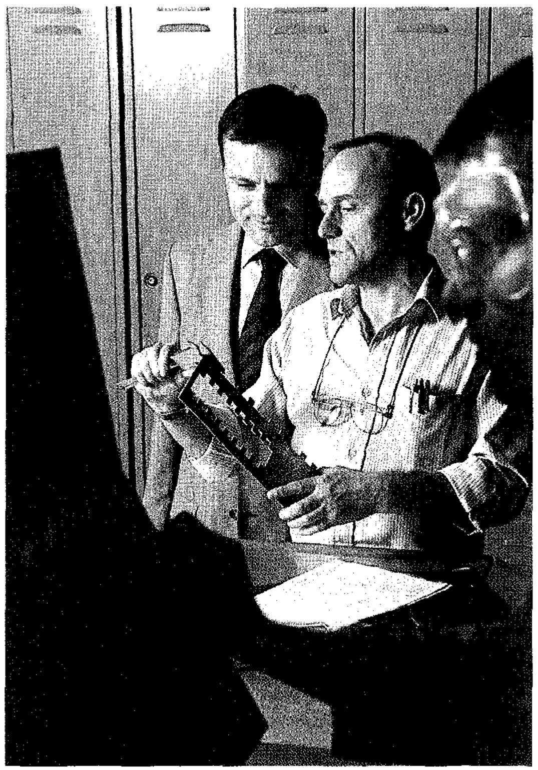
**Services for Microfinance Institutions.** Despite the success of a few celebrated MFIs, most remain small and weak in terms of outreach and financial performance. These institutions require exposure to best practices and greater technical capacity and financial resources. CGAP provides direct and indirect services to MFIs through:

- **In-depth appraisals** of MFI performance, including strategic advice on key areas of financial and operational management
- **Global capacity-building programs** aimed at building local markets for training and technical assistance
- **Technical tools and handbooks for microfinance practitioners**
- **The Information Systems Consumer Report**
- **Funding** through performance-based contracts



Armenia: Microfinance helps increase incomes.

# 4 Access to Information Technology



© Mark Fallander

**Bosnia and Herzegovina: A center of Southeast Europe Enterprise Development's efforts to build SMEs' Internet access.**

Information technology (IT) has become a major tool that SMEs around the world can use to increase their competitiveness. Traditionally deprived of important industry information, they can use new technologies to build knowledge, open new markets, and find cost-effective ways to outsource key business functions.

There are several constraints to advancing IT as a tool for SME development. First, IT and Internet penetration rates in developing countries are low, a reflection of poor regulatory frameworks and weak core infrastructure. Small businesses often lack the awareness and skills to tap into the unprecedented opportunities offered by Internet-based computer applications. Moreover, networks to support Internet start-ups have been slow to develop in many emerging markets, often because they lack a dynamic environment for start-ups and for small businesses generally.

But the Internet cannot be an end in itself. It should be seen instead as a tool that facilitates a firm's evolution. E-commerce, for example, can help entrepreneurs with small budgets find new buyers in overseas markets that would otherwise be unreachable. Placement and fulfillment of orders, arranging of financing, accounting and insurance, and interaction with distributors can also be done online at a fraction of the offline costs. But such opportunities require affordable access to the Internet and other new technologies.

Different countries face different obstacles. As part of its global IT strategy, the World Bank Group has clustered countries in terms of their "e-readiness," to better pinpoint needs and offer focused assistance.

**Early Stage:** Internet penetration in sub-Saharan Africa and elsewhere is still very low. These countries require basic infrastructure, such as cable and phone lines. They also need substantial work at the policy level to promote competition and private investment in IT.

**Middle Stage:** Countries like China, India, Indonesia, the Philippines, and Poland have the basic infrastructure. Their governments are setting policies to encourage e-business. Here, the World Bank Group's work focuses on encouraging further regulatory reform and investment in institutions providing appropriate e-commerce services.

**Late Stage:** Into this group fall nations like Argentina and Brazil, which have already embraced the e-business culture. A higher level of connectivity is now needed so that all primary users have access. Future efforts must target the development of payment systems, management of local delivery and establishment of nationwide logistics infrastructure to support an increased flow of online trade.

© APW

Peter Woicke talks business with Philippine furniture makers.

## New Markets for Philippine Furniture

Small and mid-sized furniture manufacturers in the Philippines have what it takes to compete in world markets—they just need help getting there. New IFC backing for an IT-enabled trading company and related financing initiative is playing a role, helping line up new orders for producers from the country's second-largest city, Cebu.

Singapore-based Avalon Professional Web Trade (APW) has launched a new round-the-clock web portal to help manufacturers in Cebu access the $50 billion worldwide furniture market. Backed up by a marketing office in California, the site (APWtrade.com) helps US and European wholesalers design, order, and track purchases from small Philippine furniture makers online. By cutting the number of middlemen involved, APW will reduce the cost to buyers and allow local producers to capture more of the value of their finished goods. The SME suppliers in its network will thus gain access to markets presently beyond their reach. IFC has invested in APW and has obtained funding from the government of Finland through the Technical Assistance Trust Funds Program to help these local producers raise their environmental standards and increase their penetration of European export markets.

Financing is equally important to getting these goods to market, and will come through a new $12 million Philippine Export Development Facility (PEDF). Set up by a regional bank with a partial guarantee from IFC, it will fill the pre-export credit gap that has hindered SMEs in the past.

The combination of new e-business and financing opportunities will help SMEs gain the economies of scale needed to obtain volume discounts on raw materials heretofore available only to larger manufacturers. The resulting efficiency gains and new market opportunities should lead to increased revenues and new job creation.

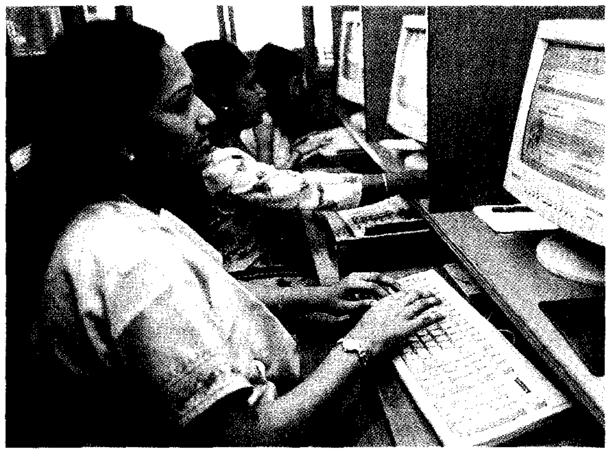
# Infodev

**Infodev is a global grant program managed by the World Bank on behalf of 22 public and private donors that seeks to reduce poverty through the support of information and communications technology (ICT) pilots and partnerships. Some of its latest SME-related activities:**

| COUNTRY | PROJECT | GRANTEE ORGANIZATION | PROPOSED GRANT | BENEFIT TO SMEs |
|---|---|---|---|---|
| **Egypt** | e-readiness Assessment for SMEs in Egypt | Ministry of Communication and Information Technology | $80,000 | Conducts an e-readiness assessment of Egyptian ICT firms to discover what SMEs need to thrive in the ICT sector. |
| **Guatemala** | Guatemala MicroNet | La Fundación Guatemala 2020 (NGO) | $50,000 | Sets the stage for an interactive e-commerce network to help SMEs find suppliers, price trends, and information. |
| **India** | Intercity Marketing Network for Women Micro-Entrepreneurs | Foundation of Occupational Development (NGO) | $147,900 | Establishes a telecommunications network for women's organizations to promote sales of products made by artisans and skilled workers in the state of Tamil Nadu. |
| **Morocco** | e-MAROC: Morocco in the Global Society | Secrétariat d'Etat chargé de la Poste et des Technologies de l'Information | $145,000 | Supports the organization of an ICT symposium in Morocco, and financial and business analysis of local cyber parks. |

# IFC

IFC has several initiatives underway involving SMEs and IT.



