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EVALUATION OF
SMALL AND MEDIUM ENTERPRISE DEVELOPMENT
AND SUPPORT PROJECT
LIBERIA

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Submitted by:

Robert N. Marshall, ISTI Consutlant
Cameron L. Smith, ISTI Consultant

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2033 M Street, N.W. ■ Washington, D.C. 20036 ■■■ (202) 466-7290 ■ Telex 272785 ISTI UR

LIST OF ACRONYMS

ACDB	AGRICULTURE CREDIT AND DEVELOPMENT BANK
BAS	BUSINESS ADVISORY SERVICE
B.O.	BUSINESS OFFICER
C OF C	CHAMBER OF COMMERCE
FMO	NETHERLANDS DEVELOPMENT FINANCE COMPANY FOR DEVELOPING COUNTRIES
GOL	GOVERNMENT OF LIBERIA
IDA	INTERNATIONAL DEVELOPMENT AGENCY
LBC	LIBERIAN BUSINESS COUNCIL
LBDI	LIBERIAN BANK FOR DEVELOPMENT AND INVESTMENT
LFTC	LIBERIAN FINANCE AND TRUST CORPORATION
MIS	MANAGEMENT INFORMATION SYSTEM
NBL	NATIONAL BANK OF LIBERIA
NHA	NATIONAL HOUSING AUTHORITY
NHSB	NATIONAL HOUSING AND SAVINGS BANK
NIC	NATIONAL INVESTMENT COUNCIL
PFP/L	PARTNERS FOR PRODUCTIVITY, LIBERIA
PFP/I	PARTNERS FOR PRODUCTIVITY, INTERNATIONAL
PVO	PRIVATE VOLUNTARY ORGANIZATION
SEFO	SMALL ENTERPRISE FINANCING ORGANIZATION
SMEDS	SMALL AND MEDIUM ENTERPRISE DEVELOPMENT AND SUPPORT
SSE	SMALL-SCALE ENTERPRISE
TA	TECHNICAL ASSISTANCE
USAID	UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

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EXECUTIVE SUMMARY

The mid term evaluation of the Small and Medium Enterprise Development and Support Projects (SMEDS) was performed in January - February 1986. The purpose of SMEDS was to provide assistance to Small Enterprise Financing Organization (SEFO) through (a) financial advisory service through a Senior Financial Advisor, (b) establishment of a field business advisory service (BAS) to assist in developing volume and quality of loan applications to SEFO, and (c) to expand the capital base of SEFO through a capital grant. The major thrust of SMEDS was to provide for the viability of SEFO by 1989 through new loans generated by BAS.

Major findings are as follows:

1. Financial viability of SEFO cannot be achieved within the SMEDS time frame under current operating practices.

a. The volume of new loan applications has declined and is inadequate to reach or maintain an adequate portfolio.

b. The current portfolio has excessive arrearages and loss reserves should be increased to an amount in excess of 35% of the outstanding loans.

c. Loan analysis and evaluation is rigid, time consuming and fails to predict client performance. Loan amounts are excessive to the clients' needs and have too long of term.

d. The collection system is non-aggressive and inadequate, which precludes significant recovery.

2. The continuing existence of SEFO beyond 1986 will depend on obtaining additional donor funds or soft term loans. Operational costs in 1985 were $392,000, and were covered because of the $415,000 capital grant from USAID. Loans made in 1985 totalled 38; operating costs per loan were over $10,000.

3. There is a lack of consensus between SEFO and BAS which leads to uncoordinated client acquisition efforts, and concentration of TA on a few clients.

a. Record keeping and files are not coordinated. BAS business officers do not concentrate TA on the needs of the client as revealed in the project analysis of SEFO.

b. BAS has devoted significant attention and effort in pursuing new fields of endeavor for Liberia which might or might not result in applications for financing from SEFO

c. Emphasis of TA given to SEFO clients has been on record keeping with insufficient attention to other business functions, particularly marketing.

Major recommendations are as follows:

1. SMEDS should adopt a new strategy to concentrate effort and resources to locate existing SSE's that employ from 1 to 49 persons, and to provide short_term financing for the critical needs of these firms.

a. While no direct data is available, it is believed that Liberia has between 5,000 and 12,500 SSE's, mostly in Monrovia.

b. The strategy requires a change in both TA and financing practices to provide these firms with funds on a prompt basis (no more than two weeks after application).

c. SMEDS should develop a client profile. Minimum characteristics are: (1) existing enterprise, (2) evidence of successful operations, (3) owned and operated on a full time basis by a Liberian, (4) have expectation of growth, and (5) have at least 1 employee besides the owner/operator.

d. A publicity campaign will be necessary to attract the clients meeting the profile.

2. The SMEDS program must be reorganized to provide for the unification of top management and policy direction of SEFO and BAS to concentrate energies on the new strategy.

a. A Liberian organization should be formed to perform the BAS function. The organization would have a Board of Directors with some common members with the SEFO Board. The Board of Directors of BAS would be expected to appoint as Managing Director the same person that is Managing Director of SEFO. Separate policy, funding and administration would continue.

b. SEFO must establish an adequate reserve for losses on its current portfolio. The reserve for loss on principal should be increased to $600,000; the reserve for loss on accrued interest and other charges should be increased to $140,000. Loans over 180 days in arrears should be fully reserved against.

c. A field collection system must be established to make regular, timely and intensive efforts to collect at the owners place of business.

d. Prior to any commitment for additional financing, donors should require that the management of SEFO and the management of BAS present a a thorough analysis of their organizations, and effective changes be made in operations, staffing, costs, utilization of resources, and inter-organizational relationships to meet the challenge of the new strategy.

Adoption of these recommendations should redirect the effort and activity of the SMEDS project to provide for development activity. A model was constructed for a phased increase in activity to reach a level of partial viability by the end of 1989. The model requires additional donor funding for the TA provided by BAS, to partially cover the operating costs of SEFO, and to fund the new loans. The total of these funds over the period 1986-1989 is $4,430,000 or $3,300,000 over the funding remaining in the SMEDS budget for these purposes.

CHAPTER I

BACKGROUND OF THE SMALL AND MEDIUM ENTERPRISE AND SUPPORT PROJECT

A. INTRODUCTION

The Liberian Bank for Development and Investment (LBDI) perceived in 1980-1981 a need for a financing "window" or facility to assist small scale enterprises (SSEs) and began negotiations with the Netherlands Development Finance Company (FMO) to provide funding. In the negotiations, it was determined by FMO that such a facility was needed, but that it should be a separate entity.

The Small Enterprise Financing Organization (SEFO) was incorporated in August 1981 as a private Liberian corporation for the purpose of assisting in the development of Liberian-owned and operated small-scale productive enterprises by providing financial assistance. SEFO gives preference to projects which aid in the development of Liberia by creating employment, increasing local value added, reducing imports, increasing exports and developing technical and entrepreneurial skills.

The initial stockholders were the LBDI, Liberian Finance and Trust Company (LFTC) and Partnership for Productivity, Liberia (PFP/L). FMO provided an interest-free loan of $250,000, plus financing up to $1,375,000 at 2.5%. Subsequently, the interest-free loan was converted to capital.

In 1984, the United States Agency for International Development (USAID) approved Project Number 669-0201, "Small and Medium Enterprise Development and Support" (SMEDS). This project finances a program undertaken by Partnership for Productivity, International (PFP/I) to provide technical assistance through a Business Advisory Service (BAS) and up to $750,000 in grant funds to augment the equity capital of SEFO. Up to $500,000 of the grant funds were to be provided without condition, with the remaining $250,000 to be disbursed only upon evidence the SEFO had obtained an equal amount of equity capital or "soft" loans from other sources. As of December 31, 1985, $500,000 had been disbursed under this grant to SEFO.

Under the BAS program, a field service is provided to assist existing and potential SEFO clients through marketing and business development work to attract potential borrowers, identify and specify projects and loan requirements, assist in loan application preparation, and advise and monitoring the progress of SEFO client business.

BAS is funded by USAID through PFP/I and is managed separately from SEFO.

B. SCOPE OF WORK FOR THIS PROJECT

The SMEDS Project was scheduled for a life of 5 years with a midterm evaluation in 1987 and a final evaluation in 1989. Due to the economic conditions in Liberia, the financial condition of SEFO, and the relationship between SEFO and BAS, it was decided by all parties that the mid term evaluation should be moved forward. International Science and Technology Institute was requested to provide an evaluation team for the period from Janauary 20, 1986 through February 23, 1986. (Annex A).

The objectives of the evaluation are to make an assessment of the SMEDS Project, as well as to provide recommendations for changes and modifications to the project, and to the operating procedures of SEFO and BAS.

The SEFO analysis and review consists of the following:

a. A review and assessment of financial performance and viability, capital structure, progress in obtaining additional funding, and the implications of the activities for performance.

b. A review and assessment of internal policies and practices as these relate to project identification, development and assessment, loan collections, and accounting procedures.

The BAS analysis and review consists of the following:

a. A review and assessment of the policy, procedures, training and performance in providing technical assistance to clients of SEFO and to small enterprises in Liberia.

b. A review of the assistance provided to SEFO in developing new prospective financing to clients, and in helping existing clients to improve performance and repayment.

In addition to the analyses of SEFO and BAS, a review and assessment was made to determine the ability of SEFO to absorb the BAS function at the end of the SMEDS project, and of the requirements for continuing support to both elements by outside resources.

While the evaluation, by necessity, had to consider SEFO and BAS separately, the purpose of the SMEDS project was taken as the guiding principle and the operations were viewed as a whole.

C. METHODOLOGY OF THE EVALUATION

In meeting the requirements of the scope of work, the evaluators reviewed the files of both SEFO and BAS, had lengthly discussions with officials of SEFO and BAS, advisors, analysts, and business officers and surveyed a sample of SEFO clients. In addition, conferences were held with officials of other financial institutions, government organizations, businessmen and academics A list of these contacts is contained in Annex G.

The study of the sample of SEFO clients was designed to provide information on certain issues:

a. Ability of the clients to repay loans.
b. Validity of the client selection process.
c. Adequacy of records and record keeping.
d. Extent of the coordination between SEFO and BAS.
e. Identification of clients or client groups with characteristics that could lead to better loans.

The sample was constructed by industry using the eight categories of clients of SEFO which represented 90% of SEFO clients; by loan size with each industry divided equally between loans above and below the SEFO average loan size of $8,500, and by payment status with a deliberate weighting toward those loans less than 30 days past due. Each industry included one to three clients. All Business Officers of BAS were represented except for the B.O. operating outside of Monrovia. A total of 24 clients were interviewed, or 13% of the total of 180 clients. No attempt was made to distinguish between the effects of SEFO and BAS on the client. A discussion guide was prepared and utilized during the interviews. (Annex E). In developing the findings from the sample, we analysed each completed discussion guide, the SEFO project file, the December 31, 1985 demand notices, and the BAS files. Findings from the sample are discussed in the following Chapters. An analysis of the sample is contained in Annex F.

CHAPTER II

SUMMARY OF FINDINGS AND RECOMMENDATIONS

The following is a summary of the major findings of the evaluation and the recommended actions for change will make it more likely that the SMEDS project will achieve some success and SEFO will become viable in the future.

A. MAJOR FINDINGS

1. Financial viability of SEFO cannot be achieved within the SMEDS time frame under current operating practices.

a. The volume of new loan applications has declined and is inadequate to reach and maintain a viable portfolio.

b. The current portfolio has excessive arrearages and a major portion is probably uncollectable. Loss reserves should be increased to an amount in excess of 35% of the portfolio.

c. Loan analysis and evaluation is rigid, time consuming, and fails to predict client performance. Delays in granting approval of loan applications has given SEFO a reputation of being a slow mover. Loan amounts are excessive to the requirements of the client, and in the current economic environment, have too long of repayment terms.

d. The collection system is non-aggressive and inadequate. Demand notices are not timely and are generally inaccurate. Borrowers are required to come to the SEFO office to make payment. The system as operated, precludes any significant recovery of loan funds or interest thereon.

e. There is a significant emphasis on collateral, leading to less attention to the ability of the business to generate sufficient net income to repay the loan.

2. The continuing existence of SEFO beyond the end of 1986 will depend on obtaining additional donor funds or soft term loans to cover operating costs and to provide new loan funds.

a. Operating costs for 1985, excluding depreciation, were $392,000, and were covered by the $415,000 capital donated by USAID. Loan volume for the year was only 38, probably because of the poor economic environment. Operating costs per loan in 1985 were over $10,000 per loan. Total loan amount was $506,000, or a cost of $778 per $1,000 loaned.

b. The major source of loan funds in 1985 (75% of total loans made) was the NBL/IDA line of credit which has a cost to SEFO of 10%. In addition, the terms of this line of credit require that the loans be longer term and be partially for fixed capital.

3. There is a lack of consensus between SEFO and BAS which leads to uncoordinated client acquisition and servicing efforts, and concentration of the technical assistance (TA) on a few clients.

a. Record keeping and client files are fragmented and not coordinated.

b. Under a new, trial working relationship entered into in January 1986, SEFO and BAS seek to improve the coordination and the flows of information concerning clients between the two organizations.

c. BAS has devoted significant attention and effort in pursuing new types of endeavor and prospects for development of new businesses which might not result in application for financing to SEFO.

d. The emphasis of TA has been on assisting clients in recordkeeping. Insufficient attention has been given to the other functions of business, particularly marketing.

4. The following are other findings from the client survey:

a. Separate files on each client are maintained by the Comptroller, the Project Analysis Division, and by BAS. These files are redundant and often incomplete. The computer records are often incomplete and are not up to date.

b. Interest calculations are done manually although such calculations could be done more easily and more accurately by the computer.

c. Original loan documents were found in working files.

d. The owners of the businesses in the survey were Liberian nationals.

e. Funds disbursed were used as stated in the application.

f. The average number of employees besides the owner was three.

g. Thirty-five percent of the clients surveyed had no previous experience in the firm's industry, and the business was started with the SEFO loan.

h. Most of the clients had heard of SEFO through friends. Twenty percent had heard through advertising or publicity. While none of the clients in the survey had heard of SEFO through BAS, a number of applications have been generated through BAS.

i. The loan processing time (from application to disbursement), as estimated by the clients, ranged from one month to two years with a median of six months. Delays were often because of problems in documenting deeds and other collateral.

j. The loan size averaged $12,400 in the survey, in contrast to the average size of $8,500 for the full portfolio. In 80% of the cases reviewed, the evaluators judged the loan to be too large.

k. About one-half of the proceeds in the majority of the loans reviewed were for fixed assets. This was considered by the evaluators as the source of overfinancing.

l. In one third of the cases reviewed, there was no increase in sales. In only one case did increased profits (after the owners' withdrawals) exceed the monthly principal amortization on the loan.

m. Only twenty percent of the clients surveyed had current profits (after owners' withdrawals) greater than the amortization of the loan.

n. Only fifty percent of the cases reviewed reported employment increases after the loan. The average loan amount per job created was $12,000.

o. Clients did not differentiate between SEFO and BAS.

p. Seventy percent of the clients surveyed indicated that lack of sales was their major problem.

q. The B.O.s of BAS are considered to be dedicated, well trained, and sensitive to the clients needs.

r. The analysts of SEFO are industrious, but have insufficient experience and exposure to the needs of small-scale enterprises.

B. MAJOR RECOMMENDATIONS

1. SMEDS should adopt a new strategy which concentrates effort and resources to locate existing SSE's that employ from 1 to 49 persons, and to provide short-term financing of the critical needs of these firms. The strategy would aim to develop a continuing financial relationship with these firms, and as satisfactory experience is gained, additional financing would be provided for expansion and growth.

a. This strategy assumes that there are sufficient numbers of existing SSE's in the Liberian economy. No direct data is available. Based on information from other developing countries, (Panama, Peru) there are between 5,000 and 12,500 SSE's in Liberia, most in Monrovia.

b. This strategy requires a streamlining of both TA and financing activity to provide loans on a prompt basis, no later than 2 weeks after application for the first financing, more quickly thereafter.

c. SMEDS will have to develop a client profile. The minimum characteristics would include: (1) existing enterprise, (2) evidence of successful operation for a period of at least one year, (3) owned and operated on a full time basis by a Liberian national, (4) have an expectation of growth in income and employment with the infusion of capital by SEFO, and (5) have at least one employee other than the owner/operator.

d. SMEDS will have to attract clients meeting the profile through a concentrated and continuous publicity campaign using differing modes of communication.

2. The SMEDS project must be reorganized to provide for the unification of the top management and policy direction of the separate entities SEFO and BAS to concentrate energies and resources on the new endeavor.

a. A Liberian organization should be formed to perform the BAS function. This organization would have a Board of Directors which had some common members with the Board of Directors of SEFO. This overlapping would insure that the interests of both entities would be given full review at the policy level. It is expected that the Board of Directors of BAS would appoint as Managing Director of BAS the same person who is the Managing Director of SEFO. Separate funding and administration would occur. For economies of scale, the accounting functions and administrative requirements of BAS would be assumed by SEFO under an agreement. Funding for BAS would pass from USAID to PFP/I and then to the new organization.

b. SEFO must establish an adequate reserve for losses in its current portfolio. We recommend an increase to $800,000 on loan principal and to $140,000 on interest and other arrears. Loans in arrears over 180 days should be fully reserved against and turned over to the attorney to pursue legal action. Management effort could then be focussed on the development and implementation of the new strategy.

c. A functioning management information system should be established to track clients from first contact to final payment to provide management with timely, accurate data for decision purposes.

d. A field collection system should be established to make regular, timely and persistent collection efforts at the owner's place of business.

e. SMEDS should plan to charge, beginning in 1989, a $50 annual fee to all borrowers to partially cover the costs of TA.

f Financing of the TA function and the expatriate positions of trainer/advisor in BAS and financial/management advisor in SEFO should be continued through the end of 1989. The continuing costs of TA after 1989 would need to be partially covered with funding from outside the SMEDS project.

g. Prior to any commitment for additional financing, donors should require the management of SEFO and the management of BAS to present a thorough analysis of their organizations and effective changes made in operations, staffing, costs and utilization of resources to meet the challenge of the new strategy.

