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Price Waterhouse

U.S. Agency
for International Development

AFR/ONI

EVALUATION OF THE AFRICAN MANAGEMENT SERVICES COMPANY

Final Report

April 20, 1993

Office of Government Services
1801 K Street, N.W.
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Telephone 202 296 0800

Price Waterhouse

April 20, 1993

Mr. Richard Ray Solem
AFR/MDI Bureau
Agency for International Development
U.S. Department of State

RE: ***AID/PRE Financial Sector Development Project***
Contract No. PDC-2206-Z-00-8191-00
Evaluation of the African Management Services Company

Dear Mr. Solem:

Enclosed please find the final report, *Evaluation of the African Management Services Company*, prepared by Price Waterhouse.

It has been a pleasure working with the Africa Bureau on this important assignment. We look forward to further collaboration in the future.

Sincerely,

J. Richard Breen
Director, FSDP

Enclosure

cc: Rebecca Maestri, PRE/EM

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I. EXECUTIVE SUMMARY

A. Current Status

In its first three years of operation AMSCO has expended roughly 26% of program funds made available to it for business executive and training services (Inputs) while accomplishing half of the project Outputs anticipated at this stage of the project - $3.5 million of the $13.4 million funds available has been expended; and 13 of the 26 projects forecast for this period have been carried out. Restating this in terms of cost per business assisted, it translates to $266,769 each. Of that amount, some $2,048,000 ($157,538 per project) from the Management Loan Fund is being repaid by the enterprises assisted.

Because the level of project activity was low, and AMSCO supported a substantial headquarters staff without sufficient projects to absorb the overhead, operating losses were substantial. From starting-out capital of roughly $9.0 million, AMSCO has seen that base deplete to roughly $3.3 million. This $5.7 million operating loss is properly classified as a start up cost and should be allocated over future years projects.

The evaluation did not generate data as to jobs created, or jobs saved. It should be noted, however, that African businesses assisted by AMSCO are more likely to be suffering from over-employment than under-employment, and thus the immediate impact of AMSCO assistance is more likely to be felt in terms of jobs saved than jobs created. If fact, over the short-run, AMSCO assistance may result in jobs lost through reduction of "feather-bedding" and other inefficiencies.

As a consequence of this slow and expensive start-up, **Purpose** achievement (African business leaders better able to manage their enterprises), and **Goal** achievement (create jobs, generate foreign exchange and contribute to privatization), have also been deferred into the future.

Though AMSCO has not met its quantitative goals at this stage, it has earned high marks qualitatively. Management personnel and training programs provided have been considered effective. Some projects have plainly failed; but in these cases the causes are not attributable to AMSCO, but are rather the responsibility of the company directors, or government officials, who would not permit management to take the actions required to rehabilitate the industries in question.

AMSCO can take some pride in the fact that, to date, approximately seven of its client companies have made considerable improvements in operating performance and appear to be achieving their objectives.

In retrospect, the principal reason AMSCO failed to meet its **Output** targets was its significant departure from the strategic plan outlined in its founding documents. Rather than serving the business consulting and training needs of its institutional investors, essentially working as subcontractors, AMSCO attempted to sell its services in the African private marketplace, a daunting prospect for any start up firm organized and capitalized as AMSCO was.

In 1992 AMSCO's board of directors appointed a new Managing Director who moved quickly to return to the original strategic plan. He cut staff and overhead expenses while refurbishing AMSCO's relationships with donor agencies, and institutional and private company shareholders. The result has been a surge in AMSCO business opportunities due to referrals by institutional investors, as well as increased private shareholder support of executive assistance and executive training programs.

B. Evaluation Components

1. Appropriateness of Practices and Structure

AMSCO has brought together a unique combination of forces interested in development of the African private sector:

- Nine institutional investors (such as the IFC and various European agencies) hold 70% of AMSCO's shares. These provide financing for private companies in Africa, which are then referred to AMSCO for management and training services;

- fifty-two private corporate shareholders (such as Phillips International) hold 30% of AMSCO's shares. They provide technology, industry and market expertise to AMSCO's projects upon request; and

- donor agencies (twenty-five) such as A.I.D., holding no shares, which provide grant funds to capitalize AMSCO's Management Loan Fund and its Management Development Fund.

For each of its supporters, the AMSCO program meets an "output level" objective:

- For institutional investors AMSCO provides a convenient source for business executives and training services that complement their private sector projects. To the extent that these institutions are looking for "high-end", expatriate executives or industry-specific, on-the-job training opportunities, AMSCO is competitive in price, and very well connected (through its network of private company shareholders) for sources for such services.

- For private, corporate shareholders AMSCO provides a set of "eyes and ears" for identifying business opportunities in Africa as well as an excellent bridge to donor agencies and institutional investors. It would not be uncommon for a corporation to be invited to nominate candidates to be expatriate managers and at the same time offer some of its facilities to train the African staff of the client enterprises in the same industry. Such a corporation might gain insight into a new marketplace, "good will", and possibly a future supplier/customer relationship.

- For donor agencies engaged in providing technical assistance and training for African businesses, such as A.I.D., AMSCO provides a "ready-made" vehicle for channeling technical and training resources to African enterprises. To the extent that such donor agencies are interested in supporting AMSCO's "high-end" approach and larger sized companies or SOEs in the process of privatization, it is a competitive and effective vehicle.

AMSCO's practices and structures are not designed to be relevant to smaller-size African enterprises. AMSCO's strength is its ability to mobilize expatriate business executives and business training services to restructure African businesses which can pay the cost of these services.

2. Technical Effectiveness

In its market niche of medium to larger scale African businesses, AMSCO has enjoyed some early successes. Generally, AMSCO has fielded competent executives who proposed competent restructuring plans, and guided these companies through the restructuring process. Where difficulties have been encountered, the causes have been outside the control of AMSCO; e.g. structural or political circumstances which must be taken as "givens" with respect to the business.

A realistic reading of AMSCO's technical effectiveness will be available after the African businesses have been running without the executive service and training for sufficient time.

Then we will be able to learn whether project trained executives can successfully implement new management initiatives after expatriate executives depart.

3. Cost Effectiveness

Cost effectiveness of the AMSCO program must be looked at from various perspectives:

- the donor organizations;
- AMSCO's institutional investors;
- AMSCO's private corporate shareholders; and finally
- the African businesses receiving AMSCO's services.

Each of these entities has its own expectations of AMSCO, and the cost of meeting those expectations varies.

a. Donor Organizations

AMSCO's donor organizations, such as A.I.D., view the program as a way for them to transfer resources into private sector development activities in Africa. From a cost effectiveness standpoint, therefore, they might compare an investment in AMSCO with alternatives ranging from sending direct-hire or direct-contract technical advisors to the field to provide business assistance.

To the extent that direct assistance to African businesses is the desired **Output**, AMSCO is very competitive. Because of its network of private corporate shareholders, AMSCO is able to tap into executive talent for several year assignments. The same network enables AMSCO to offer certain types of training assignments, especially industry-specific on-the-job training, cost effectively.

b. Institutional Investors

AMSCO's institutional investors, such as the IFC, view AMSCO as an invaluable source of "hands-on" business executive talent for several-year assignments to African enterprises, and business training for employees of those businesses. AMSCO, for them, functions as a sub-contractor.

From a cost-effectiveness standpoint AMSCO is very competitive for this task. Sine this program is sponsored by the UNDP, AMSCO executives enjoy tax free status while on assignment, and thus an increase in effective incomes. AMSCO enjoys wide ownership among large European companies, therefore, gaining special access to executive talent, and training opportunities, within these companies which represents an unmatched resource of real world business experience.

Because AMSCO has a pool of training resources provided by donors on a grant-funded basis, AMSCO can contribute training costs to its clients free of charge. AMSCO can also finance the cost of executive services, thus enabling client African companies to bear this cost.

During the first two years of AMSCO's existence, institutional investors made very few calls for AMSCO services, a situation attributable to the previous Managing Director. The appointment of the current Managing Director resulted in the majority of Institutional Investors reactivating programs with AMSCO.

c. Private Corporate Shareholders

For AMSCO's private corporate shareholders it is not so easy to argue cost effectiveness of AMSCO. Their objective in making the AMSCO investment is, presumably, related to larger corporate objectives; perhaps a desire to maintain some sort of presence in the marketplace, "goodwill" with institutional investors and donors, and even some possibility of developing useful business linkages through participation in individual projects.

d. African Businesses Receiving AMSCO Assistance

The end-user of the AMSCO product, the individual African businesses selected for participation in the program, provides the final critical perception of AMSCO's cost effectiveness. This is an important perception, because clearly without participation of such businesses there can be no such business assistance program. It is clear that to the extent that participating firms' desire to contract the expatriate management and business training, AMSCO is cost competitive.

4. Developmental Impact

AMSCO projects that deal in the commercial sector and largely have income and employment impacts as their ultimate development goals.

As to **Purpose** achievement, the impact of AMSCO has been partially successful, though not always as expected. Creation of viable enterprises has, for instances, often required elimination of jobs in the short term rather than increase of jobs. There is "feather-bedding" in many African enterprises, and only when this is eliminated can such enterprises hope to compete in the marketplaces and thus assure their future. AMSCO assistance has, on occasion, thus resulted in short term job losses even as affected enterprises have strengthened themselves over the "long run."

AMSCO can, by design, only work effectively with medium and larger African enterprises. In the universe of African businesses, ranging from plumbers to shopkeepers to steel mills, it is only that 5% to 10% at the tip of the financial pyramid that can afford and directly benefit from AMSCO's international executive services and training.

5. Lessons Learned

There are five principal lessons learned from the AMSCO experience to-date.

a. A "Niche Player"

AMSCO is designed to be relevant to the development of the relatively larger African business enterprises that can pay for and make use of expatriate executive talent. It is not designed to be relevant to the problems of small businesses in Africa.

b. A Sub-Contractor

AMSCO attempted in its first two years of existence to operate in the marketplace, eschewing support from its institutional investor shareholders, and failed. Since AMSCO was neither designed nor funded to function independently in a "marketplace" this should not be a surprising conclusion. AMSCO functions as a kind of "sub-contractor" for institutional investor-funded projects - a source of executive services and training with real world input from the private corporate shareholders - which is a unique input.

c. Privatization

AMSCO's services should probably be dedicated to working on rehabilitation of that population of very large and distressed public enterprises under consideration for privatization. Rehabilitation of state-owned enterprises to be privatized was supposed to be a very important part of AMSCO's mission as written in the original project paper. European-level executive salaries and realistic industrial training for African business personnel is most likely to be warranted in such large-scale enterprises.

d. Synergy Among Supporters

The AMSCO model, bringing together economic development donors, institutional investors and private corporate shareholders, has worked very successfully in the few (26 by

December 1992) instances where it was tried. Each of the players brings to the table a critical element, and each needs the other to participate in the program. Working as an intermediary, AMSCO is dependent upon the three players as follows:

- It is dependent upon Institutional Investors for refer for its programs.
- It is dependent on private corporate shareholders to provide technology and market expertise for its projects.
- It is dependent on its donors, principally the UNDP, to provide the concessional resources that it can channel to its African client firms.

e. Little Macro-Economic Impact

If one's developmental goals are for broad, macro-economic impact on small and medium-sized businesses in Africa then the expenditure of $5.7 million is ridiculously out of proportion to such a high level goal. AMSCO will operate with some 50 enterprises over a period of several years. This in itself cannot be considered "macro-economic", but rather one possible means of saving these enterprises for the future.

I. INTRODUCTION

A. Background

The African Management Services Company (AMSCO) is a Netherlands-based company formed in May 1989 to serve as a "subcontractor" to the International Finance Corporation (IFC) to execute the Africa Training and Management Services Project (ATMS). The ATMS Project grew from a joint United Nations Development Programme (UNDP), International Finance Corporation (IFC) and African Development Bank (AfDB) initiative to develop African businesses into more viable competitors in the international marketplace.

AMSCO was designed to be one of the three principal elements of the ATMS project, the other two being the Management Loan Fund and the Management Development Fund.