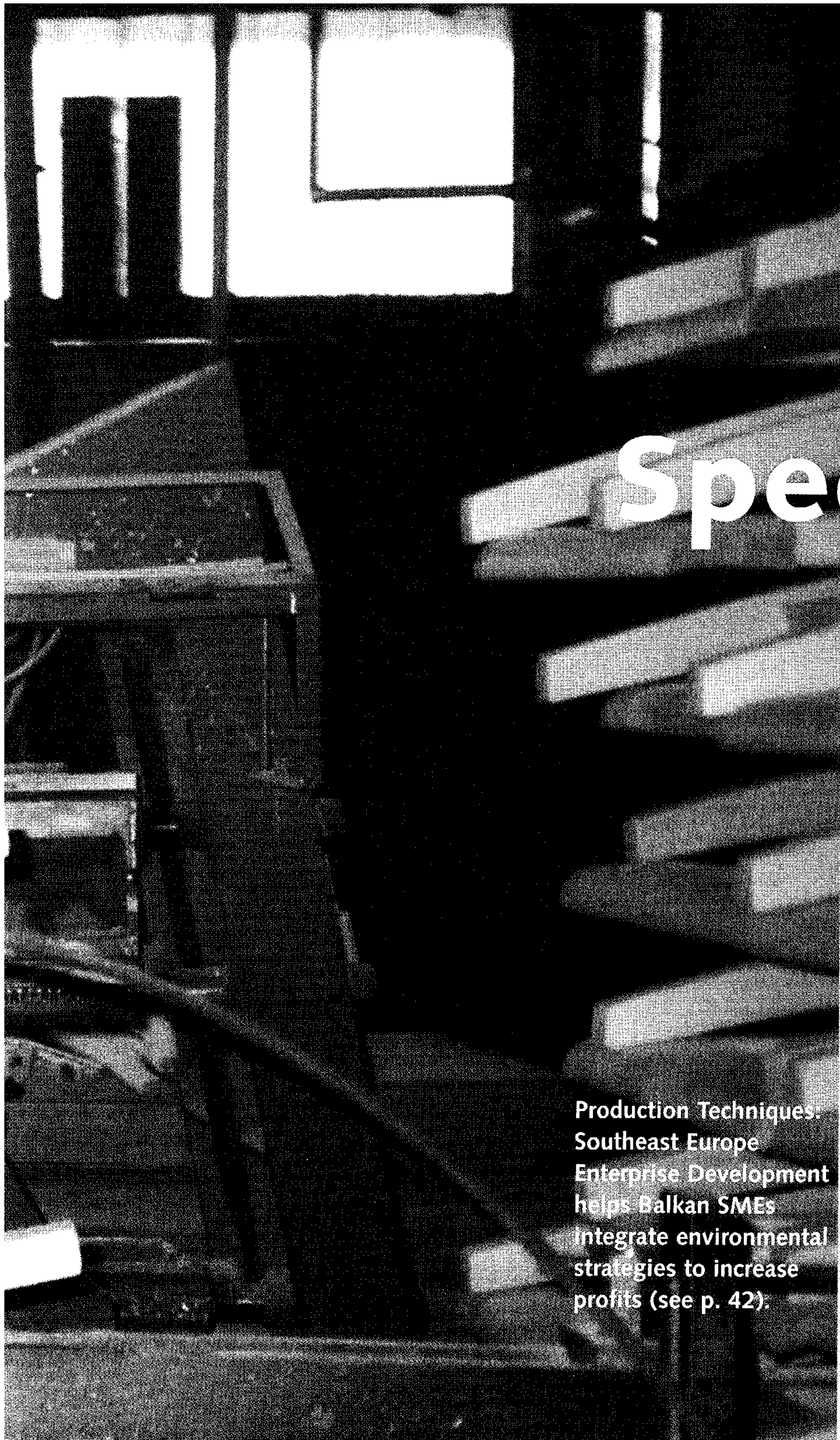
**India: Strong entrepreneurs and skilled laborers have created a software superpower. IFC is helping one of its leading private training schools, NIIT, share its knowledge in Africa.**

Support from the SME Capacity Building Facility (see Annex 4) led to the launch of a new global initiative to help local financial institutions find a cost-effective way to reach the largely untapped small business market in their countries. Efforts center on helping them adopt some of the same e-finance strategies that helped the US build the world's largest market for small business lending in the 1990s.

By using credit scoring, credit bureaus, and other tools, many banks in more advanced markets have overcome barriers to SME financing such as high transaction costs and unreliability of financial information There are indications that these same models can be used in other countries. Hungary's Inter-Europa Bank, a specialist in mid-sized companies, was one of the first to ask for IFC's help in setting an e-finance strategy for SMEs. It is now planning to invest in new technologies allowing it to offer far more revolving credit and working capital financing for SMEs.

In Ghana, the Africa Project Development Facility (APDF) helped a local small business attract $230,000 in IFC financing and launch a local franchise for India's leading computer training school, NIIT. The Accra-based school offers state-of-the art training for local students and corporate managers in basic computer skills, networking, systems analysis, and programming with Oracle and Microsoft certification. After completing this project, APDF's Accra office collaborated with the Ghana Export Promotion Council in training SMEs on the use of the Internet as a tool in building new markets overseas.

IFC also teamed with leading venture capital firms on a $3.25 million financing of Certifica.com, a Chilean company working to increase transparency and confidence in the Latin American Internet market. Certifica measures the web traffic of its clients and provides them with independent third-party certification through an internally developed software. Its aim is to become one of the leading local standards for Internet traffic measurement in Latin America. The new investment will allow it to launch operations in Brazil, Mexico, and Colombia, and further develop services in Peru, Argentina, Uruguay, and Chile.



Production Techniques: Southeast Europe Enterprise Development helps Balkan SMEs integrate environmental strategies to increase profits (see p. 42).

# Special Initiatives

**Emerging areas of critical importance to SMEs that require new solutions.**

# Supply Chain Linkages

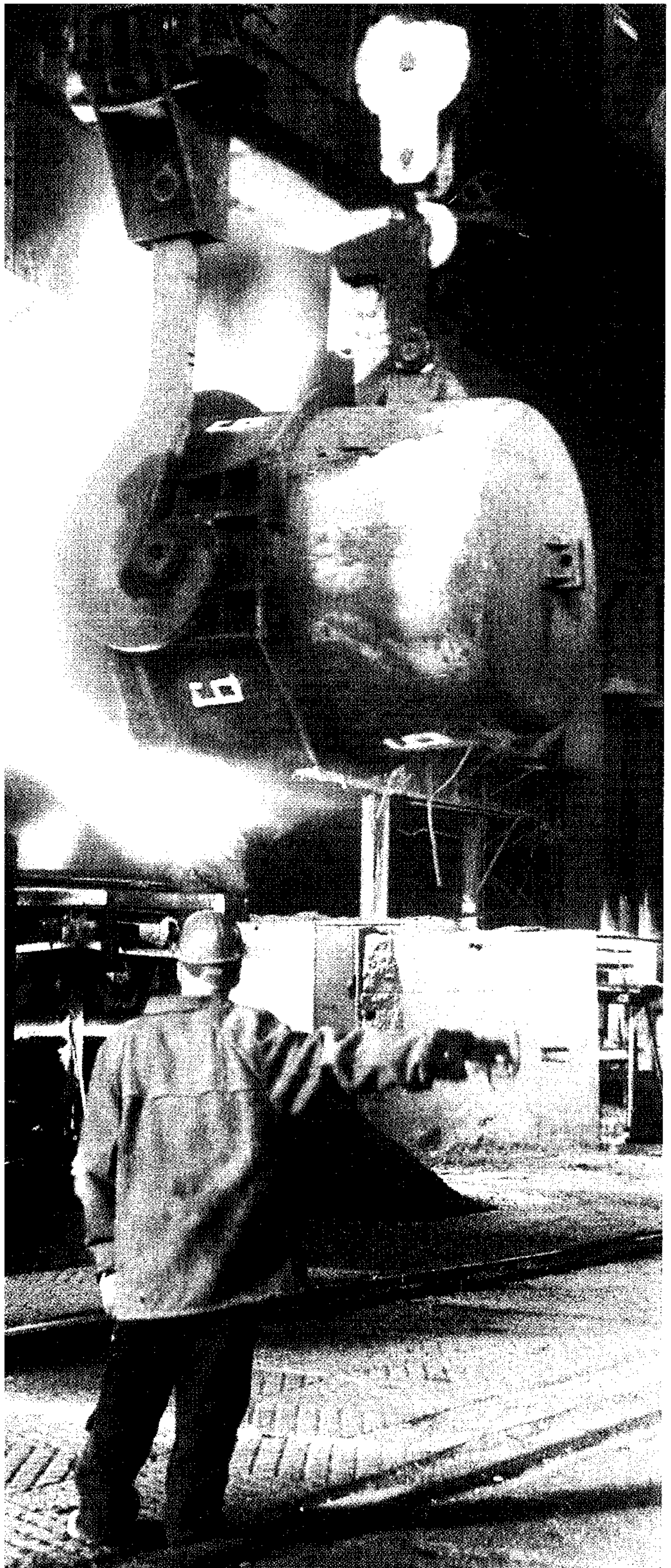
In many regions of the developing world, a single large corporation can serve as the nucleus of development and progress for a local economy. The World Bank Group recognizes the vital role that large companies play, and is working to help link them with local SMEs. These efforts center around providing support through a combination of customized training and access to long-term equity and debt financing and technical and market support.

Large companies serve as ideal sources for new ventures. Some activities (transportation, workshops, production of primary inputs) that are performed internally can be spun off as separate self-sustaining small or medium businesses. Large companies also set patterns for the steady flow of people between local companies, recruiting and training strong businesspeople that can then either branch off as entrepreneurs or be recruited by other companies. Their influence also allows such companies to provide the incentive or demand for governments or other public agencies to establish training programs.