3. Other recommendations are:

a. The Operations Manual should be updated and used. A section on field activities of business officers and a section on techniques of analysis should be included.

b. The existing fragmented files should be consolidated into a single client file, maintained in a central filing unit with check out procedures. Client files should be accessible to both BAS B.O.'s and SEFO analysts.

c. Negotiations should be continued with NBL/IDA to improve the interest rate paid by SEFO and to permit the use of the funds in support of the new strategy. Collections from disbursed loans financed by NBL/IDA should be repaid to NBL.

d. The authorization requirements should be reviewed and revised to provide for more flexible repayment in line with the borrowers requirements. Such changes would include equal monthly payments, capitalization of grace period interest, and cyclical repayments when appropriate.

e. The redundant and unenforceable requirements in the authorization should be reviewed and modified. These include requirements for bank accounts, monthly/quarterly reports, etc.

f. An intensive review process during the commitment and disbursement stage should be established with requirements for updated operational and financial information, and an ability to cancel commitments and disbursements in adverse change situations.

g. The original loan documents should be removed from working files and placed in a theft and fire proof vault.

h. The duties of the existing Review Committee should be expanded to function as a Credit Committee to make recommendations for approval to the Managing Director.

i. Authorizations and loan documents should be reviewed by the attorney for legal sufficiency prior to disbursement. The attorney should be put on a retainer.

j. Technical Assistance should be confined to support existing clients and to develop prospective clients for financing. A major emphasis of TA should be on marketing.

k. Loans should be made only to existing businesses with demonstrated operational success.

l. Demand notices should be generated from computer calculations.

m. Regular, informal contacts between analysts and B.O.'s should be developed to resolve client problems.

Adoption of these recommendations will redirect the effort and activity of the SMEDS project. A model was constructed for a phased increase in activity which would enable SEFO to reach partial viability by the end of 1989. The model (as detailed in Chapter VI and in Annex I) requires additional donor grants or soft loan funds. The total required over the period is $4,430,000 or approximately $3,300,000 over the amount now remaining in the SMEDS budget. These additional funds would be used primarily for new loans, and also to cover operating losses in the transition, the TA function, and the extension of the two expatriate positions through the end of 1989. The model also assumes that, given successful progress, the TA costs beyond 1989 would be underwritten by outside organizations, perhaps by the Government of Liberia.

CHAPTER III

THE ECONOMIC ENVIRONMENT IN LIBERIA

There are no sources of information on the number or economic value of SSE's in Liberia. Sawyer-Mason (1979) estimated 7,000, mostly in Liberia. Based on experience in other developing countries, (Panama, Peru, Jamaica), a general relationship that can be projected is one SSE for each 50-100 persons in the population. Panama, with 1,500,000 persons has 30,000 SSE's or one for each 50 persons. Lima, Peru has a population of 5,500,000 and over 300,000 SSE's. Given the population of Liberia of 2,000,000, the number of SSE's would range from 20,000 to 40,000. Probably one-half of these would be petty traders without employees (market women, here-now boys, barrow- boys), and the remainder in the informal market employing 49 or fewer persons.

The commercial banking system in Liberia is unresponsive to the SSE sector. Opening a bank account requires significant minimum funds, currently said to be $25,000. This amount is beyond the reach of the SSE's. Because of the failure of the check clearing system through the National Bank of Liberia (NBL), commercial banks generally do not accept checks drawn on other banks for deposit or for cashing. In addition, the ability of the commercial banks to serve their larger customers for the importation of goods is severely constrained by the lack of foreign exchange.

Although the Liberian economy maintains a dual-currency standard with the U. S. dollar circulating officially at par with Liberian coins, the inability of the banking system to provide adequate foreign exchange resources has created a ceasing of new bank deposits, a disappearance of U.S. currency and a cash economy. There is some trading of the Liberian coins at a discount, said to reach up to a 20% discount when larger sums are involved. There is a drift toward a de-facto national monetary system, a flight of capital, and the beginnings of the emigration of talented persons.

The economic malaise is demonstrated by the steady decline in the per capita GDP, now declining at about 8% per year. The stagnant economy, political environment, and banking crisis have created a "wait-and-see" attitude on the part of business generally and SSE's in particular. Most businessmen have a very short time horizon and are not now contemplating any expansion or growth of their businesses. Economic reform initiative with sustained implementation are required to create the climate necessary for the private sector to grow.

The segment of the business sector that the SMEDS project is to serve is the SSE's in the informal market which employ from 1 to 49 persons. This segment is characterized by business based on cash, lack of record keeping, short term outlook seeking high turnover and profit, and lack of significant business assets.

The Liberian-owned SSE sector can be divided into the following subsections:

I Casual - hawkers, barrow-boys

II Artisanal - single person, fixed premises

III Informal - small scale enterprise with 1 - 5 employees

IV Informal - small scale enterprise with 6 - 29 employees

V Formal - small scale enterprise with 30 - 49 employees

The characteristics of these businesses are as follows:

a. Few fixed assets with job creation requiring an investment of $500 - $2,000.

b. Intense competition.

c. Distrust of bureaucracy and a motivation to get around it.

d. Single management

e. Flexibility when not overburdened with assets.

f. Probably lack success models, have a survival motivation, have a willingness to risk the small capital base, and see the business as a part of the extended family.

A financial instutution seeking to assist businesses in these segments must be able to provide short-term credit, quick approval, and regular, extensive and intensive servicing and collection efforts.

CHAPTER IV

SEFO OPERATIONS AND ADMINISTRATION

A. FINANCIAL ANALYSIS OF THE OPERATIONS OF SEFO

SEFO began operations in 1982. Because of the decline in the export of the traditional products, iron ore and rubber, the economy of Liberia was in decline. The economic slide has continued, with the GDP declining at a rate of 8% per year in 1985. SEFO expected to make a significant number of loans, and established a staff accordingly. Loan applications were sought from enterprises wanting fixed assets for potential growth. Even loans for working capital were given terms of up to 24 months and should be more properly considered as permanent increases in stock, rather than working capital that has a rapid turnover. Because of the economic environment, the type of loans made, and the inexperience of the staff, the results since 1982 have been unsatisfactory with high operating losses, very poor repayment experience, and significant arrearages in the portfolio.

A review was made of the financial statements of SEFO since its beginnings in 1982. The statements reviewed were the audited statements prepared by Coopers and Lybrand for the years ended December 31, 1982, 1983, and 1984; the management letter of Coopers and Lybrand dated June 6, 1985; the unaudited statements for the nine month period ended September 30, 1985 contained in the Third Quarter Progress Report; and the estimated financial statements for the year ended December 31, 1985 contained in the SEFO Proposed 1986 Plans and Budget dated December 6, 1985. Summaries of the Balance Sheets, Income Statements and Loan Portfolio are contained in Annexes B1, B2 and B3, respectively.

The review of the financial statements reveals a <u>steady erosion of the capital base of the organization by operating losses which have been funded by donated capital and operational grants.</u> Continuing operations during 1986 and beyond will depend on SEFO's ability to obtain additional capital or "soft loans" in sufficient amount to release the funds available from USAID on a contingent basis. Unless operations are revised during 1986 and/or additional funds are obtained, there will be inadequate funds available to sustain operations after 1986.

Interest income and penalty charges have been credited to income on loans in the portfolio which are in serious arrears. Such interest and charges are probably not collectible and income was overstated.

In addition to the review of the financial statements, an aging of the portfolio as of December 31, 1985 was constructed by arrearage. This analysis is shown in Annex C. The loans were classified as current, in arrears up to 30 days, 31 - 60 days, 61 - 90 days, 91 - 180 days and over 180 days. In addition, the portfolio was divided between working capital and term loans; and on a dollar approval basis of up to $2,500, $2,501 - $5,000, $5,001 - $15,000, and over $15,000. In terms of the total portfolio, 67 or 37% of the outstanding loans were in arrears in excess of 180 days. These 67 loans had outstanding principal amount of $592,000 or 52% of the portfolio. In addition, other arrearages (interest and penalty charges) on these loans amounted to $139,000. If the loans more than 90 days in arrears are considered, 99 or 55% of the loans were in arrears over 90 days. These represented $839,000 or 73% of the total portfolio, and had additional arrearages of interest and penalties of $153,000.

SEFO has underway a "sick project" program under which all loans in arrears in excess of 180 days are reviewed to determine if a restructuring or rescheduling is feasible. The further in arrears a loan becomes, the less likely any rehabilitation will be possible. Management attention should be devoted to seeking good clients and to assisting existing clients more likely to pay. Rehabilitation efforts should be concentrated early, before a loan becomes 90 days in arrears. <u>RECOMMENDATION: loans in arrears in excess of 180 days be fully reserved against and referred for legal action; and management effort be devoted to rehabilitating loans under 90 days in arrears.</u>

Collectibility of loans in arrears in excess of 90 days is doubtful and an adequate reserve for losses should be provided. <u>RECOMMENDATION: the reserve against outstanding principal be increased to $600,000 and the reserve against interest and penalties be increased to $140,000 for a total reserve of $740,000.</u>

Forty-three working capital loans with outstanding principal of $182,000 were in arrears in excess of 180 days. The amount of principal in arrearage was $168,000 or 92% of the outstanding principal. Twenty-four term loans with outstanding principal of $410,000 were in arrears over 180 days. The amount of principal in arrears was $144,000 or 35% of the outstanding principal.

The following table gives a breakdown by size of loan. The percentages relate to the total loans in the portfolio in each size category.

Size of Loan	Current and up to 30 days in arrears		Over 180 days in arrears	
	No Loans	%	No Loans	%
Under $2,500	4	67	0	-
$2,501 - $5,000	28	25	52	46
$5,001 - $15,000	5	20	9	36
Over $15,000	5	13	16	43

It appears that the smaller loans are more likely to be collectible. Amortization of a $1,000 loan at 20% over 12 months requires an approximate monthly payment of $94, within the range of most of SEFO clients. Beginning a lending relationship with a small loan repayable from current cash flow is a good method to establish repayment and leads to larger future loans as the business grows.

The major source of loan funds utilized by SEFO during 1985 was the National Bank of Liberia/International Development Agency, (NBL/IDA), credit line: $381,000 out of a total of $506,000 loaned, or 75% of total loans. This is the most expensive source of loan funds, at a cost of 10% and a maximum of 15.5%, giving only a 5.5% spread. The $415,000 capital grant from USAID in 1985 was utilized to cover operating costs of $390,000.

The loans funded through the NBL/IDA line of credit are partially guaranteed by NBL. There is no written document concerning this guarantee, but it is structured as an 80% guarantee based on actual loss. Presumably SEFO would be required to pay only 20% of loans which are considered uncollectible. Approximately $250,000 of the loans in arrears in excess of 180 days are NBL/IDA funded, and the actual loss to SEFO under the guarantee would be $50,000.

Efforts are underway to renegotiate with NBL and the Government of Liberia, (GOL) to reduce the cost of the NBL/IDA line of credit to SEFO. The rate structure is as follows:

	CURRENT	PROPOSED
IDA to GOL	0.75%	0.75%
GOL to NBL	8.00%	4.00%
NBL to SEFO	10.00%	6.00%
SEFO to Clients	15.50%	15.50%

If this change can be negotiated, the spread would increase from 5.5% to 9.5%. However, apparently the NBL/GOL is considering requiring a commensurate reduction in cost to the ultimate borrower. An interest cost to a borrower that is significantly lower than the market rate for borrowing creates two problems: (1) the borrower relies on lower cost of money for operation of the business, and will be unable to survive if at a later time he is required to pay a market rate; (2) a tendency for higher defaults since the low cost money would have to be replaced by higher cost money. SEFO should resist any effort to reduce the rate to the borrower.

The current ceiling amount under the NBL/IDA line of credit is $806,000, of which $680,000 has been drawn. Repayments by borrowers to SEFO total approximately $150,000. No repayments under the line of credit have been made by SEFO to NBL. SEFO is experiencing a negative spread on these funds of 2% since the amount repaid under the loans is held in a deposit earning 8%, while SEFO is obligated to pay 10%. In the absence of a renegotiation of a lower rate that is retroactive to cover current loans, the repayments from borrowers should be repaid to NBL. <u>RECOMMENDATION: repay the NBL as repayments are received from borrowers, so long as the amount available under the credit line is not reduced.</u>

Financing made under the NBL/IDA line are restricted to term loans with a fixed capital component under the premise that such loans will have a development impact. In general, these loans have tended to be larger. From the analysis of the arrearages, over 50% of all term loans and 67% of loans exceeding $15,000 were in arrears over 90 days. From the survey results, we found that the average loan size was $12,000 and the average employment was 3. There does not appear to be a development impact from SEFO financing. The evaluators believe that a series of short-term working capital loans to support the growth of a business is less risky and will have a significant development impact. Negotiations are underway with representatives of NBL/IDA concerning the continuance of, and the terms of the financing. RECOMMENDATION: efforts be made to reduce the cost of NBL/IDA funds, and to authorize the use of funds under the line of credit for short-term working capital loans.

The financial analysis shows that SEFO cannot become viable under current operating activity and that without significant imputs of donor funds either as grants or on "soft loan" terms, SEFO will have to cease operations after 1986. This situation indicates three options for the donor agencies involved:

1. Donors can cease to provide financing. The result of this option would either be the ending of ongoing operations of SEFO and a winding down of its affairs, or at best, a reorganization to eliminate the uncollectable portfolio, reduce the staff and operational costs, and a resulting smaller organization commensurate with its current loan activity. The capital presently invested would be written off, and creditors would recover only a small portion of their investment.

2. Donors can assist SEFO as it currently operates. This option involves a continuing commitment of grant funding sufficient to cover operating costs of approximately $350,000.

3. Donors can seek a restructuring of the operation to develop a new line of clients who will be more likely to repay loans. This evaluation presents in Chapter VI a recommended strategy for such a change.

B. PROJECT IDENTIFICATION, ACQUISITION AND ANALYSIS

The majority of SEFO clients are the result of walk-ins. In questioning the clients, the majority indicated that they heard of SEFO through a friend. (See Chapter V One client stated that he approached SEFO through "desperation". For the three quarters ended September 30, 1985, a total of 97 applications were accepted. Of those, 10 were referrals from NIC and 7 were referrals from BAS. Only 34 or 35% of these applications were fully evaluated, and 24 or 25% were approved. No records were available to determine the number which were still being considered, the number withdrawn, or the number rejected during the processing cycle. RECOMMENDATION: an application register, (as part of the Management Information System (MIS)) should be devised which indicates the status and disposition of applications on a continuous basis so management can allocate resources and monitor the processing effort.

The Project Analysis Office prepares a highly structured, rigid and seemingly precise appraisal report on loan applications. The report is based on explicit assumptions and elaborate pro-forma cash flows, balance sheets and income statements. The validity of the assumptions is often in doubt. Although many of the applicants are in business at the time of the application, the current financial information on the business is often not included in the report, or if included, not used as a base for the assumptions and projections. As an example, in one of the loans reviewed, the business was to be improved by a building but would have no change in employment. The employment costs and owner's withdrawals in the last year of actual operation total about $18,000. The pro-forma analysis reduced this amount (with no discernable justification) to about $12,000. If the pro-forma income statement were recast (accepting the projected increase in revenues) to use the actual previous employment costs, the business does not generate sufficient profits to meet the principal payments under the loan.

The analysis of markets in the project appraisal is based on attempts to construct derived demand. Competition is essentially assumed away. A statement such as "The enterprise's prices are on average with his competition and ...he will be at a better advantage to his customers" does not provide meaningful market analysis. As a further example, a restaurant was financed in a neighborhood where at least eight similar enterprises were currently operating; the restaurant owner/operator had no prior experience in food service; and an analysis of the proposed daily sales indicated that the business must attract over 130 patrons daily to meet the debt service costs. Patrons would have to be attracted from other existing restaurants in this competitive environment.

The elaborate and seemingly precise analysis fails to predict client results. These analyses take significant time for completion. SSE's generally require financing on a quick turnaround basis to meet the opportunities perceived in the marketplace. RECOMMENDATION: evaluate projects pursuant to the following concepts (detailed in Annex D) and make decisions in a timely manner.

The basic functions of a business are four: (1) sales or marketing, (2) procurement, (3) production, and (4) distribution. Finance can be considered as the fuel that makes the business run. SSE's are, for the most part, under the ownership of a single person. The owner generally has a particular skill and naturally focusses his attention on the function which uses that skill. The other functions of his business are not as interesting and are attended to only reluctantly.