AMSCO's specific objectives are to:

- Evaluate African businesses referred to it that are failing to realize their full potential due to poor management skills and practices and their need for employee training;
- Offer a package of services including introduction of skilled expatriate management teams and staff training; and
- Provide such firms with intensive management and training services until they achieve good business health, and develop a team of indigenous managers who can carry on unaided.

As stated in the Project Paper: "The long term objective of the AMSCO contract will be to leave behind locally managed businesses that are profitable, competitive, self sufficient, and integrated into the international business community;" and so doing, demonstrating the viability of private enterprise in an African development context.

The flow chart on the following page represents the original process envisaged to achieve the long-term objectives and goals of the ATMS project.

B. Scope of Work and Project Objectives

The Office of Market Development Initiatives, of the Bureau for Africa of the United States Agency for International Development (USAID) has requested Price Waterhouse to perform an evaluation of the African Management Services Corporation (AMSCO).

The purpose of this evaluation was to review AMSCO's experience from planning through funding, organization and operation through the end of calendar year 1991.

The major components of the evaluation are to assess the:

- Appropriateness of practices and structures established to achieve the objectives. The particular objectives of AMSCO are quoted on the following page.
- Technical effectiveness with which such practices and structures were implemented by management;
- Cost effectiveness of the effort;
- Developmental impact;
- Overall lessons learned.

The particular project objectives of AMSCO are quoted on the following page.

The Price Waterhouse Team conducted numerous interviews with officials from the AMSCO headquarters in Amsterdam, USAID, the International Finance Corporation (IFC), the World Bank, AMSCO project personnel, the United Nations Development Programme (UNDP), the Industry Council for Development Services (ICDS), as well as the management of selected AMSCO projects in African countries.

On-site trips were taken to four field projects, including Gramil and Indefund in Malawi, Soca in Senegal, and the House of Manji in Kenya. These projects represent a cross-section of completed, in-process, recently initiated, and newly signed contracts in both the manufacturing and financial sectors. In addition, the team members met with AMSCO project personnel in each location

C. Relationship to UNDP Mid-term Evaluation Mission

In late-1991 UNDP sponsored a mid-term evaluation of the design and implementation of the Africa Training and Management Services (ATMS) project, which includes AMSCO as one of its components.[1] The purpose of the evaluation was to determine what, if any, the project has contributed, or is capable of contributing, to the development of the country or region and the significance of such contribution.

[1] The *Report of the Joint Mid-Term Evaluation Mission of IFC/UNDP* was conducted during the first quarter of 1992. The review was conducted by Mr. Eno L. Inanga, Professor of Accounting and Business Finance at the University of Ibadan in Nigeria, and Mr. Keith J. Norman, President of Norman International, a U.K. corporation.

The review mission interviewed a number of AMSCO, UNDP and IFC officials, and performed in-depth evaluations of two AMSCO project companies in order to determine the extent to which the project's objectives had been realized.

Major findings of the UNDP study include the following:

- The ATMS project has developed more slowly than originally planned, primarily due to the extended time taken to establish AMSCO.

- The quality of the work undertaken by AMSCO, up to the time of the evaluation, was judged to be of a high standard.

- Additional financial resources and manpower should be made available to AMSCO to extend the scope and depth of the management development and training support available to its clients.

At the time of the mission's evaluation, none of AMSCO's contracts had completed a full cycle (including the first training seminar, which was at the time of the review scheduled to take place September 1992).

The scope of the current evaluation is somewhat different in nature from the UNDP evaluation performed in late 1991. This evaluation is more specifically focussed on the appropriateness of the fundamental premises, the potential for financial viability, and the management effectiveness of AMSCO. While we have used the information contained in the 1991 report as a starting point for our investigation, we have, as required by our scope of work, concentrated on these aspects of AMSCO's operations. We have also not attempted to evaluate the whole of the ATMS project, as did the 1991 report.

AMSCO

GOALS AND OBJECTIVES

GOALS

Job Creation
Foreign Exchange Generation
Privatization

OBJECTIVES

Contribute to the emergence of a class of African business leaders capable of managing their enterprises in a successful and professional manner

OUTPUTS

Assess management needs of the enterprises
Recruit expatriate managers
Train local managers
Monitor contract performance

INPUTS

Loan Fund
Development Fund
Technical Expertise

3W

II. AMSCO: STRUCTURE AND PRACTICES

A. Background

The African Training and Management Services Project (ATMS) is a five year, US$22.45 million project supported by over 10 international development institutions, including the International Finance Corporation (IFC), the Caisse Centrale [France] and Swedfund. ATMS is designed to provide the services of experienced expatriate managers and management training to African enterprises for which the key obstacle to turn around and profitability is the lack of competent management.

To carry out the project, the IFC established the African Management Services Company (AMSCO) as a public/private limited liability company sponsored by a group of 52 private multinational corporations organized as the International Council for Development Services (ICDS). See Appendix C for a list of AMSCO shareholders and their respective equity participation.

B. Financial Structure

While AMSCO original subscribed capital was US$9,375,000, based on the anticipation of 60 private shareholders, actual paid in capital totaled $8,975,000, invested by 52 corporate shareholders and Institutional Investors. AMSCO also administers two trust funds which have received contributions of $6.6 and $6.7 million respectively:

	Original 1989	Balance 10/31/92	New Project Commitments 10/31/92
Equity Capital	$8,975,000	3,309,654	N/A
Management Loan Fund	$6,674,000	4,626,000	3,782,000
Management Development Fund	$6,755,000	5,335,000	2,914,000

Residual balances at the end of October 1992, reflect 60% capital depletion and utilization of original aggregate funding available to AMSCO ($22,405,000). The operating losses AMSCO has experienced in its first three years of operations are the primary cause of the erosion of 63% of equity to date. On the expectation that AMSCO will break even in 1993 the remaining capital resources ($3 million) should be sufficient to support anticipated levels of business activity for several years.

C. Mission and Objectives of AMSCO

The original charter and project documents state that AMSCO was to serve as a source of management services and management training for selected African enterprises. As the operating company for the African Training and Management Services (ATMS) project, AMSCO's original mission was to provide assistance to an African company referred to it by:

- recruiting expatriate managers with the appropriate skills and experience necessary;
- preparing a business plan to guide the turnaround;
- continuing to monitor financial performance; and
- developing training programs to improve the skills of local managers, and preparing them to succeed the AMSCO expatriate personnel when they depart.

AMSCO provides management services at cost plus a margin to support AMSCO expenses plus a performance-related bonus fee. The fee is calculated on the improvement of the performance of the client company during the period of AMSCO's involvement in its management. To date, two of the companies that have been assisted by AMSCO and have recorded significant increases in earning have made bonus payments to AMSCO. By contrast, training programs offered to the client companies are financed by the Management Development Fund, and do not require the recipient enterprise to reimburse these costs.

D. Types of AMSCO Assistance

The Implementation Agreement which established AMSCO as the implementing agency for the ATMS project authorized the UNDP to create a Trust Fund to provide funding for the project requirements of the ATMS Project. The Trust Fund is composed of two parts: the Management Training and Development Fund and the Management Loan Fund.

- ***Management Loan Fund*** -- The Management Loan Fund was established to provide loans, in a freely convertible currency, to enterprises which have entered into management services contracts with AMSCO, and which do not have access to sufficient funds to enable them to meet all or part of the expenses incurred under the contract. The Fund was created by a group of official assistance agencies including UNDP, the IFC and A.I.D.[2]. The average period of financing through this Fund is three years, with drawdown over the first 18 months followed by 18 months for reimbursement. Management Loan Fund contributors include the U.S. Agency for International Development (38%) and European development agencies (62%).

While this Fund is potentially very attractive, it is ironic that only five of AMSCO's first thirteen projects made use of the Management Loan Fund (Gramil, Kagera Sugar, Continental Pharmaceutical, Birma Agricultural and Express Transit). The failure of some of the projects which have not used the MFL has placed ultimate recovery of part of these funds at risk.

- ***Management Development Fund*** -- The Management Development Fund was created by the UNDP to permit AMSCO to assist in financing the cost of training local managers under management development and training programs designed to follow up on the training needs of the managers that have been trained in AMSCO projects. Contributors to the Management Loan Fund include the AfDB (22%), European development agencies (28%), and the UNDP (50%). The Management Development Fund covers the following costs:

  . various in-country workshops and seminars as well as cost associated with on-the-job training at third country locations of participating international companies;

  . certain administrative expenses incurred by AMSCO in the design and implementation of the management development programs; and

  . formal management development programs whose costs cannot be recovered from the client company.

  In addition to UNDP, the Management Development Fund also receives contributions from other countries[3]. Availability of these funds and the programs that they finance are powerful sources of support for the enterprises that have access to them.

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[2] Management Loan Fund Donors: U.S. Agency for International Development, the Belgian Government, BMZ (Germany), Danida (Denmark), FINIDA (Finland), the Dutch Government, ODA (UK), and the Portuguese Government.

[3] Donors to the Management Development Fund: the United Nations Development Programme, African Development Bank, the Belgian Government, the Italian Government, the Dutch Government (FMO), the Swedish Government, and the Swiss Government.

- ***Grant Funds*** -- Recently a different trend in project assistance has emerged. European development finance agencies are providing grant funds in parallel with the AMSCO financing. These grants reduce the cost of AMSCO's expatriate management to the project enterprise. In the projects which have received this kind of support, the matching grant contribution is most often 50 percent of the cost of the management contract.

E. AMSCO Shareholders

AMSCO is a unique organization which serves an intermediary role, linking the international business and donor community with the African private sectors. As originally envisioned this unique partnership was to operate in a coordinated manner: "the private sector shareholders of AMSCO will constitute the primary pool of management personnel, and technical and marketing resources available to the company. Management services required by AMSCO on behalf of its clients will be contracted for, whenever possible, from the pool of resources available to the company from the group of private sector shareholders. Equity or loan requirements of the company in connection with the needs of its clients will be drawn whenever possible from the resources of all shareholders both institutional and private sectors".[4] The graph on the following page shows conceptually how the various Institutional and Private Investors, as well as the donor institutions, contribute to AMSCO's unique role as an intermediary.

1. Institutional Investors

- **The International Finance Corporation (IFC)** -- The IFC is the executing agent of the ATMS project, and a shareholder in its subcontractor - AMSCO. Since the inception of the company, however, the IFC's role in AMSCO's operations has diminished. Originally, AMSCO was to play a complementary role in supporting IFC investment projects. Currently, it is the position of some IFC officials that IFC Investment Officers should not participate in any promotion of AMSCO activities, since any time expended on such efforts could compromise the performance of their own duties.

[4]*African Training and Management Services Project Document*, Annex 1, page 1.

- o **The United Nations Development Programme (UNDP)** -- The UNDP is not a shareholder in AMSCO but is the major source of funding for both trust funds.

- o **The African Development Bank (AfDB)** -- The African Development Bank sees AMSCO's new management as the key to AMSCO's future, stressing that reduced staff and expenses, and an emphasis on higher levels of projects (and income) are promising signs. AfDB management attributes poor management and the resultant lack of involvement by investors (both public and private) to the Company's deterioration. Mr. Krombeen's prior experience, solid business connections and personal "hands-on" style are seen as a central to the turnaround of the program. Moreover, the AfDB has resolved to direct anticipated business from its newly formed private sector unit to AMSCO.

2. *Private Shareholders*

Collectively, the **Industry Council for Development Services (ICDS)** is the largest shareholder of AMSCO. It consists of some 52 international companies with an interest in African markets, and a willingness to contribute the major share of the initial capital of AMSCO and to make available their expertise in marketing, technology, and human resources in their respective fields to the projects that AMSCO undertakes. This link to specific private sector shareholders is the most important resource that AMSCO has at its disposal. It enables AMSCO to provide unique services unparalleled by other institutions providing private sector management services in Africa. Products and services available to AMSCO through the ICDS shareholders are classified into over 300 SIC-codes, ranging from infrastructure to agriculture services and from finance services to automotive man

The mobilization of the private sector was one of the declared goals of the AMSCO project, and one of its unique features. Very few, if any of the multilateral or bilateral assistance programs are able to offer practical support from the major companies of the world economy. Yet it is these companies that posses the skills and technology, as well as the competence in the world markets, to which African enterprises need exposure. At its inception, AMSCO offered a practical mechanism to accomplish this goal.