SMEs must first be strengthened from the inside so they will have the technical competence to play valuable roles in the new environment. Once the supply chain is built up, large companies can outsource costly, inefficient services that are better performed by support enterprises. To grow their businesses and meet the new demand created by larger corporates, SMEs then must find affordable new sources of medium-term financing. To meet that need, IFC is teaming up with clients to launch new financing vehicles: in Kazakhstan, an SME fund with privatized steel company Ispat Karmet, and in Nigeria, a revolving credit facility for SMEs with Shell and a local financial institution.

The Bank Group is also working to foster such linkages with other new initiatives, including start-up support programs for local entrepreneurs and other programs geared toward streamlining the procurement process. Other services (consulting, banking, insurance, retailing, etc.) are established to serve large companies and act as visible and successful demonstrations of companies formed by independent entrepreneurs.

With an eye toward sustainability, linkage projects play a key role in technology transfer, market development and community outreach. Many projects are done in concert with existing IFC or World Bank partnerships, bringing a high degree of stability and leverage. Target SMEs benefit from their links to large businesses in the long run, as banks are more willing to adjust their lending policies to serve these new businesses and their supply chain relationships.

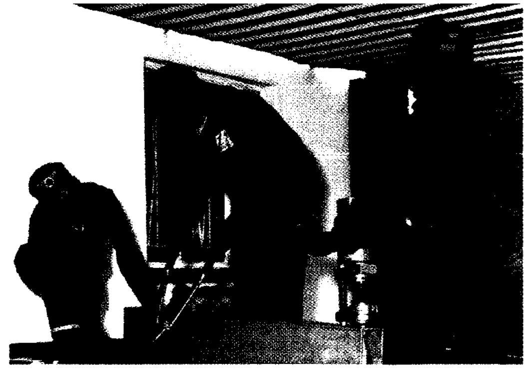


While the World Bank works with the public sector to put in place the foundational infrastructure (physical, policy, regulatory, and support, such as training institutions) for linkage creation, IFC provides long-term financing, technical assistance, and transfers proven models of supply chain development—Anglo-American's Zimele program for example—to new partners around the world (see page 40).

Large companies make it possible and visible to achieve critical mass, a vital component of self-sustaining growth. With the right help, small businesses can serve as a conduit to spread wealth to the community at large, and more efficiently deliver the local goods and services required by larger companies.

**IFC helps link local SMEs into the supply chains of major foreign investment projects.**

Anglo-American's experience supporting small South African firms is being transmitted to Kazakhstan through an IFC project.



## The Anglo-American Model

Employing roughly 50,000 workers, privatized steel plant Ispat Karmet is the key engine of economic development for Karaganda, a poor, isolated region of Kazakhstan. Ispat Karmet's ties with the local private sector need to be deepened to allow more of Karaganda's people to share in its benefits.

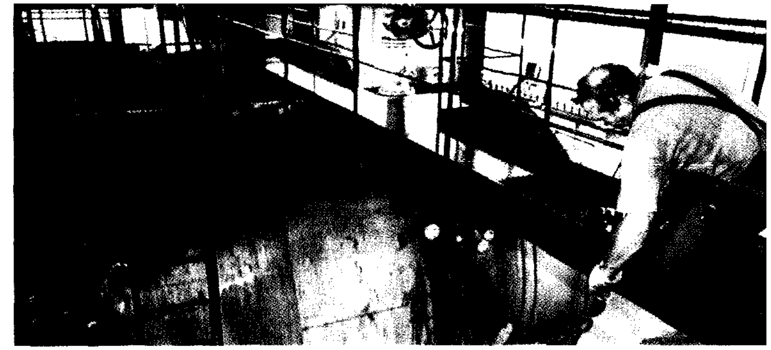
Seeking a proven model for supply-chain development, IFC last year studied Anglo-American's Zimele program in South Africa. With financing and technical support on a for-profit basis, Zimele (the Zulu and Xhosa word for 'self-sufficiency') has not only groomed 300 local SMEs as Anglo-American suppliers but has also built their sustainability and value by helping them compete in the broader marketplace.

After discussions with IFC, Anglo-American agreed to help transfer its model to Karaganda. IFC and Ispat Karmet have now teamed up to finance a $6.9 million SME fund that will make up to 20 job-creating investments in local SMEs that supply the steel mill, while also supporting them with technical expertise and management training. The project should go a long way toward filling the financing and knowledge gaps faced by these SMEs and, in the process, reduce the steel producer's operating costs by strengthening its local supply chain.

# IFC's Supply Chain Linkages Projects

**IFC has recently begun a series of activities linking local SMEs with business opportunities created by multinational corporations' major foreign investment projects. Some are confined to technical assistance to support training and other capacity building initiatives, while others also include an investment component. All are centered on assuring that foreign investment catalyzes business and community development at the local level for lasting mutual benefit.**

| LOCATION | PROJECT | PARTNERS | FUNDING | DESCRIPTION |
|---|---|---|---|---|
| **Chad, Cameroon** | Chad-Cameroon Oil Pipeline SME Initiative | ExxonMobil-led consortium, APDF, Finadev (Benin), Horus-Banque et Finance (France), Chadian Chamber of Commerce, Association of Chadian Construction Companies | Technical Assistance: $70,000 (IFC) | Two-part program to build local involvement in $3.7 billion oil pipeline: a $30,000 feasibility study of a new microfinance institution to support Chadian SMEs, and a $40,000 pilot to build capacity in Chad's largely informal private sector. |
| **Kazakhstan** | Ispat Karmet SME Resource | LNM Group (United Kingdom) Anglo-American (South Africa) | Investment: Up to $3.2 million; Technical Assistance: $180,000 (both IFC) | Replication of Anglo-American's Zimele model to build local SME input in the Ispat Karmet steel plant. |
| **Nigeria** | Niger Delta Contractor Revolving Credit Facility | Shell Petroleum Development Company of Nigeria, APDF | Investment: Up to $15 million; Technical Assistance: $100,000 (both IFC) | Supports establishment of a $30 million facility to finance and train small and medium-sized local contractors delivering services to Shell of Nigeria. |
| **Russia** | Agribusiness Development Project | Campina Melkunie B.V (the Netherlands) | Technical Assistance: $858,369 (the Netherlands) | Will train local farms and suppliers to agro-processors in financial management, production and distribution and advise local suppliers in identifying and accessing appropriate sources of financing. |
| **Russia** | Forest Sector Development in Northwest Russia | Thomesto Oy (Finland) | Technical Assistance: $800,000 (Finland) World Bank | Will: **a)** introduce sustainable forest management practices in northwest Russia; **b)** support selected Finnish companies in choosing forest areas and preparing investment in logging and wood processing operations; and **c)** collaborate with the World Bank's Sustainable Forestry Pilot Project and Coal and Forest Sector Partial Risk Guarantee Facility to improve policies affecting the development of the forestry sector. |
| **Ukraine** | Agribusiness Development | Chumak, (Ukraine) Swede Agri Swede Power Swede Survey (all Sweden) | Agribusiness Technical Assistance: $370,000 (Canada) Chumak Project Technical Assistance: $1.8 million (Sweden) | Will: **a)** identify potential suppliers to agro-processors (Chumak and others); **b)** work with selected farms to assist them with reorganization and provide legal advice on property rights; **c)** strengthen local farms' operations and increase the quality and amount of their production; **d)** negotiate long-term supply contracts between local farms and processors; and **e)** assist local farms in identifying sources of financing, and provide training in financial management. |



**Hungary: IFC support helps SMEs retrofit heating equipment for environmental gains.**

## Environment

oo often SMEs see environmental protection measures as a luxury only larger businesses can afford. But given the right incentives, they can find ways to both protect the environment and improve their bottom line.

The World Bank Group is developing new methods to help SMEs meet this challenge. Through a variety of programs and partnerships, IFC is helping SMEs maximize the efficiency with which they use natural resources and minimize the costs of environmental improvements.

One example is the Hungary Energy Efficiency Co-Finance Program (HEECP), which since 1997 has helped remove barriers to the financing of energy investments in the local marketplace. Launched by IFC with an initial $5 million grant from the Global Environment Facility (an international environmental financing initiative housed at the World Bank), the program offers guarantees to domestic banks on investments in energy-efficiency projects and technical support to local energy service companies and banks preparing energy-efficiency projects.

Through its partnerships with local financial institutions Raiffeisen Bank, OTP Bank, and MKB Bank—which together have now financed more than 40 energy-efficiency projects under the program—and disbursement of a similar number of technical assistance grants, HEECP is bridging the gap between the perceived and actual risks of energy-efficiency investments in Hungary. This has resulted in new investment opportunities for domestic financial institutions, and improved access to capital for small and medium energy businesses. Based on the program's successful record, IFC recently approved a $12 million expansion of HEECP's guarantee facility. Related technical assistance funding from IFC's Austrian and Dutch trust funds was a key component of the project.