The process of pre-application, project analysis, and post-approval counseling and evaluation should be aimed at insuring that the entrepreneur recognizes all functions of his business, understands how each relates to the other, and devotes adequate managerial time and resources to each. The analyst should probe for and the owner should have an adequate response to the following questions. The answers will give an insight into the managerial capabilities of the businessman.

1. Market

a. To whom is the product sold?
b. What does the customer do with the product?
c. What is the price?
d. Where do the customers buy now?
e. Why will they buy from this business?

2. Procurement

a. What are the materials, resources and services required to produce the product?
b. Are these available in sufficient quantities with adequate quality now, and will they be available over the life of the loan?
c. How will these resources be brought to the site of the enterprise?
d. What are the current costs of these resources delivered to the site, and what are these costs expected to be over the life of the loan?

3. Production

a. Is an appropriate technology used:
b. What are the fixed capital elements required to produce the product, are they available, and what are their costs?
c. Is trained labor available and what is its cost?
d. What constraints on production exist or may occur such as environmental, government, labor, etc.?

4. Distribution

a. How is the product delivered to the customer?
b. What are the costs and constraints on distribution, such as availability of transport, location with respect to the customer?
c. Are adequate warehousing facilities available and at what cost?

5. Finance

a. How much money is really needed?

b. What are the sources for this money?

c. What are the suitable and realistic terms of repayment of the money borrowed?

d. Is the return on the employment of the money sufficient for survival and growth of the enterprise?

RECOMMENDATION: analysts be given additional training in the concepts of analysis.

C. LOAN COMMITMENT PROCEDURES

The completed Project Appraisal Report is submitted to the Managing Director for approval or for submission to the Executive Committee of the Board. The report contains the commitment conditions. Several of these conditions are "boiler plate" or standard. Three of the standard conditions were not met by nearly all of the loans reviewed, and should be evaluated for revision or elimination. One is that the business is to be operated on a full-time basis by one of the owners. Most applications are from sole proprietorships, and in the survey many of these single owners were fully employed elsewhere. RECOMMENDATION: enforce this provision and refuse to fund applications where the owner is elsewhere employed. A second condition requires the borrower to open an account in a licensed financial institution, and that all transactions to and from SEFO are to be done through the account. In fact, the banking system is essentially inoperative as to SSE's and most of the clients operate on a cash basis. RECOMMENDATION: this requirement be evaluated and dropped if unenforceable. The third condition requires the borrower to submit monthly/quarterly progress reports and annual audited accounts, and semi-annual financial statements. In fact, most borrowers have only a rudimentary accounts system, often designed by BAS business officers after the loan is made. A financial institution needs a flow of financial information from borrowers and any business approaching a financial institution for financing should have records and accounts. RECOMMENDATION: no loan be made until the applicant can demonstrate that records and accounts exist and that they have been kept current for an appreciable period of time such as six months.

Repayment conditions follow a standard format. The agreement provides for equal monthly installments of principal after a specified grace period. The agreement specifies the dollar amount of the principal payment. The agreement then specifies the interest rate per annum. Discussions with the borrowers in the survey revealed that they knew the dollar amount of principal due monthly, but often did not understand how the interest was calculated or how much it would be. Equal monthly payment of principal plus accumulated interest requires significantly greater total monthly payments in the beginning of the loan, just when the cash flow of the enterprise will be the weakest. It would be preferable to change to an equal monthly payment of both principal and interest. In addition, the grace period is only as to principal, the borrower is required to pay interest immediately even though the project is not completed or earning income.

Capitalization of interest during the grace period may be preferable. An example may make this clear: A loan for 48 months is made for $1,000 at 18% with a grace period of 6 months, fully disbursed at the beginning date.

Grace Payment Month Thereafter	Present Agreement		Capitalization of Period Interest; Equal Monthly Payments	
First	Interest	$150	None	
Seventh	Principal	$238		
	Interest	150		
	Total	$388	Total	$351
Forty-eighth	Principal	$242		
	Interest	4		
	Total	$246	Total	$351

D. LOAN DISBURSEMENT

After acceptance of the commitment, the applicant, with the assistance of the Project Analyst begins the process of complying with the conditions. Since there is a heavy reliance on collateral, the process of obtaining mortgages, assignment of leases and silmilar legal documents is time consuming, often taking several months. There is no provision for a second review of the appraisal before disbursement. Given the length of time often involved, many changes can occur that could adversely affect the ability of the borrower to repay. RECOMMENDATION: require the submission of new information (marketing, financial, etc.) after 90 days from the commitmwent date.

After submission of the documents and meeting other requirements, the Project Analyst requests the first disbursement from the Comptroller. Generally, disbursement is made directly to suppliers based on invoices. Spot checks are made to insure that invoices are valid. The Comptroller has the documents registered at the Probate Court and provides for safekeeping. The documents are not generally reviewed by an attorney for legal sufficiency. RECOMMENDATION: review of loan documents by an attorney prior to disbursement.

The Comptroller draws and signs the checks which must also be signed by the Managing Director. Disbursement is usually in stages and takes place over a significant time frame. RECOMMENDATION: a continuous monitoring and evaluation be made during the disbursement phase to insure that the funds are used as expected, that the project is progressing on schedule and that targets as to time and cost are met. In some cases reviewed, it should have been obvious that the funds would not be adequate to complete the project and that other reesources would be needed. RECOMMENDATION: retain the right to cancel the commitment for funds at any time prior to final disbursement. Sometimes it is preferable not to take a project through to completion when it is determinable that the loan cannot be repaid.

E. LOAN COLLECTION

Loan collection is the responsibility of the Comptroller. Each month a demand notice is generated which provides both the current month's payment and any arrearages. These notices are delivered to the client by the collection officer. Clients are required to visit the SEFO office to make payment. Little actual collection effort is made in the field. Collections are usually in cash, few clients have bank accounts.

Because they are small and unsophisticated, SEFO clients have difficulty with the need to accumulate money in the amounts required by the agreement, particularly where the amount of the money borrowed is significant in terms of the cash flow of the business. One of the clients told an evaluator, "the first 20 days of sales go to pay for supplies, rent, and living expenses, the last 10 days to pay the bank." The collection effort should be geared to make it as easy as possible for the business to pay and to contact the client at the time he is most likely to have funds. Requiring a businessman to accumulate cash and then to take time away from his livelihood, the business itself, to travel to SEFO to make the payment, results in a diversion of the funds to other uses and failure to meet the payments to SEFO. RECOMMENDATION: a field collection system be established under the responsibility of the Comptroller that has regular, frequent visits to the borrower at his place of business and are scheduled to occur to the extent possible on the day of the week that the business is most likely to have substantial receipts from its business. The field collector would issue a a receipt, place the money in an envelope, seal it, have the client sign across the flap, and turn it in each day to the cashier. Collections could readily be made more frequently than monthly if necessary, and the accounting records adjusted accordingly. The field collection system would be very similar to small size, industrial life insurance policy premium collection. The collector visits the policy holder at the same time on the same day of the week, weekly, bi-weekly or monthly, and collects the premium. In that model, the collector is on a commission and retains a portion of the premium as his remuneration.

F. POLICY, ACCOUNTING AND LEGAL FUNCTIONS

1. Policy

Based on the Principles of Investment established by the Board of Directors, a manual for SEFO's operations was prepared by advisors to SEFO to assist in the implementation of the program. This manual covered such matters as principles of management and organizational structure, general procedures for application flow from acceptance to recovery, guidelines for appraisal, terms and conditions of loans, approval and disbursement of loans, monitoring procedures, and management information statements. It is our understanding that this Operations Manual is not referred to or followed currently. RECOMMENDATION: the manual should be updated and used as a resource by project analysts, supervisors, and others. The general outline and subject matter of the manual is good and with relatively small effort can be easily revised, and if regularly referred to will provide for better analysis and operations.

One element contained in the Operations Manual that bears discussion is the establishment of a Credit Committee. The Credit Committee, while contained in the present organizational chart, does not currently function as intended. The latest working relationship between SEFO and BAS establishes a Review Committee consisting of the SEFO Projects Manager and the expatriate advisors to both SEFO and BAS. This Committee functions more as a coordinating committee to apportion work and to agree on further action. It is not currently designed to make final recommendations on approvals. RECOMMENDATION: the Review Committee should review and make recommendations on all Project Appraisals prior to submission to the Managing Director or the Board. This will insure that a full review is made of the positive factors and the negative factors concerning the project.

2. Accounting

The Comptroller office of SEFO functions quite well. The institutional accounting system has been adequately developed and has been computerized. Most entries in the computer record have been batched processed at infrequent intervals. A key-punch operator has just been hired so that the entries can be made generally on a daily basis.

When the loan is sanctioned, the comptroller reviews the authorization and establishes a loan account. When the loan commitment is accepted by the borrower and the necessary collateral documents are submitted, the Comptroller reviews them for correctness and sends them to the Probate Court for registration. When the documents are returned from the court, the original documents are placed in the vault for safekeeping. In the review, some of these documents were found in open files. RECOMMENDATION: all original documents be removed from working files and placed in a theft and fire proof vault.

Each month a demand notice is generated for each borrower from the computer, but utilizing manual records for interest calculation. These notices were found in the survey to be incorrect and not issued on a timely basis. The notice is delivered to the borrower by an assistant comptroller, an analyst, or by the business officers of BAS. RECOMMENDATION: steps be taken to provide for the loan record to be placed in the computer, and for accurate generation of timely demand notices.

As previously discussed, the borrower is required to go to the SEFO office to pay. A member of the Comptroller's office acts as cashier, receives the funds (usually in Liberian coins) and issues a receipt. Deposits are made daily in the bank accounts of SEFO. Cash receipts are verified by the Comptroller or his designee.

There is not presently in place a management information system. The computer can easily generate management reports on applications, approvals, commitments, disbursements and collections. RECOMMENDATION: a management information system (MIS) be developed to provide management with timely, accurate and usable information. Some elements of a MIS would be:

a. Application register containing such information as the name of the enterprise, date of application, source of application, amount, purpose of funds, date of approval if approved, or date of other action with reason for the action, analyst assigned, business officer assigned.

b. Commitment register with similar information.

c. Disbursement register with similar information.

d. Summary of B.O. activity containing number of clients visited, type of client (SEFO client, prospective SEFO client, other), major problems encountered, proposed solution.

e. Portfolio summary containing aging by arrearage, classification by type of business, size of loan, type of loan, similar data.

f. Summary of expenditures compared to budget for both SEFO and BAS.

g. A master individual client file in the computer giving the basic data on the client, current status of the loan, amount of arrearages, date of last visit, date of last payment, amount received, etc. The other MIS reports could be generated from this basic data.

There is no central filing system and numerous differing files on clients are maintained by the separate offices of SEFO and BAS. RECOMMENDATION: a central filing system for SMEDS be maintained within the Comptroller's office with checkout controls. These files would be accessible to both BAS and SEFO.

3. Legal

SEFO is designed as a development financial institution to provide financial and technical assistance to small-scale indigenous enterprises operated by Liberian entrepreneurs. As a part of the process of loan approval, SEFO has required adequate collateral to support the loan. Because of the possibility of high reliance on collateral, the functioning of the legal system of SEFO and within Liberia was reviewed. Discussions were held with SEFO executives, with managers of other lending institutions, and with Charles W. Brumskine, an attorney assisting SEFO in collection of defaulted loans.

Litigation to foreclose on collateral through the Civil Court in Liberia is a long, delay-ridden and difficult process. In many cases, the collateral may be owned by persons other than the borrower who have pledged the property on behalf of the borrower. The Court is sympathetic to the plight of the borrower and to the pledge of collateral, and is reluctant to order foreclosure action. Thus it is difficult to acquire title to pledged property. Even if the title to the property is obtained, SEFO would face the difficulty of disposing of the property to realize something to apply against the outstanding loan. SEFO is not equipped to be a landowner, a landlord, or the owner of chattels which may or may not have a current value.

In a attempt to obtain payment on some defaulted loans, SEFO has referred several cases to Mr. Brumskine. Mr. Brumskine is not on a retainer, but will retain a portion of any funds obtained as payment for his services. Recognizing the problems related to recovery on collateral, Mr. Brumskine has elected to file actions in Debt Court to establish the existence of an open debt to SEFO. The Court will determine the amount of the debt and issue a judgment. Although the borrower may appeal the judgment of the Debt Court, the appeal under Liberian law does <u>not</u> stay the requirement to pay. In the execution of the judgment, the borrower must pay the full amount or apply for deferred payment. A deferred payment would require 25% of the judgment payable immediately and, if the remaining 75% is more than $1,000, it is payable over a 12 month period. If the borrower is unable to meet these requirements, then the lender can levy against any assets owned by the borrower.

The intent of the litigation actions is to induce the borrower to make satisfactory arrangements to repay the indebtedness without the necessity of seeking a judgment. In some of the cases thus far, payments have been received and arrangements agreed upon. Some have again failed to meet the terms of the agreement and the legal process is progressing. Mr. Brumskine is not on retainer to SEFO and does not now review the documentation o loans prior to disbursement. <u>RECOMMENDATION: obtain legal clearance prior to loan closing and disbursement and place the attorney on retainer.</u>

CHAPTER V

THE SEFO/BAS RELATIONSHIP

A. COORDINATION

The purpose of SMEDS, as stated in the project document, is "to assist SEFO in its role of providing an expanded supply of loans and other appropriate financial services to the Liberian small enterprise sector...". This was to be accomplished in part by the development of a field service (BAS), "..which would help build the volume and quality of SEFO's portfolio by rendering assistance to businesses which have become or have immediate potential for becoming SEFO loan recipients." BAS was set up as a separate function, funded by USAID through PFP/I based in Washington D.C. PFP/I provided a Project Manager and a Trainer/Advisor to BAS, and a Financial Advisor to SEFO, all expatriate positions. BAS is not accountable to any Liberian organization.

On August 15, 1984, SEFO and BAS entered into a Memorandum of Agreement setting forth the endeavors to be undertaken by BAS. With respect to the Liberian SSE sector, BAS was to provide training to improve business practices in the sector, pre-investment/post investment service to SSE businesses, more specifically to SEFO clients and prospective clients, and organizational analysis to introduce better business organizational practice in the businesses advised by BAS.

Subsequent to the execution of the agreement, differences of opinion have arisen as to the proper role of BAS. SEFO management has been concerned about a perceived effort by BAS to outreach and work with clients which were not expected to be borrowers from SEFO in a reasonably short time period, or ever. On the other hand, BAS perceives as a part of its role in Liberia, to provide outreach and assistance to projects and businesses which may require a long time for development and which may not result in application for financing by SEFO. In addition, differences have arisen in what should be the role of the BAS B.O. in the collection of SEFO loans. BAS has resisted becoming a collection agent for SEFO. Because of these differences - SEFO seeking assistance for existing and potential clients, and BAS seeking to broaden the outreach to the SSE Sector - a major effort was made in late 1985 to reconcile the differences. These negotiations resulted in a new, temporary working relationship document signed by both entities on January 16, 1986. This agreement is to function for three months with a joint review at that time.

The agreement provides for a joint determination as to whether a business at initial contact is a prospective client for SEFO either immediately or after advisory and development work. If such is not the case, BAS contacts will be minimal. SEFO and BAS will reach agreement on the need and requirement for further development work. The agreement provides for a parallel working arrangement with the immediate prospective loan client by a BAS B.O. and a SEFO analyst. BAS is to establish the "physical" parameters (market, procurement, production and distribution), and SEFO the financial parameters. A review committee consisting of the SEFO Projects Manager and the expatriate advisors to both organizations will assess and apportion the investigative work to be done.

In loan approval and disbursement, BAS has only an advisory role. BAS may be requested by SEFO to obtain evidence that the disbursement conditions have been met. Collections, calculations and enforcement are solely the responsibility of SEFO. Both SEFO and BAS have post-loan monitoring roles. BAS has the role of assisting the client in record keeping, market analysis, management principles and procedures, production practices and education as to financial responsibilities and obligations. All other functions (collections, enforcement, legal, loan adjustment or workout,) are the responsibility of SEFO. Each organization will maintain and provide the other with records of contacts and services provided to clients. Both organizations will develop together entrepreneurial training and development seminars. Reporting requirements are to be requested through the Project Manager of BAS and the Managing Director of SEFO.

There is a divergence of purpose and a rigidity in action between the two organizations. There is a lack of cooperative effort on the working level of the organizations. The B.O.'s of BAS do not regularly discuss the problems of the clients with the project analysts of SEFO. There have been instances where the B.O. had been working with a prospective client, only to find that the client has directly contacted SEFO for financing without any input from the B.O. Clients complain to the B.O.'s (their contact) concerning errors in demand notices. B.O.'s may discover that a client is in serious business trouble. All these circumstances result in memorandum from the Trainer/Advisor to the Project Manager or the Managing Director, often called "Danger Notice". Since the Trainer/Advisor arrived in the summer of 1985, he has issued some 120 such advisories. There is little feedback. SEFO management believes that BAS should, in addition to calling attention to the problem, offer remedial action. BAS provides to SEFO a schedule of the visits to be made by the B.O.'s. BAS does not provide a summary of the visits broken into the various client categories. Since BAS spends only about 15% of its time on non-SEFO clients and prospects, such a report would help in dispelling the perception by SEFO that BAS is spending most of its time on non-SEFO activities. A significant portion of the time of the Financial Advisor to SEFO is spent in attempting to coordinate the activities of BAS and SEFO.