Nevertheless, the extent of the involvement by these companies has been less than expected. The reasons for this limited response appear to lie in the attitude of the previous management, and the limited efforts on his part to keep them informed and to involve them from the beginning in the affairs on AMSCO. The result seems to be that the companies themselves may have lost contact with, and even their sense of ownership of, AMSCO. The current management has initiated measures to assure that this vacuum is filled. Informative newsletters are being sent to each shareholder to keep it abreast of AMSCO projects. Regional meetings of the shareholder's representatives are now being arranged at which the Managing Director not only informs, but attempts to elicit more active involvement in specific projects. In the few months that he has implemented this program, the number of projects with involvement by shareholders has increased dramatically, and interest is markedly higher. This response in such a short time gives rise to some optimism that the strengths of the international private sector can be mobilized effectively to help African enterprises.

III. ANALYSIS OF SELECTED PROJECTS

A. Basis of Selection of Projects Reviewed

In order to assess the effectiveness of AMSCO's operations, an on-site visitation to four field locations has been conducted. The projects selected include: Gramil and Indefund in Malawi, Soca in Senegal, and the House of Manji in Kenya.

Selection of these projects was based on the following criteria:

- stage in the project cycle (completed, in-process, recently initiated and newly signed contracts);
- representation of both the manufacturing and financial sectors; and
- representation of both East and West Africa.

Please refer to the Summary Table at the end of Section IV for a listing of all projects. A brief description of each AMSCO project as of December 31, 1991 can be found in Appendix A.

B. Project Evaluation

1. Grain and Milling Company, Malawi

Faced with continuing operating losses, and under pressure from multilateral lenders to privatize, AMSCO was introduced to this government-owned milling company in 1990 by the accounting firm Delloittes.

A diagnostic evaluation conducted in January 1990 by Samdiaa, an AMSCO private shareholder, concluded that Grain and Milling Company's long term potential and key role in the local economy justified AMSCO's involvement. A second visit by two outside consultants resulted in adoption of a business plan which included financial, training, and management components, and proposed a target of 20 percent return on capital, substantial staff reductions, and significant operational changes. The plan was reviewed by Government, USAID, World Bank, and UNDP representatives.

In August 1990, two AMSCO managers (GM/finance and operations) selected through Premier Milling, a private AMSCO shareholder with a background in Africa, were dispatched to Blantyre to take control of Gramil. The team addressed problems of below-capacity production, lack of quality control, poor marketing, insufficient management accounting procedures, excessive staffing, deficient supply contracts, and a lack of bank credit due to cancellation of facilities by two local commercial banks.

Within two years, these problems were largely corrected. The Company has produced profits well above targeted objectives, with its sale to the private Malawi investor, Press Corporation Ltd. scheduled for October 1992.

Gramil, one of four AMSCO projects funded through the Management Loan Fund (ML), has already repaid US$90,000 of its aggregate US$900,000 in borrowings, and has contributed nearly US$50,000 in projected bonus payments through 1993. A temporary foreign exchange blockage at the Reserve Bank required access to UNDP funds through a currency swap to provide for payment, although this problem has since been resolved. Additionally, over US$125,000 of MDF funding has been spent on training twelve staff members. This has been closely coordinated with AMSCO training officers in Amsterdam and Nairobi in order to facilitate the transfer of key positions to African managers within the next year.

AMSCO management has successfully turned the company around. This management will remain in place for an additional year under a transitional contract with the new private owner. While initial disagreement with the Ministry resulted in replacement of the GM, AMSCO's supervision and its ability to recruit competent replacements underscored its unique flexibility as a private company with substantial multilateral support, and contributed to overall project success. In addition to regular monthly financial and operational reports field managers in AMSCO's Amsterdam and Nairobi offices regularly visited the site to assess compliance with both management and training objectives.

2. Indefund, Malawi

Indefund was established in 1981 by Indebank and FMO (the Dutch official assistance agency), with a 30 percent participation by MDC. AMSCO was invited by FMO to assume management in 1991 under a two year contract funded entirely by FMO. A staff of 28 nationals, paid by the Malawi Government through counterpart funding, was fielded.

Indefund is engaged in providing medium term credit, largely to small agricultural and manufacturing enterprises (SMEs), in amounts ranging from US$10,000 to US$100,000, through its two offices in Blantyre and Lilongwe. Preference is given to projects that promote exports, training, employment, import substitution, and use of local materials. In addition to financing, Indefund also provides advisory services on business management, and closely monitors each project to ensure correct implementation of its business plan.

It has, at present, about 225 borrowers with aggregate exposure of K 23 million (US$6 million) and an average loan of K 117,000, representing an applicant approval rate of 12 percent. Although lending has substantially accelerated in recent years (with average new bookings of K 7 million for 1990 and 1991 as compared with K 1.3 million during the period 1985 to 1989), we are advised that the Fund's 20 percent portfolio of non-performing assets is largely a remnant of its earlier, more aggressive lending phase under FMO management. Nonetheless, profits have improved under AMSCO management, with losses accumulated through 1989 finally being reversed, resulting in modestly increasing profits through 1991. This turnaround is, in part, due to a higher level of loan activity, greater control over operating expenses, more aggressive recovery efforts, improved spreads, and to more selective credit standards.

The Fund is entirely dependent on concessionaire grants for its funding, although lending rates are market based, with an 11 percent spread over its weighted cost of funds applied to some borrowers. While substantial earlier contributions were provided through the USAID Ready Project, now expired, current funding is extended by Germany (KFW), Holland (FMO), and several other DFO's, all at highly concessionaire rates. Recently the World Bank approved a US$1 million Apex line at a below-market rate of 3 percent p.a. which remains competitive with similar funding arrangements for Sedom and other SME sectoral commercial bank facilities.

While AMSCO management has been successful in terms of project management, the recent emphasis on improving financial performance has precluded attention to formal training and to management development, although the professional staff of 16 has substantially benefitted from the "hands-on" learning opportunities provided by the current general manager. The staff did participate in the first regional training conference conducted in Lilongwe last month, and the operations manager is scheduled to leave for the U.K. shortly, with another manager soon to follow, for a formal one-month management course. The GM has indicated that the emphasis on containing costs through staff redundancies precludes sending more than one manager away at any time, and that the emphasis should be on training new people locally. To this end the College of Accounting and the Malawi Institute of Management (funded by the World Bank) will shortly be contracted to assist in development of a structured in-house training program, in coordination with AMSCO training officers in Nairobi and Amsterdam.

There is clear evidence that AMSCO has succeeded in reversing Indefund's trend of sustained operating losses, producing impressive profits of K 441,000 and K 620,000 for 1990 and 1991 respectively. While the priority of training nationals for their future management role is finally being addressed, Indefund remains entirely dependent on concessionaire support from multilateral donors, and is providing subsidized and relatively high cost financial and diagnostic services to a largely unbankable clientele. Its efforts are essentially socially and not economically-based, and the expectation that the Fund may eventually develop into an economically independent, profitable private sector commercial venture is unrealistic. Prospects for eventual sale of Indefund to private investors, as in the case of Gramil, are negligible, and it is probable that the project will indefinitely remain dependent on donor support for both its operating and funding requirements.

3. SOCA, Senegal

Established in 1988 as a state-of-the-art dairy farm, SOCA has long enjoyed substantial bilateral support from Finfund and IFU, which have equity participation of 5 and 10 percent respectively. The Scandinavian involvement is in support of national suppliers, DTD which provided the herd and ancillary equipment, and Loy, which constructed the physical plant. DTD expenses have been financed through a 10 year concessionaire loan from IFU, while Loy construction costs are financed by a credit from the Finnish Export Credit Agency. Both foreign suppliers are also shareholders, with Loy holding a 5 percent participation in SOCA, and DTD holding 10 percent. The company initiated operations under a British general manager, with technical support from two DTD employees (a farm manager and a dairy manager).

After six months of production, company results were very poor, and there were concerns that operations would be suspended. The original project feasibility study had substantially overstated market response to pasteurized milk products (in a country where refrigeration is rare, and consumption of UHG whole milk is the norm). Shortly after operations began, the local system of retail distribution, controlled by Mauritanians, collapsed due to political tensions between Senegal and Mauritania, necessitating revision of the marketing plan, as well. Problems were then compounded by disease among the herd, killing 75 fetuses, and by difficulties in regulating milk production. It was also apparent that the production staff was inadequately trained.

Faced with continuing decline, a board meeting was held in November 1989, (the board consists of 8 locals and 4 representatives of the foreign creditors) at which time IFU and Finnfund, AMSCO institutional shareholders, strongly recommended that AMSCO be invited to take control. A diagnostic study included an evaluation of local marketing potential and developed a realistic business plan, after which AMSCO's first contract was signed. It was recommended that SOCA replace the general manager, increase its capital base, reschedule debt (owing the company's high fixed costs in servicing the FinnFund and IFU credits), and begin a systematic program of technical training for dairy technicians.

In addition to developing the training program, AMSCO closely monitors the company's performance through quarterly meetings and frequent financial reviews. While the original diagnostic study was financed by IFU, the management fee is paid by SOCA, which does not avail itself of the Loan Fund. Additionally, AMSCO receives 5 percent of cash flow above a predetermined level.

While the 1990 strategy was to reduce costs, the 1991 plan was to raise revenues. A fruit juice product line was introduced (using imported concentrates from India and Brazil), which now accounts for 35 percent of turnover. Profit margins on dairy operations remain thin, however, due to competition from subsidized imports of UHG milk from France. Management is pressuring the government to impose import taxes in order to equalize the situation. Thus far no results have been forthcoming, but it is possible that circumstances may change in favor of the company.

Under AMSCO supervision, the company has successfully been turned around, and it is not earning enough to pay interest on its foreign loans which come due next year. Net operating results before depreciation for fiscal year ending December 1992 will exceed CFA 100 mm, although there are plans to revise the depreciation schedule and to account for the herd on a new financial basis in order to avoid inflating profits.

The AMSCO human resources officer in Amsterdam has worked with management in developing a comprehensive training program emphasizing technical skills. Thus far 11 (out of a total staff of 68) employees have received training, including site visits abroad. Twice each year the AMSCO training consultant visits the company to monitor results. Recently, the SOCA general manager was seconded for two weeks to participate in another AMSCO project to assist with a diagnostic study, and it is hoped that in future, similar opportunities may become available elsewhere in Africa.

4. House of Manji, Kenya

Signed in August 1992, this "joint venture" contract was the result of an AMSCO marketing presentation by the former Nairobi resident representative. Currently, AMSCO fields one general manager, a retired expatriate from the local Colgate-Palmolive subsidiary, and will soon contract a marketing manager, also selected by the owners from the resident expatriate community. An application has been submitted to FMO for 50 percent support of the management fee.

House of Manji employs more than 400 workers, and produces food products, including biscuits, pasta, confectionery, and breakfast foods, all under the labels of major international companies. While Manji is already a well-managed enterprise, its rapid expansion and aging management have caused it to select AMSCO to assist in making the management more professional, and in training its staff at substantially subsidized and therefore lower cost.

Manji will soon expand its business to include the production of infant food and milk products. This will require the employment of 70 new workers, and will produce foreign exchange savings for Kenya by exporting 70 percent of production to 13 neighboring countries currently served by the US label producer. It is expected that this project will result in a second Manji contract with AMSCO for an additional three persons.

There are additional possibilities for AMSCO involvement with a Manji affiliate in Tanzania. While Manji owners are impressed with the professional quality of AMSCO management and with their comprehensive approach to training, all at a substantial cost savings to the firm, they indicated that AMSCO could be more aggressive in identifying sources of bilateral/ concessionaire funds available for expansion of medium size African firms. Additionally, Manji expressed some concern at having to bear the foreign exchange risks associated with repayment of the ML after 18 months, and suggested that local currency contracts also be offered.

The following Project Summary Table includes all projects aided by AMSCO as of June 1992. Many of these projects have been extended into 1993 and beyond, indicating a future period of positive performance.