The primary goals of IFC's work in this area are to help SMEs overcome their resource limitations, raise their environmental and social standards, and capitalize on emerging business opportunities arising from this trend. In the Balkans, SEED is helping meet these objectives by producing a training manual, outlining proactive approaches to improving the stability and profitability of businesses through environmental management.

© FUNDECOR

## FUNDECOR: Saving Costa Rican Forests

Local landowners have cleared vast areas of tropical forest in Costa Rica's Central Volcanic Region to create farms and cattle ranches. As a result, this area experienced a net annual loss of 6 percent in its forest cover between 1986 and 1992, one of the highest rates of deforestation in the world.

An innovative response to this problem has come from FUNDECOR (www.fundecor.org), an environmental NGO founded in 1989 to support the sustainable use of natural resources in Costa Rica. Its Advance Wood Purchases Program provides market-based economic incentives for landowners to launch new forest plantations in deforested areas and practice conservation in remaining uncut forests. A pioneering, untested model when it began in 1996, the program was unable to attract private capital.

Through a GEF-supported IFC loan of $500,000, FUNDECOR has been able to move forward, extending a long-term loan that was then rechanneled through local financial institutions at market rates to 62 local landowners. Of these, 31 have now planted new forests with native species for future timber harvests, and 31 more have begun practicing sustainable forestry in existing forests.

Conceived as a demonstration project from the start, the program has now established a solid track record and is being considered for broader application in Costa Rica and other countries.

FUNDECOR's unique market-based model has played a critical role in reversing the process of deforestation. As of 2000, satellite photography actually showed a small net gain in forest cover in the region. Belgium recently recognized the program's success, awarding FUNDECOR the prestigious 2000 King Baudouin Foundation International Development Prize.

# World Bank Environmental SME Projects

| COUNTRY | PROJECT | FUNDING | BENEFIT TO MICRO/SMES |
|---|---|---|---|
| **Brazil** | Land-Based Poverty Alleviation | $180 million | Funding will be used to finance community-based land purchases for 50,000 poor farm families and provide small grants to communities' investments, technical assistance and start-ups. |
| **Philippines** | Land Administration and Management | $4.8 million | Develops an efficient system of land tenure and administration, to alleviate poverty and enhance economic growth by emphasizing rights of small land holders. |
| **Sri Lanka** | Land Titling and Related Services | $5 million | Three-year pilot program will facilitate the purchase of up to 22,000 parcels of land by local private farmers. The program seeks to reduce market restrictions on land ownership and provide the tenure security, credit access, and transparency needed to empower small farmers to manage their land resources more effectively. |

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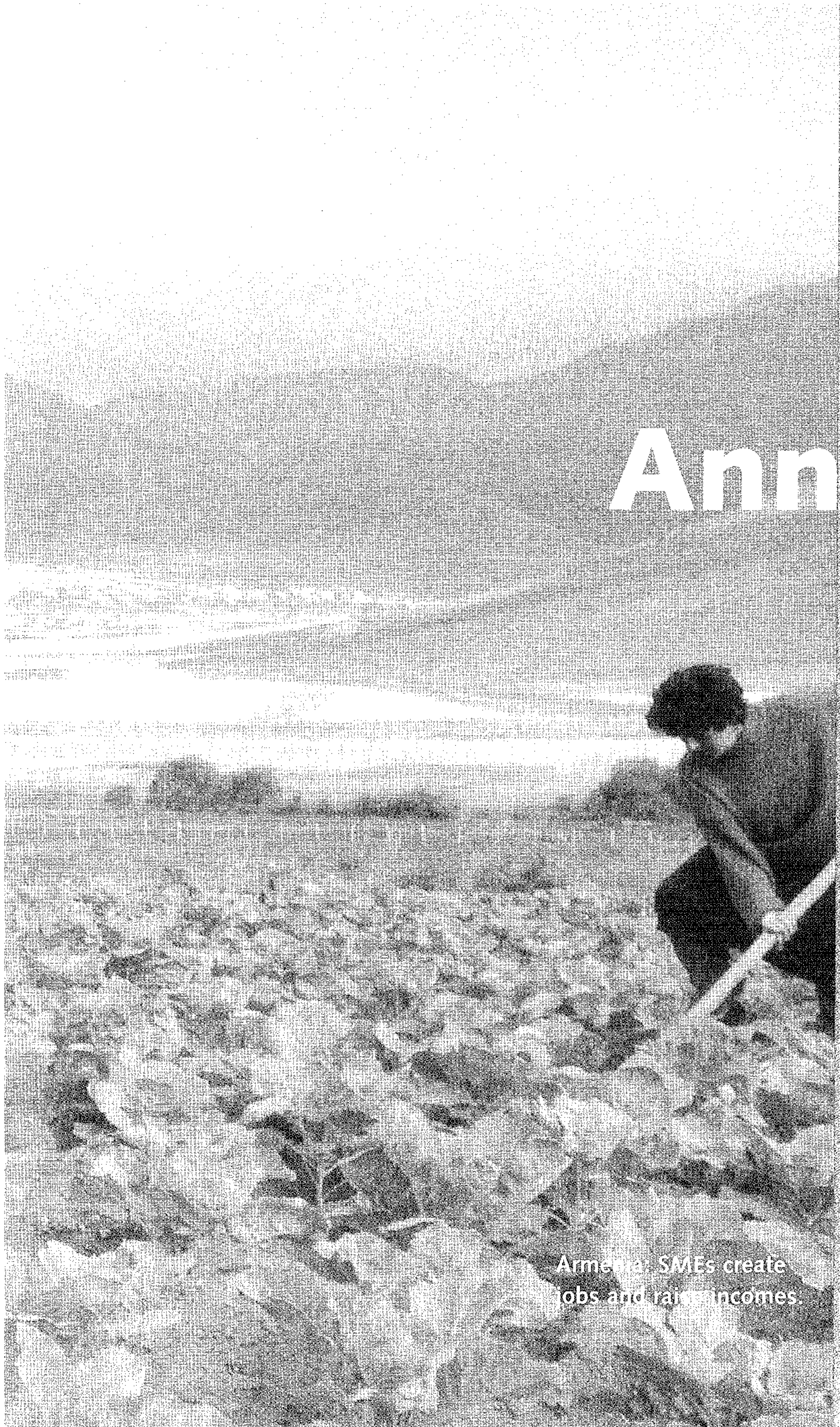
# Annexes



Armenia: SMEs create jobs and raise incomes.

1. Regional Programs
2. Country Maps
3. IFC-managed SME Facilities
4. SME Capacity Building Facility

# ANNEX 1

## Regional Programs

The creation of the World Bank Group SME Department provides a new way for the institution's programs to be more focused, coordinated, and integrated into an overall Bank Group strategy for assisting SMEs going forward. Increasingly, these programs are taking on more strategic underpinning, both representing opportunities identified by the various departments throughout the Bank Group and also the needs of particular member countries for specific SME support. To this end, the SME Department this year began producing regional program reports to provide World Bank Group management with a region-by-region overview of the institution's SME strategy, pipeline and portfolio projects, and other SME-specific activities. These semiannual reports offer, for the first time, a full picture of what the Bank Group is doing to promote SME development in each region. Their goal is to create awareness, foster greater interest in SME development work, and identify new priorities and programming opportunities for both IFC and the World Bank.

The regional program reports summarize the work of the SME Department in a number of key areas:

- **A review of World Bank and IFC strategies to support SME development**
- **An indication of where the SME Department will integrate its activities with the wider Bank Group through Poverty Reduction Strategy Papers, Country Assistance Strategies, and other key documents**
- **A quantitative analysis and brief narrative on World Bank and IFC SME-related projects**
- **A summary of the status of country maps being developed and disseminated by the SME Department**
- **A summary of the pilots, partnerships, and other projects being undertaken and planned in the future by the SME Department and IFC's SME Facilities**

In FY02 the SME Department will continue to produce semi-annual regional program reports with the objective of developing them further into a core platform for dialogue with the regional departments within IFC and the World Bank.

The following activities were completed in FY01:

- **Designed a template for reporting on the Bank Group's SME activity in each region**
- **Produced the first two semiannual regional program reports**
- **Completed country maps in a number of countries, and provided a range of operational and best practice support to the regions**

Projects Approved in FY01
(millions of dollars)

# World Bank and IFC Support for Micro, Small and Medium Enterprises by Region

| | TOTAL | Africa | Central and Eastern Europe[a] | East Asia/ Pacific | Latin America/ Caribbean | Middle East/ North Africa | South Asia | Southern Europe/ Central Asia[a] | Global |
|---|---|---|---|---|---|---|---|---|---|
| TOTAL ASSISTANCE | **2,431.3** | 554.4 | 45.6 | 580.1 | 588.1 | 65.4 | 309.6 | 278.1 | 10.0 |
| In Percent | **100%** | 23% | 2% | 24% | 24% | 3% | 13% | 11% | 0.4% |
| 1. Intermediary and Firm Level Assistance (Finance and T.A.)[b] | **2,411.3** | 540.0 | 45.6 | 579.9 | 586.7 | 65.4 | 308.0 | 275.7 | 10.0 |
| In Percent | **100%** | 22% | 2% | 24% | 24% | 3% | 13% | 11% | 0.4% |
| World Bank | **1,659.9** | 331.2 | - | 462.3 | 423.3 | 40.8 | 259.3 | 143.0 | - |
| IFC | **751.4** | 208.8 | 45.6 | 117.6 | 163.4 | 24.6 | 48.7 | 132.7 | 10.0 |
| 2. Assistance with Policy and Regulations[c] | **20.0** | 14.4 | - | 0.2 | 1.4 | - | 1.6 | 2.4 | - |
| In Percent | **100%** | 72% | 0% | 1% | 7% | 0% | 8% | 12% | - |

(a)The Bank's ECA region was disaggregated into CEE and SECA for comparison purposes with IFC.