The use of memorandum as a communications device is time consuming and a waste of resources. Clients are assigned to a project analyst by SEFO and to a B.O. by BAS. Person to person coordination between the analyst and B.O. to resolve most problems of the client should be possible without involving the higher levels of management.

RECOMMENDATION: the organizations work out a method for coordination at the working level on problems arising from field visits to clients. The organizations should hold a joint staff meeting attended by management to explain and implement this recommendation.

Certain rigidities and personality differences are present in both organizations. Management of both organizations must explore these differences and agree on action to reduce them so that attention can be given to providing assistance to Liberian SSE's. RECOMMENDATION: the management of SEFO and the management of BAS have a meeting to discuss the individual problems and differences and to develop satisfactory solutions to be implemented.

B. OPERATIONS OF BAS

Extensive discussions were held with the Project Director and the Trainer/Advisor of BAS (both expatriates) to develop the procedures used for operations. BAS defines its mission as giving business-oriented TA to Liberian owned SSE's. Its major strategies are:

a. Provide help to clients in their existing businesses (usually SEFO clients) with one-on-one visits from B.O.'s.
b. Generate new business opportunities through seminars and one-on-one sessions with potential clients for SEFO.
c. Consult with SEFO on analysis of new loan applications and advise on approvals.

Although records are incomplete, BAS has produced several loan applicants for SEFO, some of which have been approved and others are pending. Under the current working relationship, BAS is to be involved in the pre-application and application evaluation phases for new loan prospects. The bulk of BAS client activity is connected with SEFO prospective or actual client support:

	Number	Percent
SEFO active clients	114	36
SEFO prospective clients	44	14
BAS prospects for financial assistance	57	18
Subtotal	215	68
BAS client with no loan prospects	34	11
Not visited (SEFO new clients, litigation)	66	21
Total	315	100

BAS will work with any Liberian SSE which approaches it or which it finds that needs or wants TA. There is no time limit set on how long BAS will work with a client, even one which does not progress satisfactorily. It explicitly does not limit itself to working with clients which might need financing. BAS devotes a part of its talent, especially its expatriate supervisor's time, developing new business opportunities which may or may not result in SEFO financing.

The translation of BAS strategies into organization and rough estimates of 1986 spending follows. These amounts are financed under the SMEDS project and do not include the costs of PFP/I. The evaluators were unable to determine the actual costs of operation of the BAS function since financial data from PFP/I was not available and the financial records of BAS were not usable to compare to the budget. RECOMMENDATION: BAS and PFP/I prepare a cost vs. budget report for 1985.

	Thousands of Dollars
Project Manager (expatriate)	66
Trainer/Advisor (expatriate)	63
Field Supervisor counterpart/SEFO liaison	*
Computer Operator	1
Business Officers (6)	51
Consultant (expatriate)	6
Office Manager	13
Secretary	7
Drivers (3) (including car costs)	28
Receptionist	6
Watchmen	5
Other	1
Total	247
Of which:	
Local Costs	115
Expatriate Costs	132

* Financed by SEFO

At present, BAS B.O.'s are handling about 250 clients, consisting of about 20 active clients and 10 inactive clients per B.O.. Each B.O. could comfortably handle another 10 clients each raising the total capacity to over 300. The average visit frequency is two weeks. This is a part of the ongoing training process for B.O.'s. If the frequency were changed to one visit every three weeks, the capacity of the current staff would rise to over 450 clients. Successful projects in similar countries have a four-week call cycle implying over 600 client capacity, but client development level is lower and business conditions are tougher in Liberia. RECOMMENDATION: The call cycle be changed to once every three weeks, providing time for more B.O. training and for more client development.

In May 1985, a seminar held jointly by SEFO and BAS produced 120 attendees, 40-50 of whom visited the office subsequently, and 10-12 resulted in serious loan prospects. In addition, BAS held workshops on Poultry and Pig Raising in 1985. The evaluation survey shows that, of the SEFO client sample studied, none had first been attracted by BAS, but rather by word of mouth and SEFO advertising and publicity. This is the case in other countries, financing not TA attract applicants. RECOMMENDATION: schedule on a regular basis seminars and conferences to attract SSE's needing financing.

A special consultant provides TA to piggeries and poultry farms and also advises SEFO analysts on these types of businesses.

TA provided by B.O.'s falls into four areas, in order of frequency in which it is applied as determined in the client survey:

a.	Accounting and recordkeeping	53%
b.	Marketing advice	17%
c.	Production	10%
d.	Other	13%
e.	None	7%

From the client survey and discussions with the B.O.'s, it is clear that accounting and record keeping TA is both appreciated and effective. Compared to clients of projects in other developing countries, respondents could readily estimate their present costs and cash flows. The B.O.'s have not convinced clients to separate business expenses from family expenses, but this is a notorious problem with micro-enterprises.

Marketing advice has been less effective. Marketing is the major problem for most clients. Nevertheless, marketing advice seems to have been usually no more than "go out and find customers; don't wait for them to come to you". More specific assistance should be possible, given the experienced advisors available. Discussions with the Trainer/Advisor indicate that the B.O.'s are not currently qualified to give more than rudimentary marketing advice. RECOMMENDATION: training be given to B.O.'s and to Project Analysts in marketing analysis and in production requirements; and increase TA efforts in marketing and production.

The decision on what kind of advice to give comes from the Trainer/Advisor's comments on the contact reports which B.O.'s make after each visit to the client. The comments we reviewed were relevant and useful.

New business ideas and plans are developed by the Trainer/Advisor based on inquiries from potential businessmen and a comparison of business needs in Liberia vs. other similar countries in which he has experience. This is a sound way to start one's own new business. We are not certain if it is possible to convince many entrepreneurs (who have not had the exposure of the Trainer/Advisor) that they should enter such a business and, more important, stick with it through the inevitably difficult start-up period. Such entrepreneurs will have difficulty raising finance. Some projects in other countries have used high-potential studies to decide which existing businesses they will try to bring into their program. In any event, given the current economic environment and its financial situation, we do not believe that SEFO should finance new start-up situations. This activity on the part of BAS is not an element of the SMEDS project. RECOMMENDATION: SEFO should finance only existing enterprises with demonstrated successful operations. RECOMMENDATION: BAS resources be used to provide TA to existing and prospective loan clients of SEFO.

From several hundred applicants in 1984 for the B.O. positions, 20-30 were asked to take examinations in basic mathematics, writing and accounting. Eleven were hired. Seven remained after a short trial period. There are currently 6 B.O.'s. Training of the B.O.'s was given by the first Trainer/Advisor. Since B.O.'s are assigned fairly randomly to clients (there is some geographic bunching), all must be well rounded. Currently, some B.O.'s are being assigned to particular industries to be able to provide more specific assistance. The Trainer/Advisor continues an effective case-by-case training regimen, in which he counsels clients in the presence of the B.O.

BAS and SEFO gave a small business seminar in 1985 which was successful, generating 10-12 serious loan applicants. The objective of publicity should be to attract the "cream" of Liberian small enterprises to SMEDS. With the ample experience of the BAS expatriate advisors, there should be material for more seminars, newspaper articles and church supper speeches. With radio advertising at on $10 per spot and excellent listenership, this might be the key "attention getter" for subsequent promotion. RECOMMENDATION: a systematic and continuous publicity and outreach program be initiated using several methods to attract clients to SEFO.

There is a serious question about one underlying BAS assumption. This is that BAS can play a general business education role in Liberia, providing benefits - and deserving funding - along the lines of the public school system. The first problem with this assumption is that BAS does not have the resources to make more than a symbolic gesture towards helping the 7,000 to 15,000 Liberian SSE's. Government support of TA is very unlikely in the forseeable future, and without that promise, donors are not likely to provide interim, "pump-priming" or counterpart support for more than maintenance support. The second problem is that the SMEDS project is in serious trouble. All available resources should be applied to a concerted effort to make SEFO viable. This effort will not allow the luxury of a "public-education" strategy for BAS. Such activity is not a part of the SMEDS project. RECOMMENDATION: BAS resources be concentrated toward assisting existing and prospective loan clients for SEFO.

C. REVISION OF THE BAS ORGANIZATION

While recognizing the different roles of SEFO and BAS in support of the Liberian SSE sector, a concern of the evaluators is the lack of appropriate linkeages between the two organizations. A model which has been successful in other developing countries is to have two local organizations with overlapping, but not identical, Boards of Directors, and with the Managing Director of each entity lodged in the same person. Each Board would set policy for the individual entity but, because of the common members, would be in sympathy with the requirements of both. The Managing Director would have two Boards to answer to and would necessarily be required to follow the policies set forth. Separate accounts, budgets, etc., would have to be maintained. For economies of scale, functions such as administration and accounting would be maintained by elements or offices of one of the organizations with an appropriate agreement and a fee for such services.

A Liberian organization should be formed to assume the functions and responsibilities of BAS. Such an organization would have a Board of Directors with some members who would also be SEFO Board members. The following might constitute such a Board:

The Managing Director of BAS (Also the Managing Director of SEFO).
A Representative of LBDI (Also on the SEFO Board)
A Representative of ACDB (Also on the SEFO Board)
A Representative of PFP/L (Also on the SEFO Board)
A Representative of NIC
A Liberian businessman (Not the one on the SEFO Board)
A Representative of the University of Liberia
An Ex-officio member from USAID

The Board would establish the policies for the advisory services to be provided by BAS. The present funding from USAID through PFP/L would be provided to the new organization rather than directly as now. No changes in the current allocation would be necessary. RECOMMENDATION: a Liberian organization be established with a Board of Directors with common members on the SEFO Board, to assume the functions of BAS.

By having the two parallel Liberian organizations, a greater continuity and supportive effort could be achieved. Probably in each organization there would be a requirement at some point in the growth pattern for an assistant Managing Director, to free the Managing Director from day-to-day operations so he could concentrate on policy matters, institutional relationships, fund raising and similar matters.

If this organizational arrangement is established, consideration would need to be given to staffing of the two organizations. There would be a shifting of responsibilities (accounting and administration) and some rearrangement of duties. It would be necessary to appoint a Liberian national as the BAS Director on a comparable level with the SEFO Project Director and Comptroller. The expatriate positions in BAS would become advisory rather than managerial.

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CHAPTER VI

STRATEGY FOR CHANGE

A. DESCRIPTION

The analysis in the previous chapters indicate that SEFO has not reached the expected level of activity nor will it become viable under current procedures. Similarly, the TA function provided by BAS has not resulted in an increase in volume and quality of loan applications to SEFO. Currently, the SMEDS project is attempting to provide major financing and TA to a small group of SSE's generally on a long term, fixed capital basis.

SMEDS needs to concentrate on developing and implementing strategies which will lead to success and viability of the institutions. Success would be measured by a broadening of the Liberian economy and through building a class of Liberian entrepreneurs which provide employment and increased income, and by evidence of long term financial viability. This is best provided by concentrating efforts on the financing needs of existing SSE's. Annex H gives a description of the experience in small scale enterprise assistance projects in other developing countries. Annex J provides an outline of the strategic planning process as it relates to the SMEDS project. RECOMMENDATION: SMEDS should concentrate on locating and building continuous relationships with existing enterprises employing between 1 and 49 persons, by providing financing for their critical needs through short-term, renewable loans and through supporting TA.

This strategy is based on providing a series of short term (3 to 6 months) loans to these businesses in ascending amounts as the businesses grow and require increasing amounts of financing. Implementation of this strategy requires a number of key sequential actions:

1. A reorganization of the SMEDS project to provide for a unification of the top management and policy direction of the separate entities SEFO and BAS, so that resources and efforts can be concentrated on the new strategy. RECOMMENDATION: establish a Liberian entity for BAS as more fully discussed in Chapter V above. RECOMMENDATION: provide for adequate reserves for losses on current portfolio in SEFO to release management attention to direct the new strategy as discussed in Chapter IV A above. RECOMMENDATION: establish and use a MIS to track clients from application to final payment and to provide management with timely, accurate data for decision making as discussed in Chapter IV E above.

2. The SMEDS project must develop a desirable client profile. The client profile would be those elements that all prospective clients should possess. Such a profile would cut across industry lines. RECOMMENDATION: develop a client profile with the following minimum characteristics: (a) existing enterprise, (b) evidence of successful operation for a period of at least six months, (c) owned and operated on a full time basis by a Liberian national, (d) have an expectation of growth in income and employment with the infusion of funds from SEFO, (e) have at least one employee besides the owner. As the new strategy is implemented, SMEDS will gather information which will add or change characteristics and provide for exclusion of some fields of endeavor.

3. The SMEDS project must establish and implement a client service system that is simple, replicable, low risk and responsive to the requirements of the enterprises meeting the profile. RECOMMENDATION: develop a simple, quickly approved, loan application to provide small amounts ($1,000 or less initially) of working capital on a short term basis (30 to 90 days). RECOMMENDATION: attract clients meeting the profile and desiring short term working capital loans through publicity, advertising, seminars and other promotional activities.

B. IMPLEMENTATION

1. The sequence of activity would be as follows:

a. Attract clients through promotion.

b. Assign each applicant to a B.O. who is responsible for developing with the applicant a short, one page profile.

c. The BAS Trainer/Advisor and a SEFO Project Analyst approve further contact, such approval made within one week of the initial contact.

d. The B.O assists the applicant to develop a loan application (two pages) to provide the essential information for loan consideration. The applicant also agrees to standard loan conditions (remain in business, no merger or sale, acceptance of summary judgment and attachment of property in the event of default, agreement for SEFO and BAS to inspect the books and the property, and similar matters). This development process would continue for a maximum of two months before abandonment.

e. The B.O. makes a recommendation for the loan (probably $1,000 or less). The BAS Trainer/Advisor and the SEFO Project Analyst concur.

f. The Review Committee reviews and recommends approval, and the Managing Director approves within one week of the recommendation.

g. The funds are disbursed directly to the borrower within one week of approval.

h. The B.O. gives supporting TA during the life of the loan.

i. One single missed payment disqualifies the applicant from additional financing, and SEFO would take action to attach the property of the borrower.

j. Upon satisfactory repayment, the B.O. assists the client in preparation of a renewal application for the same or a larger amount. Limit on the second loan would be double the initial loan. Approval sequence would be as discussed above.

k. The applicant progresses through additional, larger loans. As experience is gained with the client, TA would be reduced.

l. Applications received for larger loans and for those requiring fixed capital, would require the Project Analyst to work with the B.O. and the applicant in the pre-application stage and would require submission of the application to the Executive Committee of the Board of Directors for approval.

2. As experience grows and the activity becomes more routine, resources may become available for limited experiments with other types of lending/TA financing packages such as start-ups.

C. THE MODEL THROUGH 1989

The following presents a summary of the profit and loss scenario for 1986-1989 for SMEDS if the above strategy is adopted. Annex I presents the data on the model.

1. Assumptions for the model:

a. SEFO operating costs will remain at the 1986 budget level of $340,000.

b. BAS local costs (excluding expatriate costs) will remain at $115,000 as budgeted for 1986.

c. The current portfolio of SEFO (after allowances for losses) has an average life of three years, will have a 10% uncollectible rate on both principal and interest each year.

d. SEFO makes 50 new loans under the current, regular program in 1986, 40 in 1987, 20 in 1988 and none thereafter; average loan size of these loans is $5,000; the average life of these loans is 24 months; the uncollectible rate on principal is 6% per year; and the uncollectible rate on interest is 5% per year.

e. New strategy loans are made in 1986 to 200 clients at $1,000 each. In 1987, 150 of these clients get two renewal loans at $2,000 each. In 1988, these 150 clients get two loans of $4,000 each. In 1989, 140 of the clients get two loans of $5,000 each. The same pattern is continued with 200 new clients in each year 1987 to 1989. The uncollectible rate is 2%.

f. The average interest spread over the cost of money (including fees):

(1) existing portfolio: 12.5%

(2) new regular loans: 15.0%
(3) new strategy loans: 20.0%

g. The existing portfolio at the beginning (less allowances for losses) is $550,000.

2. Result of the Model

Applying these assumptions, by the end of 1989, income from operations can be expected to cover the total local costs of SEFO. It is clear that the TA activity cannot be self-sustaining. If these costs are deducted from 1989 total costs, then the project sustains a loss of only $28,000 for that year. The portfolio at the end of 1989 would consist of approximately 640 loans for a total amount outstanding of $2,400,000. All loans would be from the new strategy. This portfolio at a 20% spread over the cost of money, will generate $470,000 in income per year (after reserves) sufficient to cover all costs except TA in the succeeding years.