AFRICAN MANAGEMENT SERVICES COMPANY

PROJECT SUMMARY - STATUS AS OF JUNE 1992

Project & Country	Source	Contract Period	Management Team	Loan Fund	Net Margin	Comments
The Gambia Produce Marketing Board The Gambia	World Bank	10 Months 1 Oct. 1991 - 31 July 1992	Managing Director Technical Director Technical Manager	No	US$ 90,000 for 10 months	Extended to 3/31/92
Grain & Milling Co. Malawi	AMSCO Deloittes	2 Years 1 Oct. 1990 - 30 Sept. 1992	General Manager Finance Manager	Yes	US$ 30,000 p.a. plus US$ 29,225 bonus earned in 1991	Completed successfully and privatized
INDEFUND Malawi	FMO	2 1/2 Years 20 June 1991	General Manager	No Funded by FMO	US$ 66,000 over the contract period	Extended to 12/93
Scandrill Malawi	IFU	2 Years 29 May 1991	General Manager Technical Manager	No	US$ 30,000 p.a.	Company Bankrupt in Reorganization extended to 5/93
Continental Pharmaceutical Nigeria	AMSCO	3 Years 22 Oct. 1991	General Manager Finance Manager	Yes	US$ 45,000 p.a.	Extended to 6/95
Katonga Farms Uganda	AMSCO	2 Years 1 Feb. 1992	General Manager	No	US$ 10,000 p.a.	Extended to 1/94
Universal Foods Uganda	AMSCO	2 Years 13 Feb. 1992	General Manager	No	US$ 10,000 p.a.	Extended to 2/94
H.J. Stanley & Sons Ltd Division of Salt Works Tanzania	AMSCO	3 Years 7 Jan. 1992	General Manager	No Funded by FMO	US$ 25,000 1st Year US$ 10,000 2nd & 3rd Year	Extended to 1/95

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AFRICAN MANAGEMENT SERVICES COMPANY

PROJECT SUMMARY - STATUS AS OF JUNE 1992

Project & Country	Source	Contract Period	Management Team	Loan Fund	Net Margin	Comments
Kagera Sugar Tanzania	AMSCO Booker Tate	19 Months Aug 1990 - Feb 1992	General Manager Plus 3 other experts	Yes	No income to AMSCO until phase II commences	Completed successfully. Decision on phase 2 pending investment
SOCA Senegal	IFU	3 Years (1992/93/94)	Management Enhancement Contract	No	US$ 12,000 p.a.	Acheived break-even
Express Transit Senegal	AMSCO	3 Years (1992/93/94)	General Manager Forwarding Manager Workshop Manager	Yes	US$ 60,000 p.a.	Terminated - lack of performance on business plan
SAP Burkina Faso	FMO PROPARCO	2 Years 1991 & 1992	Deputy G. Manager	No	US$ 35,000 p.a.	extended to 12/93 acheived profitability
Sialim	AFDB	May 1991	General Manager	Yes	———	Terminated - in liquidation

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IV. ISSUES AND ANALYSIS

The consultancy team performed an evaluation of AMSCO's experience, specifically focussing on

- the appropriateness of the structures established to achieve management objectives,
- the technical effectiveness of AMSCO management in meeting these objectives,
- the potential for financial viability,
- the cost effectiveness of the effort,
- and the development impact of services provided.

When performing this analysis, the team played particular attention to the critical dependencies required for the future success of AMSCO. The original premises upon which AMSCO was founded limit the strategic choices and the scope and direction of AMSCO programs.

A. Realization of Management Objectives

Since only two projects (Gramil and Kagera) have completed full contract cycles, it is difficult to draw a comprehensive conclusion as to AMSCO's success in meeting its larger objectives, particularly with respect to capacity-building, transnational linkages, or even the longer term sustainability of its transitional role as project manager. While these two projects appear to have at least achieved their goals, others have encountered difficulties. These problems have generally been extraneous to AMSCO's role, often relating to structural or political circumstances not within control of the Company or its expatriate managers. The revitalization of management, the commitment of the multilateral donors, and the renewed support of Institutional Shareholders has led to an increased number of new projects. A more complete assessment, therefore, will be possible after the completion of several more project cycles.

It would appear that the quality of service provided by AMSCO, both in terms of local training and of management expertise, has been generally satisfactory[5]. The training programs have been well received, and management services are viewed as solid and professional. Problems, where they have occurred, more often relate to the need for the

[5] This statement is in agreement with the conclusions reached in the *Report of the Joint Mid-Term Evaluation Mission of the IFC/UNDP ATMS Project.*

selection of a more promising and viable client-base through a more effective relationship with development finance agencies, including the IFC and the private sector shareholders.

B. Project Identification and Referral Process

As originally conceived, and as affirmed both in the Articles of Association and in the Shareholder's Agreement, all AMSCO contracts were to be referred specifically through the IFC, which also serves as executing agency for both the Management Loan Fund (MLF) and the Development Fund (MDF). In Annex 1 to the ATMS project document, it is stated that:

> "client companies for AMSCO will be drawn from both the private sector and the parastatal sector. In consultation and with the agreement of the government, IFC will select those enterprises in the parastatal and private sectors suitable for diagnostic study for rehabilitation. Upon completion, each diagnostic study shall be submitted to the government and the UNDP. IFC shall submit for confirming approval by the government and the UNDP those enterprises selected to be assisted by AMSCO under the project, the terms of each service agreement, and the funds to be allocated to each of the enterprises from the ATMS Trust Fund. Subject to this approval, IFC will advise the UNDP of the proposed commencement date of each service agreement."

The graph on the next page illustrates the original plan envisaged for project identification and referral described in the founding documents. However, the early years of AMSCO have reflected little of the promise contained in these founding documents[6]. Despite the fact that AMSCO was largely created in response to an IFC initiative, the working relationship envisioned between the two institutions did not develop as envisaged. While an IFC representative (usually the Director of the Africa Region) has regularly attended the annual board meetings, it has never played the role in AMSCO operations originally envisioned. Of the <u>twenty-five</u> current and potential projects, only one originated as a referral by the IFC. The reasons for this departure remain unclear. Interviews with several IFC Africa Region Investment Officers reflect a less than positive image of AMSCO, as well as a lack of awareness of the formal relationship between the two institutions.

[6] Exceptions to this are FMI, which sponsored the Gambia Produce Marketing Board project in The Gambia, Booker Tate, which sponsored the Kagera Sugar project in Tanzania, and provided management and technical advice, and Hutchinson, which provided training opportunities to the SAP project in Burkina Faso.

Some Institutional Investors, however, have originated projects. The FMO (Holland), the FMU (Denmark) and the Swiss development authorities, for example, have each referred one or more projects and have backed the efforts of AMSCO with grants to support the client enterprises. In these cases, AMSCO has functioned in a pattern consistent with the original concept outlined in the organizing documents. In all cases, however, AMSCO has been slow to utilize the training funds committed to it through the Management Development Fund.

C. AMSCO has three Critical Dependencies

The initial shortage of project referrals was the first indication that AMSCO was not achieving its project objectives. In an effort to increase its number of projects, the management launched an independent marketing program throughout Africa. This was conducted without a comprehensive business plan and resulted in substantial depletion of resources.

It is unclear whether the management and the board of directors realized the full implications of AMSCO's departure from its original role. AMSCO was created to serve as an executing agent for multilateral development institutions, and a mechanism for channelling the expertise of the international private sector, as represented by its shareholders (ICDS), to African enterprises requiring management expertise. AMSCO was not capitalized with the resources required of an independent business consultancy organization providing management services and training. It is, in fact, this departure from the founding concept and purpose, that led to the years of heavy losses.

One of the key lessons learned from the experience of AMSCO's first three years of operation is that, as an institution, AMSCO has three critical dependencies which limit its strategic choices and shape the scope and direction of its programs.

1. It is dependent on Institutional Investors who are sources of project financing for private companies in Africa and are uniquely qualified to refer projects for its programs.

2. It is dependent on private corporate shareholders to provide technology and market expertise for its projects. This is one of the unique capabilities of AMSCO and one which cannot be matched by any competing group or private industry.

3. It is dependent on its donors, principally the UNDP, to provide the concessional resources that it can channel to its African client firms to finance training.

When AMSCO operates within the scope of these critical dependencies, it can produce effective results and operate profitably. It is when it ignores these dependencies and tries to operate as an independent agent or self-contained entity that AMSCO risks failure.

D. New Management and Organizational Structure

The AMSCO staff has been reduced from 25 to 14 full-time employees, including a chief executive and three key management people whose responsibilities are divided by region A chief of personnel and training, three management interns from African countries, and administrative and clerical personnel are also staffed. This is a dramatically leaner organization compared with the one that was in place through the first three years of AMSCO's existence. Organizational Charts of AMSCO's previous and current organizational structure can be found in Appendix D.

AMSCO instituted new management in January 1992. Its first agenda was to determine the most effective strategy for achieving AMSCO's original objectives. At a board meeting in January 1992, one option discussed was the liquidation of AMSCO. The following conclusions reached at this meeting include:

- *Management*: There had been poor controls on expenditures and staffing. The organization was poorly structured and had no internal controls over finances.

- *Investor Participation*: Up to this point there had been few policy guidelines from the shareholders or the Board, and a lack of communication and consensus among Board members.

Mr. Kees Krombeen, the new Managing Director of AMSCO, has brought together the original shareholders from private, government and international sectors to reassess the original premises of the project, and to restate their intentions with regard to supporting AMSCO programs. In addition to cost cutting, the principal thrust of Krombeen's plan is to obtain greater cooperation from the institutional investors and to reactivate the private shareholders as sources of management expertise. The result of these initiatives appears to be an improved outlook for new projects, and if approved by the client countries and companies, profitability for AMSCO in 1993 and succeeding years.

E. Financial Performance

A review of AMSCO's financial performance during the past three years reflects a trend of sustained losses and capital deterioration. AMSCO's capital decreased from Fl. 19 million (US $9 million) in December 1988 to US $3.3 million projected for the end of the 1992 fiscal year.

The thirteen projects contracted by AMSCO by July 1992, were substantially fewer than the 26 forecasted in the original Project Document for the fiscal year ending December 1991. Although recent efforts to secure additional business appear to be successful, the shortfall has reduced and delayed the effectiveness of the entire ATMS Project and has contributed to accumulated losses and erosion of the initial equity of AMSCO.

New management projects have increased from the July 1992 level of 13 projects to a total of 23 revenue producing projects by the end of 1992. In fact, as of December 10, 1992, 23 projects have been signed. The staff estimates that the addition of nine new projects in 1993 will result in revenue sufficient to assure financial break even operation. If this in fact occurs, additional donor resources in the MLF and MDF will be requested. The following is a comparison of budgeted and forecast financial statements for 1992 and 1993.

The contract margin per expatriate manager has been increased to an average of Fl 35,000 per annum, and is expected to substantially contribute to increased net fee income in 1992 and 1993. An increase to 30 - 40 active contracts by late 1993 would raise annual revenue of 2.2 million, or approximately break even. Other possible new income sources include consultancy fees from DFI investors, an increase in the Management Development Fund allocation, and a more aggressive search for bilateral funds.

The potential new projects, summarized in Appendix B, appear to be of higher quality and have greater Institutional Investor support than the original ten projects committed. These projects have the potential to produce the incremental revenue necessary for AMSCO to achieve break even. In fact, the consultants believe AMSCO has the potential to sign up more than the 32 projects forecasted.

An unanticipated cause of capital erosion has been the sustained foreign exchange losses incurred through conversion of institutional donor disbursements, originally committed and paid in European currencies and converted into U.S. dollars at that time. Subsequent accounting in Dutch Guilders, required of any Netherlands' corporation, has resulted in accumulated losses already exceeding Fl. 3 million. During 1992, translation losses are projected to exceed Fl. 800,000. It has been suggested by IFU, an institutional shareholder, that these foreign exchange losses should be compensated to AMSCO on a pro-rata basis by each donor. Additionally, several bilateral contributors are holding tranche payments on account in non-dollar deposits in an attempt to hedge against further erosion of the dollar. The fact that AMSCO's contracts are denominated in U.S. currency represents yet another source of earnings impairment, when the dollar income is translated into Dutch Guilders.