(b)Assistance for support institutions and assistance with policy/regulations represent only WB project components. IFC's assistance for capacity building and policy/regulations channeled through other TA projects, and Project Development Facilities are not included in this table.

(c)This table includes World Bank project components that provide direct assistance to micro, small and medium enterprises, to small farmers, and to local private enterprises generally; all IFC direct investments in MSMEs and all financial markets projects with financial intermediaries that focus on MSMEs. The definition of micro, small and medium enterprises used throughout the analysis is as uniform as possible (see note, p. 8) to permit aggregation. IFC's direct investments count individual investments in firms whereas IFC's financial markets count value of IFC investments in intermediaries lending to individual firms.These data exclude non-project SME support from the WBG, including CGAP, WB and IFC Trust Funds, GEF, PEP, and IFC's project development facilities. MIGA activities are also excluded.

# ANNEX 2

## Country Maps

The SME Department has begun surveying the small business development scene in a number of countries, in response to specific demands from client countries and various regional departments of the World Bank Group. Drawing heavily on the operational work and knowledge of the Bank Group and others, it is developing SME "country maps" designed to bring together essential information about priority needs that must be addressed. The maps highlight the principal areas of focus of the Bank Group's SME strategy: capacity building, information and technology, access to capital, and the business environment. Among the issues they address are deficiencies in the legal structure, administrative framework, and government policies relating to SME development. They also serve as a basis for coordination with donors, the client country, and other institutions. Country maps have three principal uses:

**Assessment Exercise**. Analysis of the key factors and constraints affecting the SME sector in a particular country or area of a country, including:

- the *demand side* (the needs of enterprises for such important inputs as information, advisory services, training and technical assistance, and financing services)
- the *supply side* (public and private programs, including services that the World Bank Group, local institutions, governments, NGOs, donors, and others can offer SMEs)

**Joint Programming Tool**. Based on the "gaps" identified above, the maps provide a management and planning tool to develop shared views and priorities and complementary programming initiatives with other areas of the Bank Group, the client country, and external partners.

**Knowledge Management Tool**. A country-level database of the SME environment for knowledge benchmarking and dissemination. A web site is being developed to input the mapping data, with links to related web sites.

The maps are compiled in close collaboration with other key stakeholders—e.g., local agencies, the relevant regional development banks, bilateral donors and other partners—to avoid duplication of effort and increase program complementarity with other participants in this field. The mapping exercise serves as a basis for Bank Group dialogue on SME development with client countries and stakeholders.

## Among the key maps done to date and their most important results:

| COUNTRY | GNP PER CAPITA (1999) | RESULTS |
|---|---|---|
| **Bolivia** | **$990** | • Led to consultation mission for follow-up and action planning |
| **Bosnia and Herzegovina** | **$1,210** | • Led to the establishment of high-level working groups to address business environment constraints (including harmonization of business laws, simplification of registration)<br>• Led to pilot projects to strengthen the capacity of independent business associations<br>• Provided input into an upcoming World Bank Business Environment Adjustment Credit |
| **Cambodia** | **$260** | • Business environment pilot launched and capacity building pilots under development, both in conjunction with government, local stakeholders, World Bank Group and other donors |
| **El Salvador** | **$1,920** | • Strengthening and expanding of FUNDES Business Consulting Unit<br>• Map used as a basis for planned consultations with government |
| **Ghana** | **$400** | • Map used as a basis for support for streamlining government's SME programs (launched SME Action Plan and Task Force) |
| **Indonesia** | **$600** | • World Bank Group brought more forcefully into SME development in Indonesia through Country Assistance Strategy<br>• Basis for design of a potential IFC-managed SME Facility in Indonesia |
| **Kyrgyz Republic** | **$300** | • Input into Comprehensive Development Framework and Poverty Reduction Strategy Paper<br>• Supported design of a Financial Sector and Business Development IDA credit<br>• Basis for the design of IFC's Private Enterprise Partnership/SECO (Switzerland) program |
| **FYR Macedonia** | **$1,660** | • Map used as basis for ongoing consultations with government on possible future initiatives (e.g., Local Economic Development project, e-government, business registration services, commercial law reform)<br>• Map used to assess needs and priorities in SEED's launch in the country |
| **Mali** | **$240** | • Map contributed to development of a Poverty Reduction Strategy Paper, focusing on revenue-generating activities<br>• Supported survey of 160 SMEs |
| **Morocco** | **$1,190** | • World Bank Group brought more forcefully into SME development through Country Assistance Strategy<br>• Map used as a basis for designing a proposal for an IFC-managed project development facility in the region |
| **Nigeria** | **$250** | • Map supported a Private Sector Assessment and IDA Private Sector Development Program<br>• Development of extensive joint Work Program Agreement with World Bank Africa Private Sector Development Department and Nigeria Country Unit<br>• Business Associations capacity building pilot<br>• Banking training with APDF and AMSCO<br>• Industry-specific initiatives in Kano |
| **Federal Republic of Yugoslavia** | **$1,000 (estimated)** | • Map fed into SME component of World Bank Private Sector Development Technical Assistance Grant<br>• Map used to assess SME needs and priorities as basis for SEED's expansion to the FRY<br>• Map fed into the World Bank Group Private Sector Development chapter in the FRY economic report |

# ANNEX 3

## IFC-Managed SME Facilities

**Africa Project Development Facility (APDF)**

**African Management Services Company (AMSCO)**

**Mekong Project Development Facility (MPDF)**

**Southeast Europe Enterprise Development (SEED)**

**South Pacific Project Facility (SPPF)**

IFC and its partners supply much-needed support to small businesses in selected low-income countries through a family of specialized SME Facilities. Managed by IFC and funded by IFC in partnership with other donors, they provide a continuous on-the-ground presence, helping individual local entrepreneurs access the financing and technical assistance needed to build commercially viable businesses, while also undertaking wider-ranging capacity building initiatives.

The Facilities' product lines have evolved over time. Originally focused on assisting SMEs in preparing bankable business plans and occasionally providing them with management support, they now also conduct broader non-investment initiatives with business associations, service providers and others; original research, training and technical assistance for local financial institutions; and other activities. By taking on this wider-ranging sectoral development role in addition to providing a broader range of services to individual enterprises, the Facilities have become flexible, multi-product vehicles that do much to build self-sustaining enterprises and the institutions needed to support them, generate employment, increase skills, and stimulate export earnings.

Technical assistance programs are run with a commercial mindset, showing an emphasis on quality, results, sustainability, and providing the kinds of services demanded by the market. In the latest fiscal year, the five Facilities have:

- Completed 102 financial advisory projects
- Raised more than $42 million in new financing
- Helped create or maintain 6,823 jobs
- Seconded 265 managers to 97 African companies (through AMSCO)

Until this year they were all operated through different IFC departments and, as a result, lacked a common focal point that would enable them to share resources and draw on each other's experiences. Now the Facilities have been brought together under the SME Department, helping them realize synergies and making them an integral part of the broader World Bank Group SME strategy. In addition to the five that currently exist, two new facilities have been slated to open in the near future: one in China's Sichuan Province, and the second, based in Bangladesh, will serve South Asia.