Getting to that level by the end of 1989 will require significant funding assistance. The scenario is as follows:

a. 1986. By the end of 1986, the portfolio would have, in addition to loans in the current portfolio, an additional 250 loans: 50 from the regular system and 200 from the new strategy. The portfolio would amount to $801,000. Excess of total cost of SMEDS over interest income is $465,000. Total funds required are $777,000, or $139,000 over the current SMEDS budget.

b. 1987. The existing portfolio continues to decline as repayments are received and loans mature. New loans under the regular system are 40 and 500 new loans are made under the new strategy. At the end of the year, 350 loans in addition to loans in the current portfolio are outstanding and the portfolio value is $1,069,000. Excess of total costs of SMEDS over income is $425,000. Total funds required are $966,000, or $724,000 over the current SMEDS budget.

c. 1988. The current portfolio is reduced to zero by the end of the year. Twenty new regular loans are made, and 800 under the new strategy. At the end of the year 500 loans totalling $1,780,000 are outstanding. Excess of total costs over income is $302,000. Total funds needed are $1,266,000 or $1,102,000 over the current SMEDS budget.

d. 1989. Only loans under the new strategy are made in this year. These loans would total 1080. At the end of the year 640 loans would be outstanding totalling $2,400,000. Excess of total costs over income is $144,000. Total funds required are $1,421,000 or $1,343,000 over the SMEDS budget.

e. Beyond 1989, repayments from the loans should be sufficient to maintain the portfolio at the $2,400,000 level and income from the portfolio sufficient to cover all costs except TA. The model does not reflect any charge to the borrower for TA. RECOMMENDATION: a $50 per year charge be made to each borrower, starting in 1989. This would provide about $32,000 per year or about 5% of the TA costs. Other sources would be required to cover the remainder of local TA costs.

D. COSTS AND MANAGEMENT REQUIREMENTS

1. Costs and total requirements for funding above the current SMEDS budget are:

1986	$ 139,000
1987	724,000
1988	1,202,000
1989	1,343,000
Total	3,308,000

Of these funds, $300,000 is for the employment of two expatriate advisors through 1989, $148,000 is to cover cash operating losses, and the remainder is for funding of loans. The loan funds would be called upon only when needed to fund new loans.

To provide expert assistance to the SMEDS project and to assist in the implementation of the new strategy, two expatriate positions will be required through 1989. These two positions are a Trainer/Advisor for BAS and a Financial/Management Advisor for SEFO. RECOMMENDATION: funds be provided to support a Trainer/Advisor for BAS and a Financial/Management Advisor for SEFO through 1989, and the costs of the TA function through 1989.

1. Management Requirements

The success of this strategy is dependent upon finding clients needing funding, additional donor financing, and above all else, industrious, energetic and capable management of the two organizations. In 1985, SEFO had a low point, making only 38 loans totalling $506,000. This was partially due to the economic environment in Liberia. The administrative costs and finance charges of SEFO in 1985 were $394,000, giving a cost of over $10,000 per loan made or a cost of $778 per $1,000 loaned. BAS expended considerable effort and resources in the development of prospective business areas which did not result in applications for financing. The local cost per client of BAS is over $1,000 per year. These results indicate that the management of the organizations have not succeeded in adjusting to the realities they face.

The financial results of SEFO, and the continuing lack of consensus and teamwork between SEFO and BAS do not indicate that the management of the organizations will be able to successfully change the method of operation and implement the new strategy. Based on past results and the current activity, there appears to be excessive staffing in both organizations, redundancies, and a lack of consensus on direction.

For a reasonable expectation of success of the new strategy and of the SMEDS project, each manager must carefully review his organization, his staffing patterns, qualifications and performance of employees, budgeted costs, utilization of resources made available, relationships with each other's organization, and all the business requirements for successful operations. RECOMMENDATION: prior to any commitment for funding the new strategy, evidence be presented that a thorough analysis and review had occurred in each organization and effective changes made in operations, staffing, costs, and utilization of resources to meet the challenge of the new strategy and that reasonable expectation of success is demonstrated.

A N N E X E S

Annex L

EVALUATION TERMS OF REFERENCE

ARTICLE I - TITLE

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROJECT (SMED), Project No. 669-0510

ARTICLE II - OBJECTIVES

The objective of this work order is to evaluate the Small and Medium Enterprise Development Project, including recommendations for changes and modifications to the project and the Small Enterprise Financing Organization (SEFO) and Business Advisory Service (BAS) operating procedures.

ARTICLE III - STATEMENT OF WORK

The contractor will provide the services of a small enterprise specialist and a financial analyst to perform the evaluation as specified below.

The contractor will assess the Small Enterprise Financing Organization in the following areas:

a. Review SEFO's financial performance and viability prospects, and recommend measures to assist in ensuring viability.

b. Review capital structure and anticipated capital needs.

c. Review progress made toward raising funds from other sources and the implications for portfolio structure and performance.

d. Assess the development banking and planning practices, especially as they relate to project identification and development.

e. Assess the loan application and approval process and recommend changes, as necessary, based upon performance to date.

f. Assess progress toward SEFO staff becoming self sufficient, with special reference to the collection function.

g. Review progress toward computerizing accounts and make necessary recommendations.

Contractor will assess the Business Advisory Service in the following areas:

a. The scope of BAS activities, including the strategy employed and the relevance and impact on the Liberian small business environment.

b. BAS productivity as it relates to SEFO's viability with particular attention to:

   1. Progress made in improving loan recoveries.

   2. Progress made in developing viable new loan clients for SEFO.

c. BAS internal efficiencies and procedures such as client load, cost per client, documentation and control of field operations.

d. The ability of SEFO to absorb BAS functions at the end of the Small and Medium Enterprise Support project.

e. Performance of technical consultancy to clients and the need for expansion of such services.

f. In-house and external training needs for BAS personnel.

g. Composition of the technical team under the SMED project and recommend appropriate changes or modifications.

ARTICLE IV - REPORTS

The contrator shall submit a draft of the evaluation to USAID/Liberia, SEFO and PFP, within seven days of leaving Liberia. These organizations will review the draft and submit comments to the Contractor within three days. The Contractor shall submit the Final Evaluation Report, incorporating the above comments, to USAID/Liberia and SEFO prior to leaving Liberia.

ARTICLE V - RELATIONSHIPS AND RESPONSIBILITIES

The contractor will work under the direction of the Chief of Special Projects and Project Development Office, USAID/Liberia. The cooperating country liaison official is the Managing Director of SEFO.

ANNEX B - 1

SMALL ENTERPRISES FINANCING ORGANIZATION
BALANCE SHEET (000)
DEC.31, 1982, 1983, 1984 (AUDITED); SEPT.30,1985 (UNAUDITED) & DEC.31, 1985(ESTIMATED)

ASSETS

	Dec. 31 1982		Dec. 31 1983		Dec. 31 1984		Sept. 30 1985		Dec. 31 1985	
CURRENT ASSETS	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Cash and Bank Balances	421	42.2	129	11.6	34	2.7	132	7.2	619	33.1
Interest bearing Bank Deposits	200	20.0	321	28.9	206	16.3	361	19.7		
Current maturities on Loans	10	1.0	296	26.7	485	38.5	504	27.5	428	22.9
LESS: Provision for Losses			(6.2)	(5.5)	(122)	(9.7)	(122)	(6.7)	(120)	(6.4)
			234	21.1	363	28.8	382	20.9	972	49.5
Accrued Interest on Loans			15	1.3	71	5.6	121	6.6		
LESS: Provision for Losses			(3)	0.3	(15)	(1.2)	(15)	(0.8)	24	1.2
Accrued Interest on Deposits	2		6	0.5	6	0.5	10	0.5		
Misc. Debits	29	2.9	46	4.1	44	3.5	93	5.1	87	4.7
TOTAL CURRENT ASSETS	662	66.1	746	67.4	708	56.2	1026	56.0	1038	55.5
Loans Net of Current Maturities			77	6.9	377	29.9	622	34.0	649	34.7
LESS: Provision for Losses					(59)	(4.7)	(39)	(3.2)	(89)	(4.8)
					318	25.2	56.3	30.7	560	29.9
Preoperational Expenditures (Net)	266	26.6	212	19.1	159	12.6	120	6.6	120	6.4
Equipment & Leasehold Improvg. (Net)	71	7.1	73	6.6	74	5.9	63	3.4	63	33.0
TOTAL ASSETS	998	100.0	1109	100.0	1259	100.0	1831	100.0	1870	100.0

LIABILITIES & NETWORTH

	Dec. 31 1982		Dec. 31 1983		Dec. 31 1984		Sept. 30 1985		Dec. 31 1985	
CURRENT LIABILITIES	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Interest on Long Term Debt	15	1.5	11	1.0	23	1.8			74	4.0
Accrued Expenses & Credit Balance	36	3.6	57	5.1	32	2.5			68	3.6
TOTAL Curremt Liabilities	51	5.1	68	6.1	65	5.2	125	6.8	142	7.6
Leasefold Improvements					15	1.2	15	0.8	15	0.8
OTHER LIABILITIES										
Long Term Debt	792	79.2	1002	90.3	1447	113.3	1506	82.2	1692	90.5
CAPITAL STOCK	155	15.5	425	38.3	449	35.7	622	33.9	629	33.6
DONATED CAPITAL					85	6.8	500	27.3	500	26.7
Accumulated Loss			(387)	(34.9)	(802)	(63.7)	(939)	(51.3)	(1102)	(58.9)
Total Capital	155		39.0	3.5	(268)	(21.3)	184	10.0	21	1.1
TOTAL LIABILITIES & CAPITAL	998	100.0	1109	100.0	1259	100.0	1821	10.0	1870	100.0

ANNEX B - 2

SMALL ENTERPRISES FINANCING ORGANIZATION

INCOME STATEMENTS

YEARS ENDED: DEC.31,1982,83 & 84 (AUDITED); SEPT.30,1985 (UNAUDITED) & DEC.31,1985 (ESTIMATED)

	Dec. 31 1983		Dec. 31 1984		9 Mons. Sept. 30 1985		Dec. 31 1985	
INCOME	Amt.	%	Amt.	%	Amt.	%	Amt.	%
Loan Interest	45	41.7	116	64.8	139	84.2	185	85.2
Project Invest Fees; Comm. Fees	15	13.9	12	6.7	6	3.6	6	2.8
Penalty Charges	2	1.9	9	5.0	10	6.1	9	4.1
Interest From Deposits	21	19.4	11	6.1	9	5.4	12	5.5
Unreal Fgn Exchange Grain	25	23.1	31	17.3				
TOTAL INCOME	108	100.0	179	100.0	165	100.0	217	100.0
EXPENSES								
Interest on Debt	68	62.9	92	51.4	62	37.6	82	37.8
Compensation	228	[illegible]	244	136.3	168	109.1		
Professopnal Fees	11	10.2	12	6.7	9	5.4	312	143.8
Travel	49	45.[illegible]	44	24.6	9	5.4		
Depreciation	74	68.5	75	41.9	60	36.4	8[illegible]	[illegible]
Others	28	26.7	28	15.6	14	8.5		
	64	59.3	57	31.8				
TOTAL EXPENSES	582	538.9	551	307.8	350	212.1	474	218.[illegible]
OPERATING LOSS before prov. for Loan Losses	(473)	438.0	(372)	207.8	(195)	118.2	(257)	118.[illegible]
Provision for Loan Losses	(65)	60.2	(131)	73.2			(52)	24.[illegible]
Operating Loss	(538)	498.1	(503)	281.0	(195)	118.2	(309)	14[illegible]
GRANTS	152		87		50		50	
NET LOSS	(386)	357.4	(416)	232.4	(145)	87.9	(253)	1[illegible]

ANNEX B - 3

SMALL ENTERPRISES FINANCING ORGANIZATION

PORTFOLIO ANALYSIS

LOANS	Dec. 31 1983 Amt.	%	Dec. 31 1984 Amt.	%	Dec. 31 1985 Amt.	%
Current Maturities up to 1 year	296	79.4	485	56.2	428	39.7
Maturities over 1 year	77	20.6	377	43.7	649	62.3
TOTAL	373	100.0	862	100.0	1077	100.0
LESS Allowance for Losses	(62)	16.7	(181)	21.0	(219)	20.3
NET Loan Portfolio	311	83.3	681	79.0	858	79.7

ANNEX C
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S E F O
LOAN PORTFOLIO
BY ORDER OF ARREARS AGES
****

	CURRENT		ARREARS UP TO 30 DAYS		ARREARS BETWEEN 31 TO 60 DAYS		ARREARS BETWEEN 61 TO 90 DAYS		ARREARS BETWEEN 91 TO 180 DAYS		ARREARS ABOVE 180 DAYS		TOTALS	
	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)
TOTAL LOAN														
NUMBER OF LOANS	28	15.56%	22	7.92%	15	8.33%	16	8.89%	32	17.78%	67	37.22%	180	100.00%
AMT. PRINCOUT	25061.71	2.19%	90837.28	7.92%	81023.79	7.07%	110630.18	9.65%	247047.02	21.55%	591984.26	51.63%	1146626.70	100.00%
PRINC. ARREARS	0.00	0.00%	1593.19	1.42%	7870.43	2.10%	8625.59	2.30%	46235.85	12.30%	311956.49	83.01%	375809.55	100.00%
OTHER ARREARS	0.00	0.00%	1080.60	1.47%	2087.75	1.32%	1958.5	1.24%	14071.90	8.91%	138689.82	87.05%	157876.58	100.00%
WORKING CAPITAL W/C														
Number of Loans	22	21.57%	10	9.80%	8	7.84%	3	2.94%	16	15.69%	43	42.16%	102	100.00%
Amt. Princout	7505.11	2.79%	23613.84	8.17%	7400.91	2.75%	15315.13	5.69%	33221.87	12.34%	182118.06	67.66%	269174.66	100.00%
Princ. Arrears	0.00	0.00%	1163.65	0.59%	4193.11	2.13%	2594.21	1.32%	21097.17	10.71%	167949.13	85.25%	196997.27	100.00%
Other Arrears	0.00	0.00%	193.78	0.31%	361.85	0.59%	294.27	0.48%	3459.00	5.62%	57258.59	93.00%	61566.64	100.00%
TERM LOAN														
Number of Loans	6	7.69%	12	15.38%	7	8.97%	13	16.67%	16	20.51%	24	30.77%	78	100.00%
Amt. Princout	31521.91	3.59%	67223.45	7.66%	73622.87	8.39%	95315.05	10.86%	213825.15	24.37%	395930.70	45.12%	877439.13	100.00%
Princ. Arrears	0.00	0.00%	429.55	0.24%	3705.31	2.07%	6031.38	3.37%	25138.68	14.06%	143507.36	80.26%	178812.28	100.00%
Other Arrears	3.11	.00%	894.82	0.93%	1726.75	1.79%	1644.23	1.71%	10612.90	11.02%	81431.23	84.55%	96309.94	100.00%
LOANS OF $2500.00 AND BELOW														
Number of Loans	3	50.00%	1	16.67%	1	16.67%	0	0.00%	1	16.67%	0	0.00%	6	100.00%
Amt. Princout	0.00	0.00%	19.24	1.31%	667.40	45.57%	0.00	0.00%	778.05	53.12%	0.00	0.00%	1464.69	100.00%
Princ. Arrears	0.00	0.00%	19.24	1.32%	0.00	0.00%	0.00	0.00%	1436.13	98.68%	0.00	0.00%	1455.37	100.00%
Other Arrears	0.00	0.00%	0.35	0.32%	0.00	0.00%	0.00	0.00%	109.50	99.68%	0.00	0.00%	109.85	100.00%
LOANS RANGING FROM $2501.00 TO $5000.00														
Number of Loans	20	17.86%	8	7.14%	9	8.04%	5	4.46%	18	16.07%	52	46.43%	112	100.00%
Amt. Princout	7565.11	2.35%	42821.64	13.38%	25367.67	7.93%	13077.5	4.09%	58266.29	18.21%	173062.46	54.08%	320000.68	100.00%
Princ. Arrears	0.27	.00%	5934.38	2.98%	3630.17	1.82%	4317.25	2.17%	22740.68	11.41%	162684.57	81.62%	199307.33	100.00%
Other Arrears	0.00	0.00%	1189.39	1.85%	678.81	1.05%	602.94	0.94%	4367.24	6.79%	57511.06	89.37%	64349.45	100.00%
LOANS RANGING FROM $5001.00 TO $15000.00														
Number of Loans	1	4.00%	4	16.00%	3	12.00%	3	12.00%	5	20.00%	9	36.00%	25	100.00%
Amt. Princout	12033.42	6.07%	42050.13	19.47%	27862.55	12.90%	38384.2	17.77%	50907.70	23.57%	56786.91	26.29%	215991.48	100.00%
Princ. Arrears	0.00	0.00%	569.84	1.15%	3329.10	6.74%	2776.7	5.62%	18668.66	37.79%	24061.77	48.71%	49403.06	100.00%
Other Arrears	0.00	0.00%	666.59	3.77%	383.78	2.17%	1793.72	10.15%	3982.30	22.53%	10849.80	61.38%	17676.17	100.00%
LOANS RANGING ABOVE $15000.00														
Number of Loans	[illegible]	8.11%	2	5.41%	4	10.81%	3	8.11%	9	24.32%	16	43.24%	37	[illegible]
Amt. Princout	[illegible]	[illegible]	[illegible]	4.61%	[illegible]	5.12%	125981.24	22.81%	103795.17	17.41%	279436.49	46.66%	576123.52	100.00%
Princ. Arrears	[illegible]	[illegible]	541.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	16616.48	[illegible]	[illegible]	[illegible]	125643.79	100.00%
Other Arrears	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8.56%	[illegible]	[illegible]	25741.10	100.00%