F. Cost Effectiveness

1. Three Perspectives

An assessment of cost effectiveness of AMSCO can be viewed from three different perspectives:

- The client African companies who receive services
- The development agencies and donors that contribute the funds
- Market-based business criteria

a. African Client Perspective

As seen from the point of view of a qualifying African client, the total package of services and benefits offered by AMSCO is very attractive, and could not be matched by any competitive service available in the private sector. While professional management could be recruited through the agency of any number of firms in the business of recruiting, the cost of such management, (salary and benefits) being subject to local taxes in the country, would be higher than the comparable management offered by AMSCO. In addition, no commercial service could afford to offer three year financing of the foreign exchange costs of the management personnel to be hired, grant funds for employee training programs, or continuous monitoring by a central staff over the life of the project. AMSCO's relations with the European Institutional Investors provides another attraction in that it may assist the enterprise to qualify for subsidies to cover a portion of the costs of the expatriate management costs. Finally, there is some attraction in the potential of an AMSCO program to forge and maintain needed relationships with first ranking international companies (ICDS members) which are AMSCO shareholders and which not only assist in identifying management, but offer their facilities to help train the African enterprise employees in real life circumstances.

b. Donor Agency Perspective

From the point of view of the donor agencies, such as the UNDP and the European overseas assistance agencies, AMSCO offers an executing agent that can place resources at the level of the firm in African countries. As AMSCO demonstrates that it can operate at or above break even, it can offer these services to these donors virtually without additional administrative cost.

c. *Market Perspective*

From the point of view of the market, it is clear that AMSCO could not survive as a typical commercial business offering its services to African enterprise. It is dependant upon the availability of funds from the donor agencies to make it attractive to prospective clients. Given its lack of business history, or any specialized track record in industry, it is doubtful if any African enterprise would utilize AMSCO services if they were priced to achieve full cost recovery and profit basis.

2. Expatriate Management

AMSCO recruits expatriate management for the general manager, senior financial, technical and marketing manager positions at the first level below the chief executive. These managers are largely Europeans or Americans and thus require both pay and benefits that would be competitive in developed markets. Added to these high costs is a surcharge to cover AMSCO's operating expenses. One is led to ask, therefore, if AMSCO can be cost competitive when recruiting management for African enterprises.

Comparative salary survey data is not available in the African countries in which AMSCO operates. Similarly, evidence that qualified local managers are available is inconclusive. Inquiries made in several of the African countries have yielded little more than anecdotal evidence. The nature and scale of the enterprises that AMSCO has identified to work with would require managers with considerable industry experience, as well as some experience in the international markets for these products. The principal source of expertise for locating managers which meet these qualifications would seem to be the multinational companies which participate as ICDS shareholders of AMSCO. These companies know the industry and the track record of managers with experience in that industry.

While it can be assumed that expatriate managers will be more costly to the firm than locally available managers, the actual circumstances of each project must be examined to appreciate the cost/benefit ratio of the selected managers. The factors are:

- The experience level of the managers available (expatriate vs. local)
- The results they produce in turning around the enterprise
- The growth in the capacity of the management team to succeed the manager, and carry on producing business-like results.

The cost of hiring executives to provide management or training services through an international recruiting firm would typically be in the range of one-third of the manager's first year salary and benefits. The cost of AMSCO services is approximately FL 30,000 -

36,000 each year the manager works. Thus, in terms of recruiting costs only, AMSCO appears to be higher than competing services. However, AMSCO provides additional services which add value to its total package far in excess of the difference in recruiting costs. These include:

- AMSCO will provide foreign exchange loans to cover the foreign exchange costs of the expatriates.

- AMSCO will prepare a business plan setting objectives for the enterprise, making use of the expertise of its private shareholders.

- AMSCO monitors progress of the fulfillment of the business plan throughout the life of the project.

- AMSCO personnel are given semi-diplomatic status under agreements with the United Nations which exempts expatriates from local taxes and from import duties. The exemption, which varies by country, is attractive to the expatriate and, at the same time reduces the total salary cost to the enterprise in comparison with any other source of expatriate management. Further benefits of this U.N. status include certain import privileges which make it possible for the expatriate to bring in a car for his and the enterprises' use without costly luxury taxes. The assignment is more attractive to the manager, and less costly to the acquiring enterprise.

- AMSCO provides and finances training for the client's staff through the MDF.

3. Training

A training program funded by the Management Development Fund (MDF) on a grant basis is available to client enterprises using AMSCO services. While this program has not been used extensively in the early AMSCO projects, its potential for the enterprise is substantial. This program will finance the training of managers at all levels, and the potential benefits available to the client are considerable.

The MDF was created by the UNDP to complement the management services component, providing financing for the training of local managers and workers on AMSCO projects. The training fund covers the full cost of in-house and overseas programs, as well as regional seminars and conferences. The purpose of this program is to foster the original concept of developing a pan-African cadre of indigenous AMSCO managers in a broad spectrum of business activities.

4. Additional Sources of Financing

Several European donor organizations focusing on private sector development in Africa have offered to pay up to 50 percent of the costs of the expatriate management provided by AMSCO under some of its programs. In some cases, a development assistance agency may provide 100% of the costs of the expatriate management (The Swiss agency paid the entire cost of the expatriate managers provided to the Gambia Peanut Marketing Board). For those projects that qualify for this subsidy for the AMSCO managers, the costs of the project becomes very attractive. It is doubtful that a less costly "package" could be prepared and presented to the enterprise by any alternative source.

5. Average Cost per Project

In considering cost effectiveness, one must start from an understanding of the total cost of AMSCO operations to date. If the net erosion of AMSCO's capital (from $8.9 to $3.3 million at 10/92) were to be allocated among the 13 contracts in progress at September 1992, the average net head office expense per project would be $436,000. To this figure, one can reasonably add the expenditure to date from the MDF for training ($1.420 million) which would raise the average cost of each of the 13 contracts to $545,000. This figure does not include potential losses arising from failures to repay advances made under the MLF.

It is important to point out that the excess overhead allocated to the projects reflects AMSCO's inability, in these early years, to generate revenue sufficient to cover its operating expenses. This calculation depends on one's judgement about the allocation of overhead costs. The consultants believe that this calculation overstates the average cost per project. It is unrealistic to expect any new operation to recover start up during its initial phase. A more balanced and valid approach would be to spread this figure over many more years of operation. In theory, assuming AMSCO breaks even or earns profit in the future, the real cost per project would eventually be limited to training cost only.

The exhibit on the next page compares AMSCO and the services and benefits it provides to those of alternative companies in the private sector. As the chart indicates, AMSCO is attractive to its African clients because it offers a more comprehensive program of services than alternative private sector providers, as well as being a very cost effective way for African enterprises to receive training and technical assistance.

G. Lack of Track Record/Business Reputation

AMSCO's current contracts provide management support in a variety of fields, including manufacturing, agriculture, and to a lesser extent, financial services. AMSCO has failed to develop market recognition as a specialist in any particular enterprise area, a shortcoming which confuses its marketing image and may cause potential clients to look elsewhere when seeking management assistance.

The fact that the Company does not have any major banking projects, for example, has caused the Government of Cape Verde to consider alternative management consultants in selecting a group to assist in privatizing the state-owned banking sector. On the other hand, encouragement by the World Bank and the prospect of substantial bilateral assistance in covering the management fees and the free training available through the MDF were sufficiently attractive to offset the nonetheless legitimate concerns about AMSCO's lack of prior experience in bank management.

AMSCO does, in fact, have access to substantially experienced personnel in many areas of business through its extensive network of private shareholders, and this dependence on its private shareholders should have been a defining characteristic, as well as a principal asset. No other management consulting firm has available to it such diverse and valuable resources, although as indicated earlier, this potential benefit has not been effectively utilized. Indeed, AMSCO is in the unique position of bringing together the diversity of expertise of its private corporate shareholders and the extensive financial and other resources of its bilateral institutional investors in an impressive combination of quality service at highly competitive costs to the client-enterprises.

In the case of Cape Verde, for example, it is envisioned that AMSCO's Portuguese (and other) banking shareholders will provide management and technical assistance, while the institutional investors will subsidize the costs of the management contract, and the MDF will provide the necessary and substantial resources required for staff training. Once the Cape Verde banks are in a position to be privatized, it is possible that the AMSCO private shareholders may be interested in an equity participation, as well. Thus if the process actually develops as planned, it will represent one of the few projects which has been entirely consistent with the original AMSCO concept: referred by the World Bank, it involves privatization of a public enterprise using the diverse and specialized resources of both institutional and private investors.

With respect to the AMSCO option as seen by Cape Verde, it is clearly understood that their services are transitional, usually provided for two to four years in order to "turn around" a public enterprise and to assist in its privatization. While AMSCO thus may solve the immediate problem of training, technical support, and management expertise, it must be appreciated as an interim arrangement, during which time alternative ownership models may be further explored, including that of foreign partner participation. The advantage which an AMSCO management contract may afford the proposed private bank in Cape Verde is in strengthening its financial condition and performance record so as to provide increased options and a broader basis for negotiating a more advantageous shareholder arrangement within the framework of a more diversified management structure. The Cape Verde example accentuates the dependence of AMSCO's marketing success upon continued support and involvement of both private and Institutional Investors at all stages of a project's development and implementation.

With the change of management in early 1992, a new Business Plan, summarized in the May 1992 *Mission Statement,* seeks to focus future marketing on a geographical and business or product line basis. It aims to expand AMSCO's array of products and services, and to ultimately reduce its direct marketing efforts and rely almost completely on the institutional and private shareholders, country representatives, and on former client relationships.

H. Developmental Impact

A viable business enterprise contributes positively and significantly to the national economy in which it operates. Nevertheless, it remains doubtful that the impact of only 13 relatively modest projects, operating for one or two years, has dramatically improved local economic conditions. The developmental impact of a manufacturing enterprise, for example, requires years of operations before its impact cab be assessed, and the initial short-term effect of business restructuring under AMSCO management may, in fact, be one of economic contraction and staff redundancies. Such policies may be necessary to assure longer term viability and to improve the competitive position of the firm.

AMSCO is providing the foundations for the development of indigenous professional management groups, and for market-oriented business policies, with reduced dependence on internal distortions and interventionist policies, which have in past served to compromise the position of Africa's productive sectors. Nevertheless, in a high risk environment where many enterprises, both private and public, have been subject to sustained abuse and undue political interference and regulation, development of modern, efficient business practices, and the improvement of professional standards for local management through programs of intense on-site and overseas training, will take years to produce a significant long-term impact on the domestic business environment.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Background Summary

AMSCO's first three years of operations have failed to fulfill the expectations contained in its original authorizing documents. The financial performance of the corporation during this period reflects this underperformance. From Fl 19 million (US$9 million) at December 1988, AMSCO's capital was eroded to $3.3 million projected for the end of 1992 as a result of large operating losses.

The 13 projects contracted by AMSCO by July 1992, were substantially less than the 26 forecast in the original Project Document for the fiscal year ending December 1991, and although recent efforts to secure additional business appear to be successful, with up to twenty contracts expected to be signed by year end, the shortfall has reduced and delayed the effectiveness of the ATMS Project, and has contributed to accumulated losses and to equity erosion.

Nevertheless, AMSCO has provided quality management personnel, and training programs to 13 private, or to be privatized, enterprises in Africa, with generally good results. Where some projects have been discontinued for lack of progress, the cause was not the lack of quality of AMSCO programs, but the unwillingness of the company's directors or host government to fulfill the requirements of the business plan established at the start of each AMSCO project. AMSCO can take pride in the fact that, to date, approximately seven of the companies that have received its assistance have made considerable improvements in operating performance, and appear to be achieving their objectives.

This modest success was achieved at a net cost to AMSCO of over $7 million. This amount includes capital erosion of $5.6 million and expenditures of $1.4 million from the Management Development Fund. However, the future flow of earnings should restore the equity and reduce average project costs.

The principal reason AMSCO failed to meet planned targets in its first three years was its significant departure from the strategic plan laid out in its founding documents. The original project papers clearly states that AMSCO is a subcontractor to the IFC in its administration of the African Management Training Services (ATMS) project. As such, it was dependent on the ability of the Institutional Investors, led by the IFC, to identify and sponsor projects to AMSCO. In the event, they largely failed to refer projects to AMSCO for participation in the ATMS project. As a consequence, AMSCO experienced great difficulty "selling its services" to African enterprises, particularly because it was a new institution and lacked credibility and an established reputation in the business of managing African enterprises.