# Key Indicators of IFC-Managed Facilities
## Fiscal Year 2001 (July 1, 2000 - June 30, 2001)

| | FY01 ACTUAL [a] | | | | |
|---|---|---|---|---|---|
| **Investment Advisory Services at a Firm Level** | **APDF** | **MPDF** | **SPPF** | **SEED** | **Total** |
| New Partnership Agreements/MOUs/ Contracts Signed | 66 | 48 | 22 | 14 | 150 |
| Projects Completed/Investment Plans Financed | 45 | 38 | 13 | 6 | 102 |
| Internal Enhancement Plans (IEP) Delivered (b) | n/a | n/a | n/a | 13 | 13 |
| Non-Cash Fees from Clients (US$) (c) | 1,600 | 9,515 | 22,800 | 950 | 34,865 |
| Direct Jobs Created/Retained | 2,779 | 3,714 | 293 | 37 | 6,823 |
| Financing Raised by the Facility (US$ mln) | 22.1 | 10.5 | 8.7 | 1.0 | 42.3 |
| Total Cost of Financed/Completed Projects (US$ mln) | 66.2 | 22.4 | 10.3 | 2.4 | 101.3 |
| ***Capacity Building, Training and* Business Enabling Environment (BEE) Program** | **APDF** | **MPDF** | **SPPF** | **SEED** | **Total** |
| Number of Capacity Building/ Non-Investment (TA) Projects Completed | 38 | 27 | 7 | 10 | 82 |
| Number of Enterprises Assisted Directly | 69 | 66 | 12 | 15 | 162 |
| Number of Training Modules/Courses Delivered (d) | 81 | 42 | 1 | n/a | 124 |
| Number of Training Hours Delivered (d) | n/a | n/a | n/a | 309 | 309 |
| Number of SME & Financial Institutions' Staff Trained | 473 | 1,267 | 48 | 65 | 1,853 |
| Number of Seminars/Workshops Delivered | 30 | 1 | 3 | 21 | 55 |
| Number of Attendees | 1,101 | 175 | 48 | 650 | 1,974 |
| Non-Cash Fees Generated by Capacity Building/Training (US$) (c) | 184,600 | 26,650 | 0 | 19,978 | 231,228 |
| Number of Consultants, Agents and Trainers Trained | 98 | 234 | 1 | 142 | 475 |
| Significant Inputs into Improving Business Environment | 3 | 4 | 3 | 9 | 19 |
| Press Mentions | 39 | 58 | 72 | 88 | 257 |
| **Cost Recovery (US$)** | **APDF** | **MPDF** | **SPPF** | **SEED** | **Total** |
| Cash Fees Generated by Investment Advisory Services | 528,400 | 84,221 | 109,416 | 8,700 | 730,737 |
| Cash Fees Generated by Capacity Building/ Training/BEE Program | 180,400 | 12,300 | 0 | 7,339 | 200,039 |
| Total Cash Fees Collected | 708,800 | 96,521 | 109,416 | 16,039 | 930,776 |

(a) AMSCO's data are not included in this table. They are presented in a separate table.
(b) n/a means such product or service is not offered by the other Facilities except for SEED.
(c) Includes in-kind contributions from clients used to offset the costs of the Facility's services and/or direct payments by clients for bills of third parties (e.g., consultants for market study, etc), which would otherwise have been paid by the Facility.
(d) n/a means that while both products or services (e.g., training/courses) are offered by the Facilities, they are measured differently by the Facilities, specifically for SEED.

# African Management Services Company (AMSCO)
## Six Months Ended June 30, 2001

| **Management Services (MS)** | **CY01 (6 months)** |
|---|---|
| New Client Companies Contracted during the Period | 10 |
| Number of Client Companies at End of Period | 105 |
| Number of Managers Seconded to Client Companies at End of Period | 265 |
| Total Revenue from Management Services (US$ mln ) | 7.4 |
| Collection Rate (%) | 85% |

| **Training and Technical Assistance Program (TTA)** | **CY01 (6 months)** |
|---|---|
| Number of Training Events Completed | 103 |
| Client Company Employees Trained | 1,515 |
| Number of Country Corporate Governance Manuals Developed | 3 |
| Number of New Training Plans Developed for Implementation | 8 |
| Total Cost of AMSCO Training Programs (US$ mln) | 1.1 |
| Client Contribution to AMSCO Training Programs (US$ mln) | 0.6 |
| % of Client Contribution to AMSCO Training Programs | 54% |

| **Overall AMSCO Package (MS and TTA)** | **CY01 (6 months)** |
|---|---|
| Total Cost of AMSCO Package (US$ mln) | 9.2 |
| Client Contribution to AMSCO Package (US$ mln) | 7.9 |
| % of Client Contribution to AMSCO Package | 86% |

# Africa Project Development Facility

apdf
Africa Project
Development
Facility

**Donors:**
**African Development Bank**
**Belgium**
**Canada**
**Denmark**
**Finland**
**France**
**Germany**
**IFC**
**Italy**
**Japan**
**Netherlands**
**Norway**
**Portugal**
**Sweden**
**Switzerland**
**United Kingdom**
**United States**

The Africa Project Development Facility (APDF) is a multi-donor initiative for African small and medium enterprises (SMEs) managed by IFC. Headquartered in Johannesburg with regional hubs in Abidjan, Nairobi, and Accra and smaller offices in Lagos and Cape Town, it offers continent-wide coverage and a diverse set of products for local SMEs and the organizations and individuals who support them.

APDF was established in 1986 as a joint venture of IFC, the African Development Bank and the United Nations Development Programme (UNDP) to help African entrepreneurs develop bankable business plans and secure necessary financing for their projects. In that time it has assisted more than 460 projects, leading to more than $380 million in new investment and the creation of approximately 36,000 jobs. It has now broadened its mandate by supporting several other efforts linking SMEs with local investment funds, consulting services, business associations, and others. APDF is also working increasingly closely with its sister organization the African Management Services Company (AMSCO), which provides fee-based management support and training as well as corporate governance assistance throughout the continent.

APDF's vision is to be the role model in supporting the development growth of African SMEs with services that are needed and affordable, working directly and through local institutions and consultants. In 2000 APDF began a new five-year funding cycle with a core set of products in two main categories:

**Business Advisory Services (BAS)**

- Business diagnosis using well-developed tools
- Business plans, due diligence and valuations
- Financial structuring and fund raising

**Enterprise Support Services (ESS)**
- Organizational and human resource development
- Development of marketing and sales strategies
- Productivity improvements and quality control
- Improvements in finance and accounting systems
- Management information systems
- Strategic planning
- Working capital management and sourcing

In addition to refining its business model along these lines, this year APDF also began several broader-based initiatives that expand on the past experience emphasizing firm-level assistance. One example is its new efforts to strengthen local business associations such as the Ghana Export Promotion Council. APDF's Accra office is helping that group build its members' skills through training workshops and seminars. The end result is expected to be development of new exports in selected sectors with significant potential. Another example is the Abidjan office's comprehensive program to build up local consulting firms in 13 Francophone West African countries, some of which are difficult for APDF to reach directly. APDF has given the firms initial training and will develop further training courses and on-the-job support for them over the next three years, increasingly using them to provide business development services.

# African Management Services Company

AMSCO
AFRICAN MANAGEMENT SERVICES COMPANY

The African Management Services Company's (AMSCO) mission is to assist small and medium-sized private companies with substantial African ownership to become more sustainable and competitive in national and international markets. AMSCO achieves this by seconding experienced managers to client companies, and by providing client-specific training to upgrade the skills of the local work force to improve their performance and productivity.

AMSCO has three core competencies:

- Recruiting managers to senior positions, secondment to African client companies of well-qualified managers for two to three years
- Developing and implementing tailor-made training programs
- Offering workshops and manuals promoting good corporate governance

AMSCO's success with human capacity-building development is reflected in the results that were achieved in the year 2000:

- The number of managers grew by 17 percent to a total of 244 managers at the end of 2000, seconded to 99 African companies (77 percent SMEs) in 23 countries
- AMSCO has trained 2,400 employees in on-the-job training programs
- AMSCO clients contributed, on average, 85 percent of the total and considerable costs of expatriate management and training of their employees. This demonstrates two aspects of development impact: 1) AMSCO's client companies perform well, enabling them to pay; and 2) their owners consider AMSCO's services of value
- A recent market study by Ernst&Young Ghana revealed that the market for management services in Africa is still largely undeveloped. AMSCO's services are unique. AMSCO has started cooperation with local service providers in order to prepare them for taking over AMSCO's function
- AMSCO has developed six offices in Africa and is in the process of transferring functions from its head office in Amsterdam to offices in Africa
- AMSCO has implemented projects to promote, through its managers and through other local partner institutions, good corporate governance in nine countries
- AMSCO made a modest profit in 2000

The recognition and application of corporate governance standards are crucial for economic development because they increase discipline in the business community, and at the same time act as a signal to investors and donors alike, especially international investors. The IFC/AMSCO corporate governance program provides country-specific manuals and workshops that emphasize the role and responsibilities of the shareholders and board of directors, and the importance of integrity, transparency and accountability.

A good example of AMSCO intervention is that of Groupe RTA (Radio Télévison Analamanga) in Madagascar. In the two years since AMSCO's involvement, RTA has diversified its programs, created a loyal television and radio audience, increased its efficiency by more than 60 percent and established the first technical school in which employees may learn the skills of media production. Today RTA has achieved a level on par with European media groups.

AMSCO was established in 1989 as a public-private partnership led by the United Nations Development Programme, the African Development Bank, and IFC. These founders, together with shareholders made up of development banks and prominent international corporations, have provided AMSCO with $52 million by way of share capital and subsidies for management and training over the last 12 years.