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ANNEX C

SEFO
LOAN PORTFOLIO
BY ORDER OF INDUSTRY

	CURRENT		ARREARS UP TO 30 DAYS		ARREARS BETWEEN 31 TO 60 DAYS		ARREARS BETWEEN 61 TO 90 DAYS		ARREARS BETWEEN 91 TO 180 DAYS		ARREARS ABOVE 180 DAYS		TOTALS	
	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)	AMT. ($)	PERC. (%)
TOTAL LOAN														
NUMBER OF LOANS	27	15.00%	14	7.78%	19	10.56%	11	6.11%	33	18.33%	76	42.22%	180	100.00%
AMT. PRINCOUT	25061.71	2.19%	90837.20	7.92%	81023.79	7.07%	110630.10	9.65%	247047.02	21.55%	591904.26	51.63%	1146626.70	100.00%
PRINC. ARREARS	0.00	0.00%	1593.19	1.42%	7878.43	2.10%	8625.59	2.30%	46235.85	12.30%	311956.49	83.01%	375809.55	100.00%
OTHER ARREARS	0.00	0.00%	1088.60	1.69%	2087.75	1.32%	1958.5	1.24%	14071.90	8.91%	138609.82	87.85%	157876.58	100.00%
TRADE (1)														
Number of Loans	13	17.11%	5	6.58%	6	7.89%	4	5.26%	14	18.42%	34	44.74%	76	100.00%
Amt. Princout	15031.15	5.00%	14560.42	4.84%	9936.72	3.30%	18759.26	6.24%	59719.73	19.86%	190729.03	63.42%	300736.31	106.00%
Princ. Arrears	0.00	0.00%	554.98	0.34%	3752.03	2.31%	2119.35	1.30%	21822.11	13.41%	134491.67	82.64%	162740.14	100.00%
Other Arrears	0.00	0.00%	189.92	0.35%	380.55	0.71%	294.27	0.55%	5788.50	10.77%	47075.13	87.62%	53728.45	100.00%
SERVICE (2)														
Number of Loans	3	13.04%	1	4.35%	5	21.74%	3	13.04%	4	17.39%	7	30.43%	23	100.00%
Amt. Princout	12.64	0.01%	213.54	0.12%	13715.84	7.57%	43374.8	23.93%	44892.36	24.76%	65033.78	35.88%	181277.95	100.00%
Princ. Arrears	0.00	0.00%	162.83	0.59%	1158.12	4.19%	9320.33	33.75%	4091.30	14.82%	21071.83	76.30%	27615.47	100.00%
Other Arrears	0.00	0.00%	3.86	0.03%	965.42	6.35%	1439.24	9.46%	1872.45	11.98%	10974.02	72.15%	15210.92	100.00%
MANUFACTURING (3)														
Number of Loans	7	13.21%	5	9.43%	6	11.32%	3	5.66%	9	16.98%	23	43.40%	53	100.00%
Amt. Princout	0.27	.00%	27742.03	6.83%	57919.50	14.25%	32838.33	8.08%	63191.37	15.55%	224693.34	55.29%	406384.57	100.00%
Princ. Arrears	0.27	.00%	664.39	0.53%	2406.36	1.93%	3654.92	2.93%	13354.09	10.71%	104353.36	83.89%	124631.11	100.00%
Other Arrears	0.00	0.04%	111.80	0.23%	982.70	2.02%	204.98	0.42%	2870.68	5.89%	44540.51	91.44%	48718.67	100.00%
AGRI BUSINESS (4)														
Number of Loans	4	14.29%	3	10.71%	2	7.14%	1	3.57%	6	21.43%	12	42.86%	28	100.00%
Amt. Princout	19442.89	7.53%	15905.80	6.16%	8451.72	3.27%	23657.79	9.16%	7924.56	3.07%	111526.11	43.19%	258227.87	100.00%
Princ. Arrears	0.00	0.00%	0.00	0.00%	583.91	0.96%	1930.99	3.17%	6968.35	11.46%	51339.63	84.41%	60822.88	100.00%
Other Arrears	3.11	0.01%	463.20	1.15%	69.87	0.17%	0	0.00%	3590.19	8.93%	36092.16	89.74%	40218.53	100.00%

ANNEX D

AN APPROACH TO ANALYSIS

The small and medium scale enterprises which are the focus of SEFO"s attention and the source of its clients are for the most part businesses with a single owner, or at most, a very small group. The owner generally has a particular skill, and as a natural event prefers to focus his attention on that skill. The trained engineer will be primarily interested in design and production, the salesman in marketing. The other functions of his business are not as interesting and can receive inadequate attention.

The basic functions of a business are four: (1) sales or marketing, (2) procurement, (3) production, and (4) distribution. Finance can be considered as the fuel that makes the business run. The process of pre-application, project analysis, and post-approval counseling and evaluation should be aimed at insuring that the entrepreneur recognizes all functions of his business, understands how each relates to the other, and devotes adequate managerial time and resources to each. The analyst should probe and the owner should have an adequate response to the following questions. The answers will give an insight into the managerial capabilities of the businessman.

1. Market - The failure of most SSE's can usually be traced to inadequate revenues from the product or service. The owner should have adequate responses to the following:

a. To whom is the product sold?
b. What does the customer do with the product?
c. What is the price?
d. Where do the customers buy now?
e. Why will they buy from this business?

The answers to these questions should reveal the type and magnitude of the customers, whether the customer is the final user or not, whether the market in terms of unit volume is growing or not, the extent and strength of competition, and the ability of the business to capture a share of the market sufficient for adequate return on the investment and repayment of the loan.

2. Procurement - The availability of adequate resources, materials and services to produce the product or service to meet the expected market requirements needs to be ascertained. The following questions should be evaluated.

a. What are the materials, resources and services required to produce the product?
b. Are these available in sufficient quantities with adequate quality now, and will they be available over the life of the loan?

c. How will these resources be brought to the site of the enterprise?

d. What are the current costs of these resources delivered to the site, and what are these costs expected to be over the life of the loan?

The responses to these questions should reveal the sources of raw materials and other resources, utility requirements and availability, the means of delivery to the business, and the financial requirements for their acquisition. Particular attention needs to be given to those items which must be imported and the source over the term of the loan of the necessary foreign exchange.

3. Production - The process of producing a saleable product or service by utilizing the imputs of labor, material and resources must be examined. The following questions are pertinent.

a. Is an appropriate technology used?

b. What are the fixed capital elements required to produce the product, are these available, and what are their costs?

c. Is trained labor available and what is its cost?

d. What constraints on production exist or may occur such as environmental, government, labor, etc.?

The responses to these questions should reveal the adequacy and the appropriateness of the technology, the cost structure of production, and the potential bottlenecks that may occur.

4. Distribution - The product or service must reach the customer in the quantities required and at the time desired. Evaluation of the following questions is needed.

a. How is the product delivered to the customer?

b. What are the costs and constraints on distribution, such as availability of transport, location with respect to the customer?

c. Are adequate warehousing facilities available and at what cost?

Appropriate answers to these questions will determine if the business has selected the appropriate market, has adequate storage facilities, and can deliver the product or service to the customer in the quantities and at the time the customer wants.

5. Finance - Only when adequate answers are obtained to the above questions can attention be paid to the financing of the project. Then the answers to the following questions are necessary.

a. How much money is really needed?

b. What are the sources of this money?

c. What are the suitable and realistic terms of repayment of the money borrowed?

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d. Is the return on the employment of the money sufficient for survival and growth of the business?

Answers to these questions will determine the appropriate need and source of the funds, the sales levels needed to generate the cash flow to repay the borrowed funds, and the need for scheduling the disbursement and repayment to the expected requirements and cash flow of the business. Financial analysis must focus on the ability of the operation of the business to generate the necessary profits and cash flow to meet the loan requirements. Collateral, while taken as a downside risk curtailment, should not be considered in determining the viability of the business.

Even if all the above questions can be answered satisfactorily, there is no assurance that the business will survive and prosper. Success will depend upon the management of the resources by the owner. Management ability is a qualitative factor which is not easily determined. Nevertheless, in the asking of the quantitative questions listed above, the analyst should gain an insight into the managerial capabilities of the entrepreneur.

Annex E

DISCUSSION GUIDE

LIBERIA SMALL AND MEDIUM ENTERPRISE

1. INTERVIEWER DATE OF INTERVIEW

   BUSINESS OFFICER

   HOUR STARTED/FINISHED

   EXPLAIN PURPOSE OF INTERVIEW

2. RESPONDENT'S NAME AND ADDRESS

3. ARE THERE ANY GROUPS OF BUSINESSPEOPLE OR CLUBS IN WHICH YOU CAN GET TOGETHER TO DISCUSS PROBLEMS? CHURCH GROUPS? OTHER?

4. DATA ON ENTERPRISE:

   NAME

   ADDRESS

   TYPE (SOLE PROPRIETOR, LTD., ETC.)

   DATE FORMED

   OWNERS

   WHY ENTERED THIS BUSINESS

CLIENTS

COMPETITORS (PROBE FOR CONCENTRATION)

PRODUCTS SOLD

DO YOU SELL ALL YOU CAN PRODUCE?

DO YOU GIVE CREDIT, TAKE DEPOSITS, ETC?

OTHER BUSINESSES YOU'RE IN

5. PRESENT DAILY SALES

PRESENT MAJOR BUSINESS ASSETS

6. ENUMERATE MAJOR COSTS (CONFIRM THAT 5 - 6 IS OWNER'S NET INCOME)

7. DO YOU CURRENTLY HAVE ANY ACCOUNTING RECORDS?

ARE YOU KEEPING YOUR RECORDS DAILY/WEEKLY/EACH TIME A SEFO SUPERVISOR COMES TO VISIT?

WHO SET UP YOUR RECORD-KEEPING SYSTEM?

DO YOU MAKE YOUR OWN ENTRIES OR DOES SOMEONE ELSE?

8. PRESENT NUMBER OF EMPLOYEES? FULL-TIME PART-TIME

RELATION TO OWNER

9. LOANS BUSINESS HAS RECEIVED (PROBE FOR LBDI, LFTC, AG. DEV. BANK, HOME SAVINGS BANK, MONEY CLUB, SUSU, SEFO LOANS)

LOANS OWNER HAS RECEIVED (PROBE FOR FAMILY LOANS)

DO YOU NOW OWE MONEY TO ANYBODY? WHO?

DO YOUR SUPPLIERS GIVE YOU TIME TO PAY THEM? DOES THE PRICE INCREASE?

10. WHAT DID YOU DO TO CONTACT LENDERS (PROBE FOR ROLES OF BAS AND SEFO)?

11. DESCRIBE PROCESS YOU WENT THROUGH TO RECEIVE LOANS AND TIME FOR EACH STEP (PROBE FOR DECISION ON LOAN SIZE AND USE AND EFFECTS OF DELAYS

12. INTEREST RATE, NUMBER AND SIZE OF PAYMENTS AND PURPOSE OF LOANS

ACTUAL USE OF PROCEEDS

DESCRIBE VISITS OF COLLECTION OFFICER OR OTHER COLLECTION STEPS:

WHICH PAYMENTS ARE MORE IMPORTANT FOR YOU TO MAKE THAN SEFO PAYMENTS? WHY?

WHICH ARE LESS IMPORTANT? WHY?

13. WHAT CHANGED IN YOUR BUSINESS AFTER RECEIVING LOANS (PROBE ESPECIALLY FOR INCOME AND EMPLOYMENT INCREASES)

DID PRODUCTION/SALES AMOUNT CHANGE? WHY?

DID BUSINESS ASSETS (PROPERTY) CHANGE? WHY?

DID PRODUCTION/SALES METHODS CHANGE? WHY?

DID YOUR SUPPLIERS OR CLIENTS CHANGE? WHY?

DID YOUR INCOME (DETAIL AS IN 5 AND 6) CHANGE? WHY?

DID THE LEVEL OF EMPLOYMENT CHANGE (PROBE FOR FULL AND PART-TIME, FORMERLY EMPLOYED VS. EMPLOYED)? WHY?

WITH IMPROVED BUSINESS, DO YOU HAVE ADDITIONAL OBLIGATIONS TO FOLLOW GOVERNMENT REGULATIONS SUCH AS BUSINESS REGISTRATION, TAXES? HAVE THESE ADDITIONAL BURDENS BEEN MORE THAN OFFSET BY ASSISTANCE?

14. OTHER EFFECTS OF LOANS:

SUPPORTED/STARTED OTHER BUSINESSES

MORE LEISURE TIME/EASIER LIFE

MORE TIME FOR PRODUCTION VS. TRIPS TO SUPPLIERS AND CUSTOMERS

CHANGES AT HOME - EDUCATION, HEALTH, ETC.

15. MANAGEMENT AND TECHNICAL ASSISTANCE YOU HAVE RECEIVED (PROBE FOR PROJECT ASSISTANCE: DIFFERENTIATE T.A., APPROPRIATE TECHNOLOGY AND MARKETING, ACCOUNTING/RECORD-KEEPING.

16. WHAT DID YOU DO TO CONTACT TECHNICAL ASSISTANCE PROVIDERS (PROBE FOR ROLES OF BAS AND SEFO)?

17. DESCRIBE PROCESS YOU WENT THROUGH TO RECEIVE TECHNICAL ASSISTANCE AND TIME FOR EACH STEP (PROBE FOR DECISION ON TYPE OF ASSISTANCE)

18. WHAT RELATION DOES THE TECHNICAL ASSISTANCE HAVE TO LOANS?

19. WHAT CHANGED IN YOUR BUSINESS AFTER RECEIVING TECHNICAL ASSISTANCE (PROBE ESPECIALLY FOR INCOME AND EMPLOYMENT INCREASES)

DID PRODUCTION/SALES AMOUNT CHANGE? WHY?

DID BUSINESS ASSETS (PROPERTY) CHANGE? WHY?

DID PRODUCTION/SALES METHODS CHANGE? WHY?

DID YOUR SUPPLIERS OR CLIENTS CHANGE? WHY

DID YOUR INCOME (DETAIL AS IN 5 AND 6) CHANGE? WHY?

DID THE LEVEL OF EMPLOYMENT CHANGE (PROBE FOR FULL AND PART-TIME, FORMERLY EMPLOYED VS. EMPLOYED)? WHY?

WITH IMPROVED BUSINESS, DO YOU HAVE ADDITIONAL OBLIGATIONS TO FOLLOW GOVERNMENT REGULATIONS SUCH AS BUSINESS REGISTRATION, TAXES? HAVE THESE ADDITIONAL BURDENS BEEN MORE THAN OFFSET BY ASSISTANT?

20. OTHER EFFECTS OF TECHNICAL ASSISTANCE:

SUPPORTED/STARTED OTHER BUSINESSES

MORE LEISURE TIME/EASIER LIFE

MORE TIME FOR PRODUCTION VS. TRIPS TO SUPPLIERS AND CUSTOMERS

CHANGES AT HOME - EDUCATION, HEALTH, ETC.

21. WHAT WAS THE MAJOR EMPHASIS OF THE TECHNICAL ASSISTANCE?

WHAT ISSUES WERE DISCUSSED?

WAS CREDIT, ACCOUNTING, MARKETING, PRODUCTION TREATED?

22. WHAT DO YOU FEEL WAS THE MOST IMPORTANT BENEFIT OF YOUR HAVING RECEIVED THE TECHNICAL ASSISTANCE?

23. WHAT WERE YOUR MAJOR PROBLEMS BEFORE LOANS/T.A?

WHAT ARE THEY NOW?

24. OTHER SOURCES OF LOANS (PROBE FOR INFORMAL LENDING AND SUPPLIER LENDING) AND TECHNICAL ASSISTANCE WHICH YOU OR ACQUAINTENCES HAVE RECEIVED?

25. WHAT ARE YOUR FUTURE PLANS OR NEEDS FOR BUSINESS GROWTH?

CREDIT? T.A? RELATIONS WITH SUPPL'ERS/CUSTOMERS/COLLEAGUES?