The mounting concern over these losses, and the disappointing progress of the project generally, proved to be the catalyst for action. The Board of Directors replaced the Managing Director, and appointed Mr. Kees Krombeen, a former senior executive of Phillips NV. His plan to reverse operating losses, and refresh the relationships between AMSCO and its private and institutional shareholders, appears to be working, and there is a reasonable prospect that AMSCO can achieve break even during 1993. In the opinion of the consultants, the plan is realistic even though there is no guarantee that each and every one of the projects under active consideration at this time will be signed up and start producing revenues for AMSCO. The projects themselves appear to be of higher quality and have greater Institutional Investor support than the many of the ten projects which constitute AMSCO's track record to December 1991. Indeed, several of these give every appearance of being excellent private sector expansions for the countries involved.

1. Cost Effectiveness

An assessment of the cost effectiveness of AMSCO can be viewed from three perspectives:

- The client African companies who receive services.
- The development agencies and donors that contribute the funds.
- A market-based business criterion.

a. African Client Perspective

As seen from the point of view of a qualifying African client, the total package of services and benefits offered by AMSCO is very attractive, and could not be matched by any competitive service available in the private sector. While professional management could be recruited through the agency of any number of firms in the business of recruiting, the cost of such management, (salary and benefits) being subject to local taxes in the country, would be higher than the comparable management offered by AMSCO. In addition, no commercial service could afford to offer three year financing of the foreign exchange costs f the management personnel to be hired, grant funds for employee training programs, or continuous monitoring by a central staff over the life of the project. AMSCO's relations with the European Institutional Investors, provides another attraction in that it may assist the enterprise to qualify for subsidies to cover a portion of the costs of the expatriate management costs. Finally, there is some attraction in the potential of an AMSCO program to forge and maintain needed relationships with first ranking international companies (ICDS members) which are AMSCO shareholders and which not only assist in identifying management, but offer their facilities to help train the African enterprise employees in real life circumstances.

b. Donor Agency Perspective

From the point of view of the donor agencies, such as the UNDP and the European overseas assistance agencies, AMSCO offers an executing agent that can place resources at the level of the firm in African countries. As AMSCO demonstrates that it can operate at or above break even, it can offer these services to these donors virtually without additional administrative cost.

c. Market Perspective

From the point of view of the market, it is clear that AMSCO could not survive as a typical commercial business offering its services to African enterprise. It is dependant upon the availability of funds from the donor agencies to make it attractive to prospective clients. Given its lack of business history, or any specialized track record in industry, it is doubtful if any African enterprise would utilize AMSCO services if they were priced to achieve full cost recovery and profit basis.

2. Training

In its first three years of operation, AMSCO made only modest utilization of the large amounts of resources lodged with it by the UNDP and other contributors to the Management Development Fund. Training programs were devised and implemented in the field, as well as at ICDS shareholder companies.

The new management of AMSCO has reemphasized its role as an organizer of training programs not only at the enterprise level, but also courses which are designed to appeal to middle and lower level managers from across a broad spectrum of companies in different countries. It was only in September 1992 that the first regional training course was offered in Malawi, and plans were being developed to present others in the future. AMSCO's ability to call on facilities and practical expertise of the ICDS shareholders to provide African managers with on-the-job, industry-specific training is a unique capability and one which should be continued and strengthened. There is no substitute for this kind of practical training alongside colleagues in the same industry.

3. Development Impact

The grand total of firms assisted by AMSCO up to December 1991 is thirteen. One can hardly assess the macro-economic impact from such a small number of projects, even if all thirteen companies had achieved unqualified successes. The cumulative impact will take many years to reach the level that could be considered significant relative to the size of the national economies.

However, AMSCO has been able to impact these enterprises through its non-political role between management and owners, increasing their longer term level of economic efficiency and developing a more rational economy - reducing the state role while promoting the domestic entrepreneurial capacity of the private sector and facilitating equity participation by local investors.

In each case, the development impact of AMSCO's management and training has been different, albeit admittedly marginal. Some involve longer term job creation, while other provide import substitution with local resources, thus saving foreign exchange. Several projects promote export growth in both traditional and innovative areas, while one provides for an efficient allocation of bilateral development assistance to small enterprises.

Both quantitative and qualitative improvements in the native investment climates have resulted from greater productivity and increased profitability achieved through AMSCO's focussed and objective management support, including the development and monitoring of a business plan in each project. AMSCO is providing the foundations for the development of indigenous professional management groups, and for market-oriented business policies which have in the past served to compromise the position of Africa's productive sectors.

B. Lessons Learned

Looking into the future, it is clear that AMSCO should continue to refine the concept of its strategic profile and mission. One of the key lessons learned from the experience of AMSCO's first three years of operation is that, as an institution, AMSCO has three critical dependencies:

- It is dependent on Institutional Investors to refer projects for its programs.
- It is dependent on private corporate shareholders to provide technology and market expertise for its projects.
- It is dependent on its donors, principally the UNDP, to provide the concessional resources that it can channel to its African client firms.

The essential characteristic of AMSCO is that it is an intermediary and not an independent, self-contained market-based institution. Recognizing these three critical dependencies, the Board of Directors and the IFC, as the contracting agent of the ATMS project, should review with AMSCO its fundamental strategy as it proceeds into the future. The following elements should be considered when evaluating this strategy:

- o By what criteria will AMSCO focus its resources and efforts?

  . Profitability?

  . Institutional Shareholder Priorities?

- o Is AMSCO to provide its flow of subsidies to <u>any</u> applicant, or only to <u>selected</u> companies? If the latter, what should be the criterion of selection?

  AMSCO provides a flow of subsidies provided by international donors. These subsidies are quite attractive to the receiving companies. If AMSCO provides these resources to firms not referred by the Institutional Investors (i.e. not part of international assistance programs) or simply to any firm that applies for them, would this be consistent with the goals that the Donors sought to achieve by contributing to the MDF and the MLF?

- o Are the commitments by the Institutional Investors and the private shareholders sufficient to justify optimism about the future viability of AMSCO?

  The experience of the past three years demonstrates that without greater support from private and institutional shareholders, AMSCO cannot survive on its own. It depends on the referral of projects by the Institutional Investors and on the technical and market experience of the private corporate shareholders.

C. Recommendations

Recommendation 1:

In view of the strong program of cost efficiency and the reactivation of relationships with the institutional and private shareholders, we recommend that AMSCO continue to be supported, at least for the next 18-24 months, to demonstrate that it can operate profitably while pursuing important development objectives. Prospects are favorable since the current management has both the skill and the experience to carry out the program it has put into place.

Recommendation 2:

The Board of Directors of AMSCO should periodically evaluate the level of participation of both the Institutional Investors and the private corporate shareholders in AMSCO's projects and programs.

Recommendation 3:

They should further assess proposed new AMSCO projects in order to assure that they are consistent with the company's objectives. Management and shareholders should agree as to one specific program objectives to guide the allocation of limited resources against the broad range of potential applicants. It is suggested that a key objective to be emphasized would be assisting in privatization of parastatal enterprises in Africa.

Recommendation 4:

More significant effort should be made to involve the ICDS private corporate shareholders in the business of AMSCO and its projects. The new management is making progress here. Access to these companies is one of the unique strengths of AMSCO and the most important resource that it has to offer to African companies. These represent the principal source of business and industry expertise which can be brought to the African environment. The ability of private shareholders to play a constructive role should be a consideration in project selection.

Recommendation 5:

As AMSCO proceeds to contract new projects above the current level of 23, fresh resources will be required in both the Management Development Fund and the Management Loan Fund. Unless the additional funds are forthcoming, AMSCO's program may not be able to increase the number of African companies it serves, and could also delay AMSCO from reaching financial break even.

Appendix A

AMSCO Project Descriptions
(active as of December 31, 1991)

1. Gambia Produce Marketing Board

The Government of Gambia requiested assistance for the GPMB as part of its privatization program, in compliance with the terms of a recent IMF Structural Adjustment Credit. The facilities of this company were funded by the European Community (EC), while the Swiss Cooperation Agency has paid for AMSCO's management fees, which had, until recently, been substantially past due. Additionally, USAID has provided the services of a short term consultant to assist in the company's privatization effort.

While AMSCO management assistance is seen as satisfactory, market conditions for the prime product (groundnuts) of the GPMB in the region have continued to deteriorate[1]. As a result, the GPMB's financial performance since AMSCO's intervention has been disappointing, and even though the company's contract with AMSCO has been extended for a short-term in order extend the search for a buyer, it is considered unlikely that the company will be able to continue marketing groundnuts. In this scenario, the only market value for the company is seen as the liquidation of all assets.

2. Grain and Milling Company, Malawi

In September 1990, AMSCO signed a two-year extendable management contract with ADMARC for a two-person expatriate management team to run GRAMIL and turn it into a profitable venture during the period, for the purpose of possible future privatization. See Section V. for further discussion on GRAMIL.

3. Indefund, Malawi

Indefund was established in 1981 by Indebank and FMO (the Dutch version of the IFC), with a 30 percent participation by MDC. At the request of the FMO, AMSCO assumed management in 1991 under a two year contact funded entirely by FMO, with a staff of 28 nationals paid by the Malawi Government through counterpart funding. See Section V. for further discussion of Indefund.

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[1] The producers of groundnuts in Gambia are in direct competition with the highly-subsidized producers in neighboring Senegal.

4. Scandrill, Malawi

Scandrill, a water bore hole drilling company, was referred to AMSCO by the IFU (Denmark), through a Danish technical partner, Dandrill Ltd. AMSCO management is being provided by Dandrill, Ltd. under an AMSCO "joint venture" contract. Despite a favorable pre-diagnostic evaluation by Dandrill, Scandrill has been problem-ridden in recent times, including the loss of two important World Bank contracts, and the dismissal of the project manager last month.

Given a possible loss to AMSCO of Fl$260,000 (85 percent of which is for Dandrill expatriate salaries), the project cannot be regarded a success.

5. .Continental Pharmaceuticals, Nigeria

Following an earlier bankruptcy in 1986, Continental Pharmaceuticals, Ltd. (CPL) was sold by its multinational owners to a local businessman. In 1990, CPL was approached by AMSCO following a referral by Savannah Bank. A management contract was signed in December 1991 following a diagnostic evaluation by one of AMSCO's private shareholder, Hoffman-LaRoche.

A deteriorating market share (from 30 to 10 percent) and major Naira devaluations have eroded both capital and earnings to the point that the bank group has removed the owner from the management role. While the banks are willing to reschedule N$12 million in credit arrears, they are understandably unwilling to advance additional funds. AMSCO and the bank group hope to attract a private investor to the company, although the unstable situation in Nigeria will likely hinder this alternative.

This is one of four projects funded through the Management Loan Fund to date. However, a US$ 90,000 outstanding balance will most likely have to be absorbed by the Fund.

6. Stanley Salt Works, Tanzania

Stanley, a private Tanzanian company which needed to expand beyond the depressed national market, secured assistance from UNICEF for purchase of a modern salt iodization plant and has already received export orders from neighboring Malawi. The management fee to fund one expatriate General Manager is 50 percent paid by FMO grant, and training is funded through the Management Development Fund.

7. Katanga Farms, Uganda

This producer of passion fruit solicited by AMSCO's former Nairobi representative, signed a standard contract in February 1992 (50 percent funded by FMO).

The Company is owned by the local Forways Group (which also owns Universal Foods), and production is largely for export. Performance is monitored on a quarterly basis, although monthly management reports are provided to AMSCO as well. Progress has been satisfactory.

8. Universal Foods, Uganda

Also owned by the Forways Group of Uganda, this agro/industrial company produces fruits and exotic spices for export. It has recently received an US$600,000 local currency loan from the DFCU for expansion, and the Group also secured a United States US$5 million credit for purchase of fishing equipment. The Business Plan has been agreed and progress has been satisfactory.