# Mekong Project Development Facility

Mekong Project Development Facility

**Donors:**
**Asian Development Bank**
**Australia**
**Canada**
**EU**
**Finland**
**IFC**
**Japan**
**Norway**
**Sweden**
**Switzerland**
**United Kingdom**

Launched in 1997, the Mekong Project Development Facility (MPDF) has the mission of supporting the establishment and growth of private, domestically-owned, small and medium-sized enterprises (SMEs) in Vietnam, Cambodia, and the Lao PDR. It bases its work on the belief that domestic entrepreneurship is central to ongoing efforts in all three countries to overcome widespread poverty, and continue the transition from central planning to market-based economies. MPDF is financed by 11 donor countries and institutions, including the Asian Development Bank and IFC.

MPDF provides specialized assistance to two main target groups: first, to private sector entrepreneurs and managers to expand businesses or develop new business, and second, to organizations providing business support services to private companies. It does it by providing two separate but linked services:

**Company Advisory Assistance.** MPDF provides assistance to private companies in preparing viable business plans and securing long term financing for their investment projects. It also provides assistance in developing the performance of private companies, as needed.

**Business Support Services Program.** MPDF works to generally improve the business environment for SMEs. In particular, it focuses on strengthening the skills and capacity of local financial institutions, training institutes, and consulting firms, who in turn provide relevant and high quality services at affordable costs to SMEs. MPDF also seeks to develop alternative sources of finance such as lease finance and venture capital.

**Accomplishments in 2000**

**Company Advisory Program**

- 38 companies assisted to raise financing (55% increase over 1999)
- About $48 million foreign exchange earned/saved per year
- ISO and MIS programs for 10 companies launched
- 48 MOUs signed with private companies
- New products developed in response to market demand

These achievements reflect: (a) strengthened links with local banks; (b) IFC's willingness to lend to domestic SMEs in Cambodia and Laos; (c) four years of local knowledge and reputation built up by MPDF staff.

An example of a typical project assisted under this program is the recently completed one with Anh Vu Garments (AV). AV is a relatively new private company set up in Hanoi in 1999 to manufacture garments for export on a CMT (cut-make-trim) basis. Its entrepreneur previously worked for about twelve years for a state-run garment factory.

# Southeast Europe Enterprise Development

Southeast Europe Enterprise Development (SEED) is IFC's newest SME Facility, launched in Fall 2000 with a focus on Bosnia and Herzegovina, Albania, FYR Macedonia, and Kosovo. In Spring 2001 its donors decided to expand SEED's mandate to include the Federal Republic of Yugoslavia (Serbia and Montenegro).

Set up with a five-year mandate, SEED serves both local SMEs directly and other organizations that support them, while also working closely with the World Bank Group and other institutions to improve the difficult business environment in the target economies. It does so through tailored, enterprise- and organization-specific technical assistance, capacity building programs, training courses, and research/policy interventions.

To implement its mandate fully, SEED provides enterprise-level investment services, capacity building of enterprises and institutions serving SMEs' needs, and improvement of the business environment.

**Investment Services**

The goal of SEED is to target companies for sustained, market-based competition. If an SME can define its business in these terms, then and only then is it ready for financing. SEED will attempt to identify clients that are near this goal. In such cases, SEED will actively try to match the company with appropriate investors and financiers immediately. For those SMEs that need to strengthen their performance, SEED will assist in that development prior to seeking financing.

When the client has obtained financing, SEED may also offer post-investment services such as:

- Setting up accounting/financial information systems
- Management training
- Management information systems
- Financial management
- Trade finance
- Export marketing and procedures
- ISO accreditation
- Preparing for a second and third round of financing
- Project implementation
- Market development

**Capacity Building**

The vast majority of SMEs in Southeast Europe have been shielded from modern market economies and are at a disadvantage as they operate and attempt to develop their businesses. Furthermore, there is no history of business advocacy or association existing with the sole purpose of supporting business interests.

SEED is addressing these issues by:

- Partnering with local associations of business owners and helping them expand and function more effectively and independent of donor support
- Implementing training and technical assistance programs for local business service firms (accounting firms, small business law firms, auditing firms, management information firms, general consultants and the like)
- Implementing SME training programs to enhance competitiveness
- Sharing knowledge among SMEs and SME service providers through in-person "business roundtables," and Internet-based exchanges
- Promoting the development of women-owned/operated businesses through targeted support for women business association development

**Business Environment**

To help make the business environment for Balkan SMEs more simple, supportive, predictable, and transparent, SEED is currently:

- Supporting legislative and tax reform benefiting SMEs
- Reaching out to leaders of municipalities to support local economic development programs targeting SME development
- Organizing and disseminating business information that can assist SMEs in identifying new markets, understand and comply with local laws and regulations, and learn about new products, production methods, and technology
- Promoting regular dialogue between local business representatives and government

**Donors:**
**Austria**
**Canada**
**Greece**
**IFC**
**Netherlands**
**Norway**
**Slovenia**
**Sweden**
**Switzerland**
**United Kingdom**

# South Pacific Project Facility

**Donors:**
**Asian Development Bank**
**Australia**
**Fiji**
**IFC**
**Japan**
**Kiribati**
**New Zealand**
**Samoa**

In February 2001, IFC, Japan, Australia, and New Zealand agreed to fund the activities of the South Pacific Project Facility (SPPF) for a third five-year phase at a cost of $10.5 million. The decision was an endorsement of the core competency in small business project work developed by the Facility since its establishment in 1990. The donors acknowledged the SPPF's ability to effectively respond to the unique development needs of IFC's 10 Pacific Island members, which are almost totally dependent on SMEs for private sector growth.

Indeed, private sector growth is widely regarded in the region as critical to the social and economic development of Pacific Island nations. The SPPF has transferred a wide range of business and financial management skills to Pacific Island entrepreneurs and consequently helped to foster a belief in the region's own ability to establish successful SMEs.

With a brief to "assist and accelerate the development of productive, self-sustaining, SMEs in Pacific Island countries," the SPPF has completed 100 projects with a total value of more than $100 million over the past 11 years.

In fulfilling its brief, the Facility has given a high priority to encouraging indigenous enterprises, involving women in business and fostering an awareness of environmental concerns.

The political and therefore the economic life of the Pacific region during the 2000-2001 fiscal year was dominated by ongoing uncertainty in Papua New Guinea, Fiji and the Solomon Islands. The SPPF was, nevertheless, able to complete 13 projects over the past year (July 2000 – June 2001). Reflecting the nature of the region's economy, the value of these projects averaged $500,000. Average funds raised per project was under $200,000.

In Papua New Guinea, the SPPF was involved in projects ranging from packaging to plantation timber, tuna processing, wholesale distribution, and healthcare. Agribusiness and aquiculture ventures were reviewed in Vanuatu and Palau, while in Samoa funding was raised to assist businesses in the healthcare, education and finance sectors.

The Facility was engaged in fisheries and tourism sector activities throughout the Pacific during the year. These activities included a review of the tourism portfolio held by the Federated States of Micronesia Development Bank and a major tourism project in Palau.

The local financial markets also presented growth opportunities and, during the year, the SPPF appointed a capital markets specialist to complement the skills of the regional investment officers and other industry specialists. In the financial services area, the Facility has already provided technical assistance leading to the establishment of Samoa's first locally owned private commercial bank and is involved in the establishment of a Samoan venture capital fund.

The SPPF is also working to develop a technical assistance package for the region's development banks on the understanding that without access to funds from development bank sources, growth in the SME sector will be severely restricted.

# Private Enterprise Partnership

**Donors:**
**Canada**
**Finland**
**Japan**
**Netherlands**
**Norway**
**Sweden**
**Switzerland**
**United Kingdom**
**United States**

In the former Soviet Union IFC supports SMEs through the Private Enterprise Partnership, managed by its Central and Eastern Europe Department. Established in May 2000, the Partnership builds on 10 years of prior experience with joint IFC–donor programs to develop the private sector in the post-Soviet region. The Partnership now consolidates IFC's technical assistance programs across the region under a centralized management, leverages IFC and donor contributions, and integrates IFC's technical assistance with its investment programs.

The Partnership focuses on three key objectives:

- Promoting direct investment
- Supporting the growth of SMEs
- Improving the business environment

To support the growth of SMEs, the Partnership improves their access to capital by developing microfinance banks, leasing companies, and venture capital funds. It brings new business skills through customized training of local consulting companies on delivering focused enterprise support to SMEs. To help SMEs find long-term business partners, the Partnership builds links between small suppliers and large processors. It also works with local governments to remove legal and administrative constraints to SME development.

The Partnership develops technical assistance programs in full coordination with its donors and looks to donor countries to make these initiatives possible. Currently the Partnership's donors are the Governments of Canada, Finland, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States. IFC's contribution goes toward the Partnership's central management costs, new project development, and project assessment.

The Partnership currently operates five country offices in Armenia, Belarus, Georgia, Russia, and Ukraine staffed with over 200 well-trained local professionals. This year the Partnership is expanding its programs to Azerbaijan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

# ANNEX 4

## SME Capacity Building Facility

The SME Capacity Building Facility (CBF) was launched in July 2000 to help meet the enormous need for creative new approaches to assisting small businesses in developing countries. Administered by the SME Department with an initial $7.1 million allocation from IFC, it is a flexible new quick-response instrument that helps the Bank Group, its partners, and local institutions to do more to serve SMEs, especially by creating sustainable, effective capacity at the local level.