ANALYSIS OF SEFO CLIENT SAMPLE
QUESTIONAIRE AND SEFO FILES

1 Client code number	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
2 Industry code (trade-1,service-2, manufacturing-3,agribusiness-4)	1	3	3	1	3	3	1	4	1	1	1	3	2	4	4	2	2	1	2	1	1	1	2	1
3 Present number of full-time employees	2	3	5	2	4	9	2	2	0	2	1	3	1	2	1	1	18	1	6	1	2	1	6	1
4 Age of business (years)	6	2	3	9	3	11	2	2	1	10	1	2	6	13	1	4	2	13	18	2	8	3	0	5
5 Client's previous experience in firm's industry (years)	3	10	4	0	0	NA	0	0	0	5	0	NA	15	0	0	11	6	13	30	0	8	3	0	5
6 Sales/month ($)	7500	225	450	500	1200	1500	10000	NA	600	1170	360	0	500	700	625	900	20000	900	3400	120	6000	1200	6000	700
7 % Capacity	NC	0	NA	NA	33	NA	10	67	NA	NA	NA	0	10	17	100	NA	60	NA	NA	NA	NA	NA	NA	NA
8 Profit/month before owner's take and SEFO amortization ($)	1200	45	NA	0	72	600	(500)	NA	42	(670)	(200)	NA	(20)	49	290	200	2000	0	875	0	850	250	600	150
9 Other loans before SEFO's (no.)	0	0	0	0	0	0	0	2	0	0	0	0	0	NA	0	0	1	0	1	0	0	0	0	1
10 First contact with SEFO (friend-1, adv.-2,BAS-3,NIC-4,other-5)	1	2	4	2	4	1	2	1	1	1	2	4	1	1	1	1	1	1	4	1	2	1	1	1
11 Major influence in structuring loan pkg.(analyst-1,client-2,B.O.-3)	NA	NA	NA	2	2	2	2	1	2	2	2	1	2	1	3	2	2	2	2	1	2	2	2	2
12 Loan processing time from 1st contact (client est.)-mos	2	24	12	4	1	7	12	5	24	1	NA	6	12	10	NA	11	6	3	6	10	1	6	2	1
13 Loan processing time from first contact (loan doc.)-mos	1	NA	NA	NA	NA	NA	NA	NA	11	NA	NA	NA	NA	NA	3	6	NA	2	3	NA	1	6	NA	NA
14 Year loan made	83	85	82	85	83	82	83	85	84	84	84	84	85	84	84	84	84	85	85	84	85	84	85	84
15 Total loan ($)	5000	7616	16500	5000	15981	16000	15130	22707	4800	14930	14224	15981	13804	24810	4770	4990	24,821	5000	30105	5000	7640	3600	19000	5000
16 Term of loan (mos)	12	36	36	24	48	48	18	51	24	48	48	48	36	60	24	24	60	24	48	24	12	24	48	24
17 Interest rate (%)	22	15.5	18	18	15.5	18	18	15.5	22	18	18	18	15.5	15.5	18	18	15.5	22	18	22	8	22	15.5	22
18 % of total loan for fixed assets (client est.)	0	NA	NA	NA	13	190	NA	37	NA	60	43	NA	63	NA	20	NA	75	50	85	0	0	50	50	0
*19 % of total loan for fixed assets (loan doc.)	0	NA	62	100	69	77	NA	44	30	NA	56	35	63	69	57	50	75	0	95	0	0	60	80	0
20 Monthly sales increase following loan/TA($)	7100	200	0	0	1200	NA	10000	NA	600	NA	360	0	0	470	312	0	5000	70	67	120	30	NA	NA	0
21 Employment increase following loan/TA (no.)	0	0	0	0	4	5	2	1	0	5	1	0	1	1	1	0	7	0	0	0	0	1	NA	0
22 Change in monthly profit before owner's take and SEFO amortization following loan/TA($)	1200	NA	0	0	72	NA	NA	NA	42	NA	NA	0	0	NA	145	0	500	20	25	0	5	NA	NA	0
23 SEFO loan amortization/month (principal and approximate interest) ($)	490	260	770	250	425	596	1235	650	244	530	390	425	490	830	300	260	265650	265	1200	320	1273	200	535	240
24 Alternatives to BAS for business advice (none-1,nic-2,other-3)	1	1	1	3	1	1	1	1	1	1	1	2	1	1	1	1	1	1	1	1	3	1	1	1
25 Types of TA received-client's opion (records-1,marketing-2,production-3,other-4) *	1	1,2	1	4	1,3	1	0	3	1	1	1,2	0	4	1	3	1	1,2	1	1,4	2	4	1	1,2	1
26 Major benefit of TA (records-1,marketing-2, production-3,others-4)	1	2	1	4	1	1	0	3	0	0	1	0	0	1	3	1	12	1	14	2	4	1	12	1
27 Major problem before loan (fixed capital-1 working capital-2,saleslevel-3,other-4)	2	3	2	3	1,2	1	NA	3	1,2	2	NA	NA	1	1	2	1,2	1,2	2	1	2	2	1	4	3
28 Present major problem (fixed capital-1, working capital-2,sales level-3,other-4)	2	3	2	3	2	2,3	3	3	3	3	3	3	3	3	1	3	4	3	3	3	3	2	2	3
29 Actual sales/month as % of analyst's est.	80	NA	13	19	33	NA	NA	NA	40	NA	8	0	8	10	34	30	150	60	100	2	35	50	90	50
30 Evaluator's judgement of loan size (too big-1, too small-2, OK-3)	3	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	3	3	1	1	3	3	1	1
31 Evaluator's estimate of probable loan principal write-off ($)	0	5000	13900	3000	16500	0	2000	NA	48000	10000	7000	16500	13000	5000	0	2600	0	0	15000	3000	0	0	3800	0
32 Evaluator's estimate of probable loan interest arrears write-off ($)	0	0	3500	0	4500	0	0	NA	2000	0	0	11000	1400	0	0	675	0	0	0	0	0	0	0	0

ANNEX G

LIST OF PERSONS INTERVIEWED OUTSIDE OF SEFO/BAS AND THEIR CLIENTS

NAME	TITLE
D.K. Vinton	President, Liberian Bank for Development and Investment (LBDI); Chairman, Board of Director, Small Enterprise Development Organization (SEFO)
W. S. Millar	Representative, Netherlands Finance Company for Developing Countries, (FMO)
Wilson Tarpeh	President, Agricultural and Cooperative Bank (ACDB)
Pete E. Norman	Director, SME Department National Investment Commission (NIC)
Philip T. Davis	Chairman, National Investment Commission (NIC)
Morbert Titus	Acting President, Liberian Bank for Development and Investment
Charles W. Brumskine	Counsellor-at-Law
Anna M. Tarr	Assistant Secretary-General, Liberian Chamber of Commerce
John Richardson	Architect
Charles A. Snetter	President/Publisher, Snetter, Inc.
Timothy Thomas	Dean, School of Business, Univ of Liberia
Mike Bamfo	Professor of Management, Univ of Liberia
Dr. Jacob Atta	Professor of Economics, Univ of Liberia
S. Pailla	Professor of Management, Univ of Liberia
Kwame Antwo	Professor of Accounting, Univ of Liberia
J. Willis Flah	Director, Projects Division National Bank of Liberia
C. Pryde Davis	Civil Engineer and General Contractor

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ANNEX H

SUMMARY OF EXPERIENCE WITH SMALL SCALE ENTERPRISE ASSISTANCE PROJECTS

INTRODUCTION

A key assumption of any small-scale enterprise (SSE) assistance project which intends eventually to break even is that enough clients will enter the project to allow it to reach reasonable lending scale (say 500-750 loans averaging $1,000 to $5,000) quickly (say within three years) at low enough default/delinquency rates and operating costs to break even at an interest rate charged which is well below clients' return on invested capital. A supporting assumption is the supposition that there is ow enough generally applicable accumulated worldwide experience with SSE-assistance projects to allow a project to develop plans and policies which will provide clients with help and control but also have a good chance to lead to the project's viability.

This Annex outlines a a general model by summarizing a few key lessons which experience with successful and unsuccessful SSE-assistance projects in Latin America, Africa and Asia teaches. Most statements below do not carry references because they are generalizations from recent experience in 14 countries, conference presentations and study of papers, mostly unpublished. The reader seeking further corroboration of details might wish to consult some of the references in the bibliography.

OBJECTIVES

A good rule of thumb in designing a successful SSE-assistance project is "make it big and keep it simple". A statement such as, "Significantly increase incomes and sustain or increase employment levels of selected segments of working poor, while covering all project costs," is challenge enough. Projects which add objective elements such as increasing the average size of firms aided or developing new assistance institutions tend to mix strategies into objectives (therefore decreasing project flexibility) or make such a daunting set of objectives that the risk of project failure becomes unacceptably high.

Successful projects can support creation or sustain a job for each $500 - $2,000 loaned and increase owner's income and payroll in the 25 - 40% range during the first year of a loan. There ir less evidence for accomplishing this on a significant scale (see section below), since only the most recent projects tend to have portfolios in the thousands of loans while the number of SSE's in a major city is measured in the hundreds of thousands (e.g. Lima, Peru, with 5.5 million population has 300-500 thousand SSE's)

MARKET SEGMENTATION

As stated, the total number of SSE's in a given operating region almost always greatly exceeds any imaginable project's organizational or financial assistance resources. This provides a great luxury for projects and one which successful ones exploit: define and serve only those market segments (homogeneous groups of SSE's) which can best benefit from those resources the project can provide, and wihc! are in a position to repay those resources without too much supervision. The parallel with other successful marketers is clear. Mercedes-Benz seeks out and serves segments of the automobile buying market which appreciate high performance and luxury, while at the same time are able to afford the high price. All Mercedes product design, marketing and pricing decisions are geared to the selected market segments (target group). There is no talk of the average car buyer's preferences.

In the case of SSE-assistance projects, astute market segmentation does not mean excluding the poor: SSE's are defined as being owned by poor people. Almost always, employees are poorer still. Proper segmentation merely assures that the minority of the total SSE market which a project has resources to reach will be those segments most likely to benefit (in terms of project objectives) from such assistance and to be able to rotate the resources so that more SSE's can be reached in the future.

Some of the SSE-market dimensions along which successful projects segment are as follows:

SSE's return on invested capital: Probably because capital is so expensive and scarce, many SSE's which have survived for a few years achieve very high (40% p.a. or higher) return on invested capital. Those which do not generate such returns cannot produce the cash flow to pay off loans or the margins to afford to purchase on credit at prevailing informal-sector interest rates (often in the 20% per month to 20% per day range) and so fail. By selecting high-return firms as customers, successful projects can avoid backing enterprises which are en route to failure and can legimately charge interest rates in the 25%-35% p.a. range.

Type of business: Many projects which start out dealing with all sorts of businesses find later that successful customers tend to fall into 5-10 business categories. These vary by location, but the limited number allows loan officers to develop rapid, effective screening techniques. Therefore a good strategy for a new project is to plan to channel most project resources into a limited number of customer business types - without, however, concentrating the portfolio so much that the project's success is tied to the fortunes of one or two industries - as soon as experience indicates which business types to concentrate on.

Key business needs: Gross (see bibliography) characterizes two sets of assumptions, A and B, which project management may make about the key business needs of their SSE customers.

"Type A: The microentrepreneur does not know how to use credit effectively. For this reason, before loans may be disbursed, the prospective borrower must receive training in accounting, costs, marketing and personnel management. The entrepreneur does not know his business sufficiently well, either. Therefore, he should pass through the stages of pre-selection, selection, diagnosis, and training, which will enable him to better understand his business. Without this educational process, credit will probably do more harm than good for the entrepreneur, indebting him to the point where he cannot cancel his loan, effectively eliminating his chances of receiving other credit. Besides, many micro-entrepreneurs really do not need credit. What they really require is management training. Thinking that their primary need is credit, many microbusiness people take the required training courses in order to receive it. During the management training period they learn how to use their own resources better and realize that, in reality, they do not really need credit."

"The premise of the Type B model may be summarized as follows: Like their counterparts of the large, medium and small business sector, the microbusiness needs capital to function. The major obstacle to expansion of the microbusiness is not management training, but credit assistance. The microentrepreneur knows how to use credit, if it is disbursed in the small amounts he is accustomed to using. The microentrepreneur needs training in the use of credit, but the most efficient manner to learn to use credit is precisely by using it in his business."

A project desiring to break even should seriously consider trying to select clients satisfying Model B because a Model A strategy has been shown to rarely, if ever, break even.

Technical assistance level: Projects which follow Model B largely avoid the problem - unsolved so far - of highly subsidized technical assistance (TA) components. As private-sector marketers know, customers will only pay for what they think they need, which may not correspond to what they really need. Thus, in SSE assistance projects offering major TA components, customers are typically willing to pay fees in the range of 2-5% of the amount loaned. When questioned, customers often say that they consider such payments part of the cost of the loan, which they are willing to pay not because they value TA, but because, even with the "surcharge", the total cost of funds is below that of informal-sector loans. However, given that TA costs are rarely below $100 per customer, the average loan size would have to be in the $3,000 area to allow the "surcharge" to cover costs. Experience shows that it is risky to make loans this large, at least at the beginning of the relation with the customer, at which time TA is generally given.

RISK MANAGEMENT

Successful projects achieve low delinquency rates (payment one day or more overdue but loan not in default) and default rates (usually a 90 day or greater delinquency; sometimes 180 days) in the 3-12% and 0-2% ranges respectively, by building risk management strategies into all phases of their operations - especially customer selection - not just their collection policies. Some successful strategies are as follows:

Lend only to existing businesses: Contrary to some early theories, running an SSE tends to be a permanent vocation. This means that owners are very often mature people who have had up to 20 years of experience in their chosen industries, first as employees, then as owners. There is thus likely to be an ample pool of established, proved applicants, run by serious people in business for the long haul. The best way to help startups is probably to lend to these existing SSE's , which will then hire young people and give them the experience needed to start their own businesses.

Determine present capacity to amortize future loans: In their application screening procedures, successful projects usually concentrate on determining an applicant's minimum net cash flow over recent months. Initial loans are then limited by the requirement that minimum past cash flow be some multiple (say 2) of the project loan's monthly amortization requirement. Thus the undertaking which the proceeds are used for can fail to improve cash flow, but the customer can still repay. If the undertaking is successful, then the application for a subsequent loan will automatically yield a higher loan limit.

Credit agility: SSE owners are used to paying very high rates for informal-sector credit but also to receiving it quickly. Projects which delay more than a week from receiving an application to disbursing funds (or turning down the application) tend to build two problems for themselves. First, the customer perceives that the project is not businesslike, in the terms he is used to. Therefore he tends to disregard subsequent demands for loan repayment. Second, circumstances are apt to change quickly for SSE's. An undertaking which makes sense at the time of application may depend upon an opportune purchase of inventory or a seasonal sales upturn. Loan approval delay can force the SSE to devote the funds, when they do arrive, to less profitable use, thereby lowering his ability of repay.

Tailor guarantees to SSE circumstances: As stated above, successful projects base lending decisions on applicants' cash-flow calculations and business/personal stability. This reduces the need for ordinary collateral, although projects do take title to equipment which loans finance. In place of collateral, many projects have had success (especially in Latin America and Asia; in Africa the record is not as good) with solidarity-group lending. Under this arrangement, a loan officer will require an individual applicant to bring together 4-10 similar SSE's, all of which will apply and be jointly and severally responsible for repayment. Moral pressure to repay thus comes both from the project and the customer's peers.

On a level above SSE loans, wholesale lending to projects must accept the fact that almost all SSE's operate purely domestically. Therefore they need to borrow in local currency and will repay in it. This means that is is usually inappropriate for projects or national umbrella agencies to borrow hard currency. International guarantees, in which hard currency remains abroad but backs up local wholesale borrowing, is an established solution for large businesses, especially multinational subsidiaries, and has had some success for SSE-assistance projects (see bibliography).

Keep up to date on delinquencies: As an SSE loan becomes longer and longer overdue, the chances that it will be repaid at all decrease drastically. The problem feeds on itself because the project quickly gets the reputation of being "soft". This encourages other customers to delay payments. Also, remaining funds have to go to new customers rather than present, delinquent ones, thus diverting staff time from collection efforts. Tactics to encourage prompt payment - such as reminding the customer a few days before the due date, charging a late-payment fee which at least covers extra collection costs, and automatically (without Board approval) giving seriously delinquent accounts to a tough collection agency - work. However they depend on excellent, up-to-date records, which are very often a project weak point.

SCALE

What progress there is on the scale question indicates that three strategies are important:

Marshal private-sector local-currency lending resources: Charge customers interest rates which allow project borrowing at local prime and mobilizing local savings.

Minimize subsidized project bottlenecks: For example, obligatory TA, partially supported with low-cost or grant funds, limits project expansion to the availability of these funds and de-motivates local director involvement because of the uncertainty of future funding availability and fears of "outside meddling".

Avoid, or grow beyond, dependence on one special leader: Many projects owe their success to an especially able, dedicated leader. Just as with large companies (e.g. Ford Motor Company), scale-up attempts in these cases often provoke a management crisis. For successful scale up, projects must build in strategies to avoid this crisis (see bibliography).

CONCLUSIONS

Blayney and Otero (see bibliography) name nine institutional characteristics which are related with successful SSE-assistance projects:

1. Simple, well-articulated goals and objectives.
2. Concentration on a few activities, formed with some customer input.
3. Diversified funding sources.
4. Organization structures which maximize field staff decision making.
5. Simple, well-managed internal record keeping and planning systems.
6. Highly committed staff, often with performance incentives.
7. Local private-sector partnership.
8. Regular audits and evaluations.
9. Understanding of the relation between project activities and national needs and policies.

There are exceptions, but many successful projects organize on two levels:

Direct lending and other assistance to SSE's: A local organization whose "culture" supports SSE assistance and whose staff is physically and socially close to SSE owners, but with links through the Board to the larger community.

Wholesale lending and control: A national or international organization sophisticated enough to handle international aspects of funds and information flow and remote and tough enough to provide an "excuse" for an unbending local interest rate and collection policy.