9. Kagera Sugar Company, Tanzania

This project was brought to AMSCO through one of its private investor, Booker Tate (Tate & Lyle Ltd.). This nationalized sugar refinery has been successfully turned around under an AMSCO "joint venture" contract with four expatriate managers employed by Booker Tate. Production was doubled and has reached 5,200 tons per annum and its US$700,000 loan is being regularly serviced through export revenues blocked through an arrangement with Barclay's Bank London. Thus far, over US$400,000 has been repaid, and the loan should be liquidated at the end of 1993, although AMSCO no longer has a direct role in the project (with the exception of the Management Development Fund for training), and thus collects no management fees.

Kagera is currently in the market for privatization, which will provide an opportunity for renewed AMSCO management involvement, although the substantial capital investment required (US$50 million) has been a deterrent to private investors, and multilateral groups such as AfDB and CDC may intervene in order to upgrade the value of the operations.

10. Soca, Senegal

Soca is a small dairy producing company which primerily serves the capital city of Dakar and its surrounding areas. An early 1991 study estimated that the company's gross sales would reach CFA551 million (US$2 million). The project was brought to AMSCO's attention by two of its institutional partners IFU (Denmark) and FINNFUND (Finland), which are investors in the company. Following negotiations, a management enhancement contract was signed in February 1991 to provide monitoring assistance in the development of a business plan by AMSCO. A detailed analysis of Soca can be found in Section IV.

11. Express Transit, Senegal

This shipping and elevator installation/repair company was successfully marketed through the AMSCO Dakar representative in early 1991. A weak financial condition necessitated injection of capital and adherence to a new business plan, with which the owner/manager was unable to comply. The three expatriate staff members sponsored by AMSCO have already been withdrawn, although there is a possibility that the contract may be restored if management changes are forthcoming.

Although the Company employs nearly 450 workers, it has substantial tax arrears to the government. Prospects for repayment of the Management Loan Fund balance of US$200,000 are seen to be remote, unless management and investment problems are resolved.

12. Societe Africaine de Pneumatiques, Burkina Faso

The largest private sector employer in Burkina Faso, SAP was introduced to AMSCO in 1990 by FMO, who signed a two year contract in late 1990 to provide one expatriate AMSCO manager and extensive training. A performance turnaround has been successful and profitability was restored to the company by 1991. This was, in part, due to debt restructuring and to substantial redundancies permitted by the government, as well as to other cost-cutting policies. Profits for fiscal year ending December 1992 are projected at CFA$250,000, compared with consistent losses during the period between 1986 to 1990.

However, as a result of the country's Structural Adjustment Program, SAP is faced with competition from cheaper imports from Senegal and Asia, and the company has requested that the government reinstitute a 15 percent import tariff to protect its market.
Given both its rapid turnaround and effective training program, it appears that the AMSCO transitional role has been effective in achieving the project objectives of enterprise rehabilitation and management development. It was estimated that Fl$215,000 owed to AMSCO as past due fees will be paid in late August 1992.

Additionally, the Price Waterhouse review team was advised that Hutchinson Ltd., a subsidiary of Total of France (an AMSCO shareholder), is considering a 10 percent equity investment in SAP.

13. Birma Agricultural Ltd., Nigeria

This producer and processor of maize and soybeans was marketed by AMSCO Lagos representative (and WAC employee) Fred Scott. A joint venture contract was negotiated in August 1992 which provides for three expatriates, employed by minority owner Trainex of Denmark. The contract will be 50 percent funded through FMO, and the balance provided by the Management Loan Fund, repayable over 18 months following an 18 month grace period.

This is a new project involving a strong and highly profitable company, with substantial support from its multinational minority partner. Unlike AMSCO's other Nigeria project, CPL, local currency devaluations minimally impact on raw material costs, and in fact make Birma products more competitive with higher priced imports.

14. Sialim, Cote d'Ivoire

The International Finance Corporation owns 15 percent of this privately-owned producer of milk products. Sialim, however, has been following a path of constant financial deterioration, and its US$4.4 million in bank debt is significantly past due.

Constant disagreement with the AMSCO-sponsored manager ultimately resulted in his dismissal, and continuing operating losses and negative cash flow, as well as anticipated demand by creditors for payment would suggest that Salim's future is doubtful. This is especially likely given its inability to effectively compete with more expensive imports, despite supportive import restrictions.

The standard three year contract, signed in May 1991, was canceled by AMSCO after ten months due to difficulties in working with the private owners.

Appendix B

Potential New AMSCO Projects
(October 1, 1992)

1. Tanzania Food Corporation

The House of Manji (a well regarded AMSCO client company) is a 40 percent shareholder in this company and is supplying new finance in order to speed up the completion of a management and training contract. It was estimated that Board approval will be granted in October 1992. The AMSCO team will be composed of a General Manager. In addition, the company will require use of the Management Loan Fund, and a Technical Assistance grant will be sought. The AMSCO margin is estimated at US$30,000 per annum.

2. Unicer, Angola

This joint venture project with private Portuguese shareholder Cerval, was signed on 4 October, 1992. It provides for rehabilitation of the Cuna Brewery in Angola, a parastatal which will be privatized following its projected turnaround. Cerval will be well-positioned to consider eventual acquisition of the company.

3. Delta Ocean, Senegal

A preliminary study was carried out by AMSCO and paid for by the client. It is expected that this will be a three-year contract, and that it will be composed of a one-man management team.

4. Attepa, Senegal

Attepa manufactures prefabricated, low income housing, and has contracts in four countries. The headquarters of the company are in Dakar. In this possible project, AMSCO would provide management capabilities in all countries where Attepa has projects. This is seen as a very high visibility project, which would have a significant social impact and many donors would like to support. In addition to management support, it is expected that AMSCO will help to arrange multilateral financial support for the company. The contract is expected to be signed in October.

5. Holec, Nigeria

This project was brought to AMSCO by FMO, which has a 60 percent ownership in the company by Holec NV, a Dutch firm. This is a joint-venture contract due to be signed in November 1992. For the duration of this project, project fees are expected to be paid by FMO, and training costs to be paid by MDF. Prospective Holec Nigeria customers include solid petroleum multinationals (Shell, Agip. NNCP), but the company intends to emphasize import substitution as well as imports from the parent company.

It is expected that this project will involve a three year contract with bonus contingency plus a higher management fee (usual in joint venture contracts). It is expected that this project will create employment and save foreign exchange through import substitution and increased value added to the factory's production.

6. Sabra - Societe Africaine de Brasserie, Cote d'Ivoire

This project is seen as a potentially good venture. The AMSCO-supported team will be composed of a one manager. The promoter for this client is willing to commence the contract as soon a viably possible.

7. Dani Foods and Birma Agricultural Project, Nigeria

This project is expected to commence operations during the fourth quarter of 1992. A General Manager has already been identified by the project sponsor, and it is expected that this position will be financed under an AMSCO contract.

8. Africa Mare, Senegal

A Senegalese fishing and fish processing project, with an estimated Fl$27,000 in project preparation expenses to be paid by owners. A contract is expected to be signed soon.

9. SLM Workshops, Central African Republic, Burkina Faso and Mauritania

A multinational World Bank project for the privatization of public transit machinery in the Central African Republic, Burkina Faso and Mauritania. An estimated Fl$240,000 preliminary feasibility study is expected to be financed by the World Bank.

10. House of Manji - Part II, Kenya

This is a continuation of a current AMSCO contract with the House of Manji. This contract is expected to cover one General Manager position for three years. The Management Loan Fund will be required, and it is expected that a Technical Assistance grant will be sought. The Board proposal was expected to be presented in September 1992, and the contract was expected to commence on October 1992.

11. O. U. Shoe and Bag Co.

This possible contract is expected to finance a two man management team for a duration of three years. As of September 1992, an assessment had been completed. This project is seen as a potentially good project. Currently, the commencement of the contract is subject to FMO grant to cover the management costs.

12. Montex, Kenya

Montex recently underwent a financial restructuring and is newly controlled by the DEG/DFCK. RAS is performing management duties on a temporary basis. AMSCO has been working with DEG and RAS to provide Montex with a four person management team. Board approval of this project was expected in September/October 1992, with contract signing expected before the end of the year.

13. Printok, Ltd., Uganda

The Government of Uganda and the World Bank have offered AMSCO a management contract to provide a General Manager for Printok, Ltd. The fees for this project will be paid from the company's future profits (at this point AMSCO is being offered a 50 percent share of the future profits). Early indications are that the company can be rehabilitated and made profitable within one year. A full proposal was expected to go before the Board on September 1992.

13. Zaffico Timber

This parastatal was brought to AMSCO through the World Bank Forestry Project III. It is expected that this company will soon be privatized. A contract is expected to be signed in October 1992, through which AMSCO will provide five expatriate managers, who will aim to make Zaffico marketable. The World Bank and Finnaid are the principal sponsors of this project. AMSCO is expected to collect US$150,000 for each of the next two years (term of contract), plus the per capita fees on each field manager. The total AMSCO share of the project is expected to approach US$500,000 per annum.

It is expected that a World Bank loan to Zaffico will provide the funding for this AMSCO contract.

14. Maizcam, Cameroon

Maizcam is a fruit and corn producer. Several AMSCO shareholders, most notable FMO and Caisse Central which funded the preparatory study, are involved in this project. It is expected that a proposal for this project will be submitted on October 1992.

15. Banque Senegal Tunesiene Dakar, Senegal

Following proposed increased in capital scheduled for September 1992, AMSCO requested to provide a two man team to reinforce the management of the Bank.

APPENDIX C

AFRICAN MANAGEMENT SERVICES COMPANY

Public Shareholders

		No. of Shares (in Thousands)	Percentage
1.	Swedish Fund for Industrial Cooperation w/ Developing Countries (Swedfund)	505	4.00
2.	Industry Council for Development Services B.V. (ICDS)	4120	30.00
3.	African Development Fund (AfDF)	1442	10.50
4.	Caisse Centrale de Cooperation Economique (CCCE)	1445	10.60
5.	Commonwealth Development Corporation (CDC)	502	3.68
6.	Finnish Fund for Industrial Development Corproation Ltd (Finnfund)	533	3.90
7.	Industrialization Fund for Developing Countries (IFU)	722	5.30
8.	Nederlandse Financierings-Maatschappij vor Ontwikkelingslanden N.V. (FMO)	1000	7.34
9.	International Finance Corporation (IFC)	2024	15.00
10.	Banco de Forento e Exterior (BFE)	1339	9.82
			100.0

List of ICDS Shareholders
(1992)

ACCOR	France
Agrip	Hungary
Aliminiuum Pechiney	France
Aveco bv	The Netherlands
Banque Nationale de Paris	France
Bata Shoe Organization (Bata Ltd.)	Canada
Belgolaise Bank	Belgium
Blackwood Hodge Exports, Ltd.	United Kingdon
Booker Tate, Ltd.	United Kingdom
Bouygues	France
B P Africa, Ltd.	United Kingdom
Bühler Brothers, Ltd.	Switzerland
Carl Bro Group A/S	Denmark
CdF Ingénierie Coreal S.A.	France
Cimpor (Cimentos de Protugal, E.P.)	Portugal
Compangnie Financière et Industrielle S.A.	United Kingdom
Companhia Portuguesa Radio Marconi (CPRM)	Portugal
Covenant Industries, Ltd.	United Kingdom
DAF B.V.	The Netherlands
APV-Danish Turnkey Daries Ltd.	Denmark
EDESA S.A. Luxembourg	Switzerland
ETY-Finance Oy	Finland
F.L. Smidth & Company A/S	Denmark
F. Hoffmann-La Roche, Ltd.	Switzerland
Francisco Mantero S.A	Portugal
HSD-Arthur Young	France
IBM World Trade Corporation EMEA	United States
Indústrias de Carnes Nobre S.A.	Protugal
International Investment Corp. (Mehta Group)	India
Investimientos e Participacoes do Estade (IPE)	Portugal
ITM International S.A.	United States
Jaakko Poyry Oy	Finland
Lyonnaise de eaux	France
Nabisco Brands, Inc.	United States
Nestlé S.A.	Switzerland
Packages, Ltd.	Pakistan
Parsons & Whittemore Ltd.	United Kingdom
Partex Services Corp. SARL	Portugal
Philips International	The Netherlands
Portucel	Portugal
Quimigal, S.A. (Química de Portugal, S.A.)	Portugal
Salvador Caetano, IMVT, S.A.	Portugal