The CBF is building up innovative, externally driven projects that meet seven key guiding principles for selection.

All must:

- Be unique
- Involve a partnership
- Build capacity
- Have potential for being replicated and scaled up
- Bring additional benefits that would not have occurred without its support
- Demonstrate sustainability
- Align with one of the four goals of the Bank Group's strategy for SME development (business environment, technical assistance and capacity building, access to capital, and information technology) or support creation of supply chain linkages with larger companies

Proposals for funding must receive formal sponsorship from departments within the World Bank Group. The sponsor is also expected to remain engaged with the partner organization on an ongoing basis to track the project's progress. Successful pilots can be expanded or replicated in multiple locations to broaden their development impact.

An important feature of the CBF is its capacity to function as a vehicle for leveraging support, both financial and analytical. In most cases, the CBF will not finance more than 40 percent of the cost of an initiative, with the remaining costs contributed by the sponsoring Bank Group department, the external partner, or another donor. With the initial endowment, the CBF helped leverage almost $22 million in external funding during its first year of operation.

All of the initial $7.1 million allocation was approved during the 10 months the CBF was operational in FY01. Of this, agreements amounting to more than $4 million have already been signed in support of 13 pilots (one-time demonstration projects that can be replicated and scaled up in the future) and 5 partnerships (broader, enduring strategic alliances with on-the-ground institutions that can lead to several other projects).

### Pilots

The CBF is looking for good ideas from leading practitioners in the SME community— ones that can be turned into viable, real-world solutions for small businesses' most vexing problems.

One example comes from South Africa, where the University of Cape Town's new Center for Innovation and Entrepreneurship was one of the many successful pilots funded by the CBF in FY01. It will integrate and expand the SME activities of UCT's Graduate School of Business, focusing on entrepreneurs in local townships. The CBF has allotted $140,000 in support of the Center's establishment.

### Partnerships

There are many experienced external organizations with a demonstrated record of delivering the goods in SME development—and a need for technical assistance and funding that can help scale up their ongoing initiatives. The Bank Group recognizes that they have an important role in supporting SMEs, and that well-coordinated partnerships framed and supported by the world's largest development institution can bring many benefits.

One example is the recent partnership with Women's World Banking (WWB), a leading microfinance practitioner. Funding of $250,000 will support the creation of the Capitalization Facility, which helps new WWB affiliates in Africa, Asia and the Balkans leverage commercial funds. Other similar projects that are already in the pipeline for next year include, for example, a creation of new partnerships with other best practice institutions.

# SME Capacity Building Facility FY01 Commitments*

| | Country | Project Name | CBF Funding | Total Project Cost | % of Total Cost | Description |
|---|---|---|---|---|---|---|
| PARTNERSHIPS | Global | Internationale Projekt Consult (IPC) | $500,000 | $1.9 million | 26.3% | Supports creation of new MFIs in Moldova and Turkey planned by IPC of Germany. |
| PARTNERSHIPS | Global | ACCION International | $400,000 | $4.2 million | 9.5% | Strengthens ACCION at the organizational level and finances technical assistance to its affiliate MFIs. |
| PARTNERSHIPS | Global | Small Enterprise Assistance Funds (SEAF) | $850,000 | $2.8 million | 30.4% | Helps leading SME equity investment fund manager scale up its operations, thus increasing its provision of capital to SMEs. |
| PARTNERSHIPS | Global | FUNDES International | $570,000 | $1.4 million | 40.0% | *Part of a larger global capacity building partnership with the World Bank Group; an* initial set of pilot programs in Latin America will build capacity of SMEs and provide them with affordable consulting services. |
| PARTNERSHIPS | Global | Women's World Banking | $250,000 | $5 million | 5.0% | Supports US-based group's Capitalization Facility, which helps affiliates in Africa, Asia and the Balkans leverage commercial funds. |
| | *Subtotal* | | *$2,570,000* | *$15.3 million* | *16.8%* | |
| PILOTS | Cambodia | Hagar Crafts | $65,000 | $133,538 | 48.7% | Improves destitute women's group's technology and access to markets as part of an overall strategy to scale up its handicraft business. |
| PILOTS | Chad | Chad Vita Credit Union | $40,000 | $40,000 | 100.0% | Assessment of one of Chad's leading financial institutions, VITA Pep Chad. |
| PILOTS | Chad | Chad-Cameroon Oil Pipeline SME Initiative | $70,000 | $150,000 | 46.7% | A two-part program: $30,000 feasibility study of new microfinance institution and $40,000 pilot to strengthen Chad's largely informal private sector. |
| PILOTS | Global | Institute for SME Finance | $300,000 | $2.7 million | 11.1% | Knowledge-sharing initiative to address key issues in the growing market for SME finance in developing countries. |
| PILOTS | Global | E-Finance Global Initiative | $100,000 | $1.9 million | 5.4% | Aims to help financial institutions provide more efficient financial services to SMEs on a profitable and sustainable basis. |
| PILOTS | India | Bhartiya Samruddhi Finance Ltd. (BASIX) | $350,000 | $2 million | 17.5% | Technical assistance to help build BASIX into a model microfinance institution. |
| PILOTS | Kazakhstan | Ispat Karmet SME Resource | $180,000 | $360,000 | 50.0% | Replication of Anglo-American's Zimele model to build local SME input in Ispat Karmet steel plant. |
| PILOTS | Kyrgyz Republic | FINCA | $100,000 | $350,000 | 28.6% | Facilitates transformation of FINCA Kyrgyzstan, a non-profit organization, into a commercial, regulated microfinance institution. |
| PILOTS | Nigeria | Niger Delta Contractor Credit Facility | $100,000 | $209,000 | 47.85% | Supports training needs of a $30 million facility to provide capital investment loans and working capital to small and medium-sized local contractors delivering services to the Shell Petroleum Development Company of Nigeria. |
| PILOTS | Senegal | Credit Bureau & Credit Scoring in West Africa | $85,000 | $100,000 | 85.0% | Feasibility study of regional credit bureau and other steps to help local banks improve their small business lending. |
| PILOTS | South Africa | Center for Innovation and Entrepreneurship (University of Cape Town) | $140,000 | $285,000 | 49% | Will support the establishment of a Center for Innovation and Entrepreneurship in UCT's Graduate School of Business, focusing on entrepreneurs in local townships. |
| PILOTS | Vietnam | MeetVietnam.com | $300,000 | $1.7 million | 17.8% | Supports the launch of a commercial web site linking Vietnamese exporters with overseas buyers. |
| PILOTS | Vietnam & Cambodia | Flexible Learning | $25,000 | $90,000 | 27.8% | Adaptation of existing management training curriculum into self-study workbooks to reach a larger audience of SMEs in Vietnam and Cambodia. |
| | *Subtotal* | | *$1,855,000* | *$10 million* | *18.6%* | |
| | TOTAL | | $4,425,000 | $25.3 million | 17.5% | |

*Signed projects; excludes others approved from the initial $7.1 million allocation but not yet signed.

SME

WORLD BANK GROUP SMALL AND
MEDIUM ENTERPRISE DEPARTMENT

Harold Rosen, Director

1818 H Street, NW
Washington, DC 20433

USA
www.ifc.org/sme

For further information:

Andrew Gillispie
Tel. (202) 473-9094
Fax (202) 522-3742
E-mail: Wgillispie@worldbank.org

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**Project Manager and Editor**
Rob Wright

**Editorial Team**
Max Aitken, Erik D'Amato, Camara Garrett, Ann Moline

**Principal Photographer**
Robert Grossman

**Other Photography**
Mark Fallander, Winner Communications, Rob Wright

**Project Coordinator**
Luljeta Tola

**Project Assistant**
Andrew Gillispie

**Field Support**
David Ashiagbor, Gerard de Rooij, Christopher Miller, Markus Taussig, Thai Dzung Truong, Trevor Watson

**Headquarters Support**
Irene Arias, Irina Astrakhan, Najy Benhassine, Louis Boorstin, Tom Davenport, Desmond Dodd, Alexis Duroy, Prasad Gopalan, Henning Haugerudbraaten, Daisy Hernandez, Monique Koning, Dana Lane, Irina Likhachova, Peter Mousley, Godwin Nwaogwugwu, Vincent Rague, Ousa Sananikone, Oumar Seydi, Vathana Souvannavong, Russell Sturm, Erika Veizaga, Leila Webster

**Proofing**
Stanley Thawley

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studio grafik
Herndon, Virginia

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French Bray
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WORLD BANK GROUP SMALL AND
MEDIUM ENTERPRISE DEPARTMENT

Harold Rosen, Director

1818 H Street, NW
Washington, DC 20433
USA
www.ifc.org/sme