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ANNEX I-1

VIABILITY PORTFOLIO CALCULATION FOR SMEDE 1986 - 1989

DOLLARS IN THOUSANDS

PORTFOLIO
=========

			1986	1987	1988	1989
Existing Portfolio After RESERVES (Beginning Bal.)			$ 550	$ 367	$ 183	$ -
Repayments Scheduled			183	183	183	-
			----	----	----	-
Ending Portfolio			367	183	0	-
Repayments Uncollected		10%	18	18	18	-
Repayments Received			----	----	----	
			$ 165	$ 165	$ 165	-
New Loans, Current System ($5,000 each 2yr term)						
Number of Loans			50	40	20	-
Total Amount Loaned			$ 250	$ 200	$ 100	$ -
Repayments Scheduled	1986 Loans		16	125	109	-
	1987 Loans		-	13	100	87
	1988 Loans		-	-	7	50
			----	----	----	----
Total Repayments			16	138	216	137
Ending Balance	1986 Loans		234	109	0	
	1987 Loans		-	187	87	0
	1988 Loans		-	-	93	43
			----	----	----	----
Total Ending Balance			234	286	180	43
Repayments Uncollected		6%	1	8	13	11
			----	----	----	----
Repayments Received			$ 15	$ 130	$ 203	$ 176
NEW STRATEGY LOANS						
No Loans		(Note 1)	200	500	800	1080
Total Amount Loaned		(Note 1)	$ 200	$ 800	$ 2000	$ 3400
Repayment Scheduled			-	200	800	1000
Ending Balance			200	600	1600	2400
Repayments Uncollected		2%	-	4	16	40
Repayments Received			$ -	$ 196	$ 784	$ 1960
Number of Clients			200	350	500	680
Total Loans Outstanding			200	350	500	640
Total Portfolio Outstanding			$ 801	$ 1069	$ 1780	$ 2443
Total Collections Received			$ -	$ 491	$ 152	$ 2136

ANNEX I-2

INCOME

	1986	1987	1988	1989
Existing Portfolio 12.5% Average Rate on Average Portfolio	$ 57	$ 34	$ 11	$ -
LESS Uncollected Interest 10%	6	3	1	-
NET	51	31	10	-
New Loans Current System 15% Average Rate on Average Portfol	36	39	35	17
LESS Uncollected Interest 5%	2	2	2	1
NET	34	37	33	16
New Strategy Loans 20% Average Rate on Average Portfolio	13	60	220	400
LESS Uncollected Interest 0.5%	-	-	1	2
NET	13	60	219	398
Total Interst Income	98	148	262	414
Total Fee	-	-	25	34
Total Income	$ 98	$ 148	$ 287	$ 448

COST

	1986	1987	1988	1989
PROVISION FOR BAD DEBTS - Existing Portfolio	$ 18	$ 18	$ 18	$ -
- New Standand Loans	1	6	13	11
- New Strategy Loans		4	16	40
TOTAL	19	30	47	51
PROVISION For LOSS On Uncollected Interest	6	5	4	3
Total Provision for Losses	25	35	51	54
SEFO Allowance for Depreciation	83	83	83	83
Total Non-Cash Costs	108	118	134	137
SEFO Operating Costs per 1986 Budget	340	340	340	340
BAS Operating Costs per 1986 Budget (Excluding Expatriates)	115	115	115	115
Total Cash Operating Costs	455	455	455	455
Total Costs	563	573	589	592
Excess of Costs over Income	$ 465	$ 425	$ 302	$ 144

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ANNEX I-3

FUNDS REQUIRED

	1986	1987	1988	1989
Total Cash Operating Costs	$ 455	$ 455	$ 455	$ 455
LESS Total Income	96	148	287	446
Funds Required for Operations	357	307	168	7
Funds Required for Loans				
New Loans Present System	250	200	100	
New Loans New Strategy	200	800	2000	3400
Total	450	1000	2100	3400
LESS Collections	180	491	1152	2136
Total Funds Required for Loans	270	509	948	1264
Total Funds Required for Loans and Operations	627	816	1116	1271
Cost of Expatriate Advisors	150	150	150	150
Total Funds Required	777	966	1266	1421
Remaining Funds in SMEDS Budget (LESS Support & Overhead)	638	242	164	78
NET Additional Funds Required From DONORS	$ 139	$ 724	$ 1102	$ 1343

Total New Funds Required:

1986	$ 139
1987	724
1988	1102
1989	1343
	$ 3308

ANNEX J

THE STRATEGIC PLANNING PROCESS

SMALL AND MEDIUM ENTERPRISE DEVELOPMENT AND SUPPORT PROJECT

1. Situation analysis.

   a. Definition of SMEDS objectives.
   b. Market description, including characteristics of market segments which SMEDS serves or can serve.
   c. Identification of external factors, especially other sources which potential clients have for filling their critical needs.
   d. Analysis of SMEDS performance to date. (see evaluation)
   e. Description of some projects with goals similar to those of SMEDS, with outline of their methodologies and results. (see Annex H)
   f. Determination of SMEDS absolute strengths and weaknesses and those relative to other similar organizations.

2. Objective and strategy definition.

   a. Characteristics of present operations vs. nine key expansion issues found applicable worldwide in similar projects (see Annex H).
   b. Description of past and present SMEDS strategies. (see evaluation)
   c. Details of specific requirements for strategies. (See evaluation)
   d. Definition of future strategies and steps to achieve them.
   e. Summary of strategic issues to be resolved.

3. Analysis of strategic plan.

   a. Financial projections and other performance measurements.
   b. Analysis of the plan's risk.
   c. Implications for management structure and actions: communications and controls.

4. Recommendation and approval.

   a. Concurrence among internal management and advisors. (SEFO and BAS).
   b. Presentation and approval of Board and donors.

5. Execution.

6. Measurement of Results.

7. Modification of Plans.

Annex E

SMALL & MEDIUM ENTERPRISE DEVELOPMENT & SUPPORT PROJECT
EVALUATION AND STRATEGY RECOMMENDATIONS
PRESENTATION 7 FEBRUARY 1986

OBJECTIVE OF MEETING

Suggest strategies for SMEDS project success

Success
- Promote broadening of Liberian economy through support of Liberian S.S.E. sector.
  - Implies
    - For customers
      - Build class of Liberian entrepreneurs.
      - Raise sector employment and income.
    - For institution
      - Meaningful scale
      - Evidence of long-term financial viability within constraints of available resources.
      - Concensus on mission and means of achieving it.

Strategies
- Limited number.
- Executable within realistic environment and resource constraints.
- Replicable in long run and at meaningful scale.

MEANS OF ACHIEVING MEETING OBJECTIVES

Reveal lessons learned from:
- Operations to date (evaluation results).
- S.S.E. assistance projects in similar countries.

Explore critical needs of S.S.E. sector
- Critical needs = needs which, if filled, lead to enterprise strengthening, income increases and employment increases.

Present target subsegment (s) which are likely to benefit from SMEDS services and lead to project success

Suggest strategies which will guide SMEDS management, directors and donors to project success

W

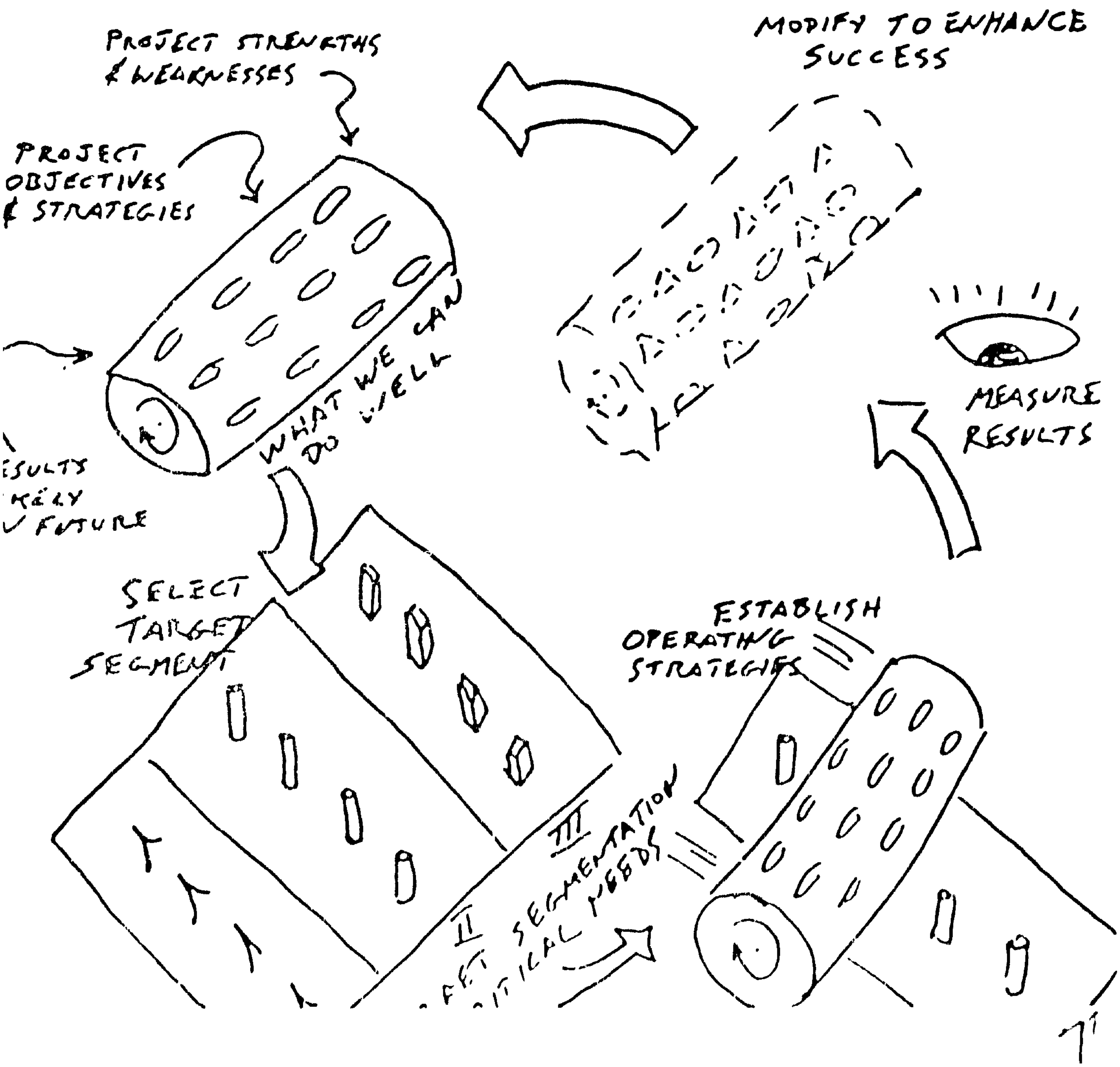
NEXT STEPS

Management, directors and donors study evaluation. Decision makers prepare project strategic plan for next ± 3 years' operations.

Situtation analysis.
Objective and strategy definition.
Analysis of plan.
Final definition and approval.

CONCENTRATE IN THIS MEETING ON LESSONS LEARNED

IN SHORT



ECONOMY'S DRIVING FORCES AND STRUCTURE

Unstable political, foreign-exchange and regulatory environment

Inactive banking sector

Per capita GDP falling 10%/yr.

Lack utilities, especially electricity

Compartmentalized economy

Foreign-controlled enclaves (mines,rubber,wood).
Expatriate-controlled.
  Major manufacturing and distribution (+50 employees),
  SSE's.
Liberian-controlled major manufacturing
  and distribution.
  Parastatals
  Private.
Liberian-controlled SSE's - SMEDS target
 I. Casual (hawkers, seasonal).

 II. Artizanal (owner only, fixed premises).
 III. Informal, small scale (1-5).
 IV. Formal, small scale (6-29).
 V. Formal, medium scale (30-49).
Agriculture

WHO ARE OUR CUSTOMERS? WHAT ARE THEIR STRENGTHS AND WEAKNESSES?

Numerous and varied.
  Sawyer-Mason.
    7000 units, mostly Monrovia.
  Similar L.D.C.'s.
    Panama - population 1.5MM, 30000 firms.
    Lima, Peru - population 5.5MM,
      300-500,000 firms (implies Monrovia 12,500)

Few fixed assets, job created for $500-2000 investment.

Intense competition.

Intimidated by and distrust bureaucracy.

No separate management.
  Production ok, poor finance and marketing.

Flexible - if not overburdened with assets.

Probably

Lack success models.
Motivated to survive - upcountry fallback?
Willing to risk own capital.
See business as part of extended family.

LESSONS LEARNED

Evaluation description and findings.

Description

Client survey.
Staff interviews.
Interviews of other professionals.
Financial analysis.
Review of loan portfolio for viability.
Strategy recommendations, including path to viable portfolio.

Findings

Lack of concensus on BAS/SEFO relationship.
Uncoordinated client acquisition efforts.
Loan analysis fails to predict client business performance, especially sales.
Loans too large and long-term.
Overconcentration of TA resources on a few clients.
Emphasis on record-keeping TA, insufficient attention to marketing.
Good expatriate support, dedicated staff.
Marketing TA training needed.
Lack of agressive collection system.
Good progress on Computerization.
Heavy reliance on expensive capital, management making efforts to change.
Lack of management information system.
Require addition of $400,000 to write-off reserve.
Possibility of viable portfolio with donated capital and targeted, coordinated efforts.

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IN SHORT

What business are we in now?

Providing intensive, loosely-linked major finance and T.A. services to small number of firms in segments III-IV (mostly commerce) of Liberian S.S.E. sector.

What are our strengths?

- Concentrate on two of segments' major critical needs: finance and accounting.
- Dedicated, well trained and sensitive B.O.'s
- Industrious analysts.
- Already taken sound first steps to co-ordinate finance and T.A.
- Businesslike interest rates and loan contract format.
- Access to successful experience in other countries through expatriate advisors.
- Access through top management and board to Liberian mainstream.
- Serving segments with potential to benefit from economy's decline.
- Record of success with some individual clients.
  - Already have industry experience and management skill.
  - Serve markets relatively immune (or benefitting from) overall economic decline.
  - Deal with essential, mass-market products.
  - Project identified 1-2 key constraints (which project can alleviate) to firm's profitable expansion.
  - Project provided only those resources critical to alleviate key constraints.
  - Follow-up supervision keeps client concentration on key elements to business success.
- Only act in town.

What are our weaknesses?

- Lack of concensus on
  - Target segments.
  - Balance of T.A. and finance
- Undue concentration of risk.
  - Few clients.
    - Selection reach.
    - Time before loan approved.
  - Oversaturated with assets.
    - Removes flexibility
- Overambitious analysis effort.

Emphasis on term lending.
    Fixed vs. working capital.
Selection of clients with little S.S.E. and industry experience.
    Raises loan risk.
    Overconcentrates T.A resources.
Collection efforts not integrated into overall supervision of client business disciplines.
Management focus on entering untried and unfamiliar business segments rather than building on present strengths and expanding from there.
Insufficient spread on major source of funds (W.B) 5.5%, below most optimistic eventual cost of lending (10%).
T.A. efforts lack predictible scale-up potential.
  Entirely dependent on donations.
Not enough use of free or low-cost publicity.
  Attract desirable clients.
Present client segments require more definition.
  Large enough supply of clients with:
    Low risk projects?
    Economically accessible?
    Eventually benefit from loans large enough to allow viable (cover lending costs and contribute to T.A.) lending portfolio?

WHAT BUSINESS SHOULD WE BE IN?

Building relationships with the cream of segment III-V firms in which we :

Fill their critical needs through ascending progression of loans and loan-supporting T.A.
Generate sufficient interest/fee revenues to cover SMEDS lending costs and contribute to T.A. costs.

WHAT SEQUENCE OF STRATEGIES LIKELY TO LEAD TO SMEDS SUCCESS?

Organize for viability

Involve key board, management and donors in strategic planning.
Overlap TA and lending boards.
Move towards unified top management.
Close gaps in management information system.
Concentrate resources on future growth by deciding on write-off provision for present clients and handing portfolios to lawyer.

Build desired client profile through assessing:
SMEDS strengths and needs.
Client segment numbers and needs.

Concentrate SMEDS resources on single client-service package (sell one product)

Requirements.
- Simple.
- Replicable.
- Low-risk.
- Use present SMEDS strengths.
- Fill SMEDS need for viable portfolio.

Recommended sequence.

1. Attract applicants with desired client profile (publicity, seminars, advertising, links with local cos. and organizations, B.O. canvassing).
2. Assign each SMEDS applicant to B.O.
3. B.O. and applicant fill in one-page profile.
4. B.O.'s supervisor and banking analyst approve within one week for further contact.
5. B.O. and applicant work together to develop loan application (max. 2 mos.)
6. Submit 2-page initial loan application. Applicant agrees to conditions (printed on back.

   Three peers sponsor.
   B.O. recommends.
   $1000 or less, 30-60 days, 22% interest, working capital for specific purpose.
7. B.O.'s supervisor and banking analyst concur within one week.
8. Committee recommends approval and Managing director approves within one week.
9. Money dispersed within one week.
10. B.O. gives loan-supporting TA to client during term of loan.
    One delayed payment disqualifies client from future SMEDS participation, sponsors notified, SMEDS attaches movable assets.
11. Upon repayment B.O. and client can prepare
    1-page renewal or expansion application.
    Limit $2000, 30-90 days, 22% interest, working capital, specific purpose.
12. Approval and ascending sequence as above.
    If client loan potential $5000 or less, line-of-credit relationship established, T.A. reduced.
    For larger loans B.O., analyst and client prepare application.

Loans deviating from above sequence and those greater than $5000 require Executive Committee approval.

Prepare portfolio status and action report

Weekly for management, monthly for board.

Perform limited experiments with other lending/ TA packages after above package established and funds/management time allow.

Target viable portfolio

Sufficient grants or soft loans to raise gross lending spread to 20%, cover 80% of TA, finance 1 - 2 foreign advisors and cover new-package experiments.

Implies about 450 clients at $5000 average loan if SEFO/BAS local costs remain at 1986 plan levels and annual write-off reduced to 2% of portfolio value, potentially achievable in 1989.

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