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Société générale de surveillance Holding S.A.	Switzerland
SOMDIAA	France
Sonae Investimentos	Portugal
Standard Chartered Vank Africa PLC	United Kingdom
Tata International AG	India
Thirty-three Nominees Co. Ltd. (Barclays Bank, PLC)	United Kingdom
TOTAL	France
Unicer (Uniao Cerejeira) S.A.	Portugal

APPENDIX D

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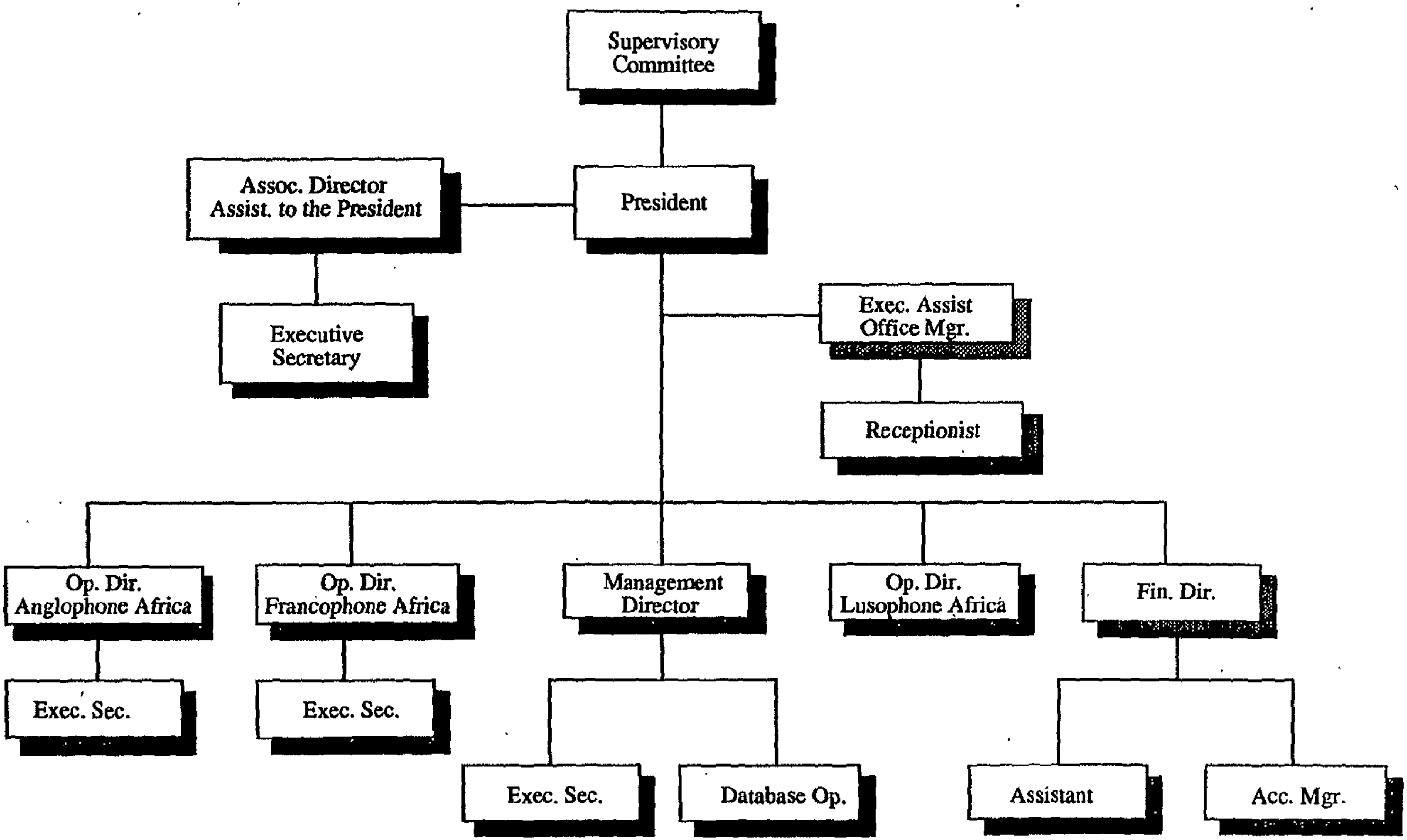
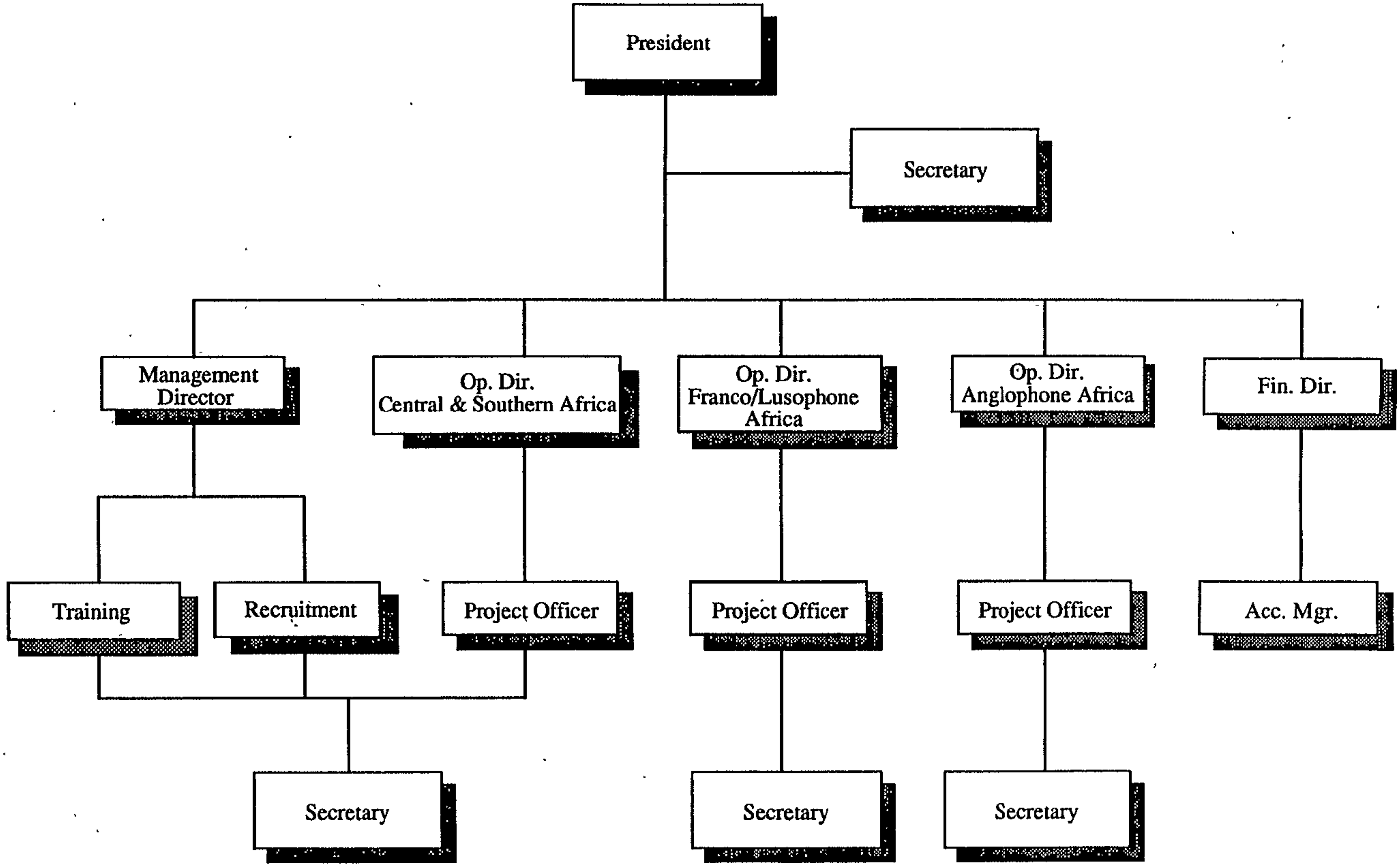
AMSCO B.V.
ORGANIZATIONAL CHART
APRIL 1991



AMSCO B.V.
ORGANIZATIONAL CHART
MARCH 1992



APPENDIX E

AFRICAN MANAGEMENT SERVICES COMPANY

Budget and Forcast
(1992 – 1993)

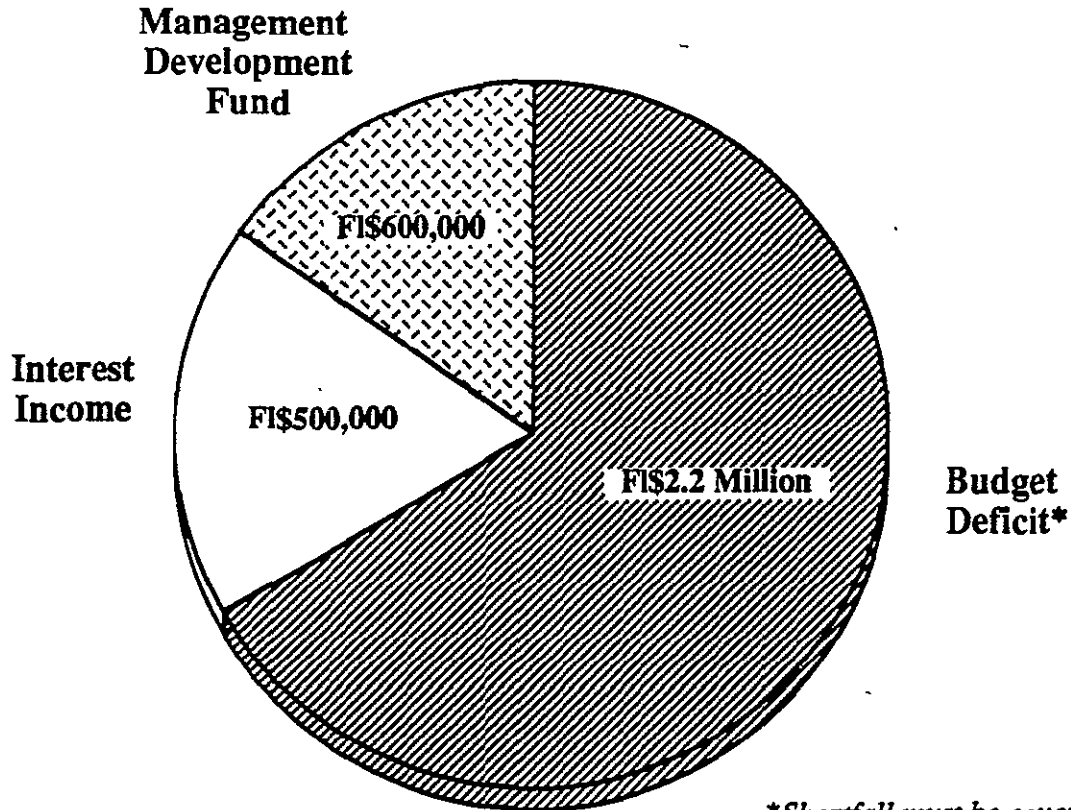
	Budgeted 1992	Expected 1992	Forecast 1993
Net Fee–Income Projects	500	600	2,200
Interest/Fee	640	600	500
MDF Contribution	598	630	600
	1,738	1,830	3,300
Less			
Staff costs	1,730	1,890	1,600
General Overhead	443	275	400
Regional Offices	224	325	
Travel	312	400	300
Professional Services	100	90	400
Business Dev. Costs	300	180	200
Provisions	543	232	400
Miscellaneous	42	28	
	3,694	3,420	3,300
Operational Loss	(1,956)	(1,590)	0

(in Dutch guilders, 000)

APPENDIX F

African Management Services Company - Estimated 1992 Income

Fl$1.1 Million
(Fl$2.2 Million Shortfall)



**Shortfall must be covered by additional project revenue, possible by mid-1993.*

Price Waterhouse

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