

NORMAN INTERNATIONAL
Investors and Business Consultants

AMSCO IMPACT STUDY: ELEVEN SELECTED CASES

A Study of the financial impact of the intervention by the African Management Services Company (AMSCO) on eleven selected client enterprises.

Prepared by:
M.S.C. Boucher and K.J. Norman.

For:
The Private Sector Development Programme,
United Nations Office for Project Services,
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Acronyms

AEF/IFC	African Enterprise Fund
APDF/IFC	African Project Development Fund
AMSCO	African Management Services Company
ATMS	African Training and Management Service Project
CDC	Commonwealth Development Corporation
CFD	Caisse Francaise de Developpement
DANIDA	Danish International Development Agency
FMO/IBTA	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.
IFC	International Finance Corporation
IFU	Industrialization Fund for Developing Countries
IMF	International Monetary Fund
MDF	Management Development Fund
MLF	Management Loan Fund
USAID	United States Agency for International Development
CEO	Chief Executive Officer
PDG	Directeur Général Adjoint
PDG	Président Directeur Général

AMSCO IMPACT STUDY: ELEVEN SELECTED CASES

Section 1 Executive Summary

1.1 Purpose and Method

The purpose of the study is to quantify the economic impact of the intervention of AMSCO in the management of a sample of eleven AMSCO clients. In five of these clients the AMSCO management contract has been completed: in six of them the contracts were on-going as at June 30, 1995.

The sample of eleven clients represents more than 25% of the total AMSCO client base signed up before January 1, 1995, and 40% of that base after elimination of those 15 clients whose management contracts were terminated before completion.

"Case Studies" have been prepared for each of the selected clients. Each study includes a brief history of the company, details of the form of the AMSCO management and training programmes, and quantifies the changes in the key financial and other economic variables during the period of AMSCO intervention.

1.2 Summary of conclusions

Each of the case studies provides a clear indication of the significant improvement in economic performance by the sample clients during the AMSCO intervention. These improvements have been aggregated, after conversion into US dollars, to provide the following average impact figures for key economic indicators:

- **Turnovers** have more than doubled, on average, in local currencies (a 45% increase in US dollars - an average of US\$2 million per company);
- **Net profits** have achieved an average turn-round of US\$856,000 per company (from an average annual net loss of US\$478,200 to a net profit of US\$378,000 per company);
The cumulative increase in net profits during the period of AMSCO interventions totals US\$13.7 million (an average of US\$1.52 million per company);
- **Operating profit** have achieved an average turn-round of US\$1 million per company (from an annual marginal operating loss to an average operating profit of US\$1 million per company);

The cumulative increase in operating profits during the period of AMSCO interventions totals US\$18.13 million (an average of US\$2.015 million per company);

- **Balance Sheets** show improvements in current asset/liability's ratio from 1.04 to 1.36 : 1 .
Achieved on average a 50% increase in value of shareholder's equity in local currency;
- **Employment and Labour Efficiencies** The local currency value of the annual production per employee has increased on average by 116%. In dollar terms this increase converts to US\$14,500 per employee per annum;
2,218 jobs have been protected, and 324 new jobs created. However, the improvements in labour efficiency have been achieved by the elimination of 948 jobs.
The average annual net profitability per employee has increased by US\$2,322, and the operating profit by US\$3,599, despite substantial devaluation.
- **Capital Efficiencies** have increased by an average of 127% in terms of increased turnover, and 130% in terms of net profits;
- **Export Earnings** have more than doubled, from an average US\$928,400 per company to US\$2.22 million per year;
- **Import Substitution** The value of import substitution plus foreign currency earnings have increased pro-rata in line with the increase in gross revenue, increasing overall by 45% in US dollars;
- **Technology Transfer** on a substantial scale has been a hallmark of the AMSCO intervention in almost all the cases under review.

1.3 Value for Money

The financial performance statistics have been normalised to US dollars, and averages calculated for comparison with the average hard currency expenses involved in AMSCO management fees and MDF training for the selected cases.

In terms of **value for money**, analysis of hard currency costs to the selected clients involved in AMSCO management fees and MDF training contributions indicates the following:

- The AMSCO contract has, at an average cost of US\$497,000, been an extremely good "investment" for these clients, on average giving a three-fold return in the cumulative increase in net profits, and four-fold return in the cumulative increase in operating profits during the period

of AMSCO intervention. This is in addition to fully recovering the client expenses of the AMSCO contract, and without consideration of the average subsidy of US\$115,000 technical assistance funding for expatriate management expenses procured with AMSCO assistance.

- The funding of management development through the MDF provides a massive financial leverage in the improved performance of the recipient companies. The direct impacts in net and operating profits show an average of ten-fold and fifteen-fold return on the MDF expenses during the period of AMSCO intervention. These improvements appear to be sustained after the completion of the AMSCO contract, but it is too early to make this a general conclusion.

In addition to these direct benefits there are also the broader financial and economic benefits of stronger balance sheets, improve labour and capital efficiencies, and substantially greater export earnings and import substitution. There also has been a substantial transfer of technology.

1.4 Financial Leverage

In addition to the direct financial benefits of AMSCO intervention, ten of the selected companies benefited directly through further funding from shareholders, lenders and/or donors as a result of the management credibility and stabilisation effected by the AMSCO intervention.:

- four of the companies received a total of US\$1.55 million additional equity subscriptions, an average of US\$388,950 per company;
- four of the companies obtained a total of US\$10.2 million additional loan funds, an average of US\$ 2.6 million per company;
- seven of the companies received a total of US\$4.8 million grants or soft loans/technical assistance, an average of US\$680,000 per company.

The total additional funding (in the form of equity, loans and grants) "leveraged" as a result of the confidence in the management of the company arising from the AMSCO intervention amounted to an average (over ten companies) of US\$ 1.65 million per company.

Section 2. Introduction

2.1 Purpose of the Study

The purpose of the study is to quantify and evaluate the impact of AMSCO intervention on eleven selected AMSCO clients (the selection of the clients being done jointly with AMSCO senior management).

2.2 Sources

The primary criteria used to measure the impact of AMSCO intervention on these selected enterprises are changes in their financial and operational performance during the period of AMSCO intervention in the following areas:

- Turnover;
- Number of employees;
- Net profit;
- Operating profit;
- Assets;
- Liabilities;
- Shareholders' equity;
- Labour efficiency ratios;
 - on turnover;
 - on operating profits;
- Capital efficiency ratios;
 - on turnover;
 - on net profits;
- Export earnings;
- Import substitution;
- Technology transfer.

Data on some of these functions was not available (or necessarily relevant) for some of the selected enterprises. However, for every case it was possible to complete an analysis to quantify in clear terms the financial impact of the AMSCO intervention.

2.3 Case Studies

The primary analysis of each enterprise is presented in the form of a case study. The primary sources of data for these studies were the annual financial statements, and the monthly and/or quarterly management operating reports of the relevant companies. These data were supplemented extensively from business plans, technical assessments, and correspondence on the files of AMSCO, plus direct discussions with client companies' executives and principals.

It is relevant to note that the information available in the AMSCO files indicated a very wide range in the quality and quantity of reporting from

the field managers, and that no standard form of regular monthly/quarterly operational report had been established and imposed. In some cases the monthly reports are very detailed, in much greater detail than a normal monitoring function would require. In other cases the reporting is occasional and incomplete. In one case there have been no regular reports. These inconsistencies in reporting standards suggest that the monitoring of the performance of the clients and their AMSCO managers has also been irregular and of variable standards.

To provide the context in which each intervention took place, the case studies also provide a brief history of each company and a fairly detailed summary of the management and training intervention that has been provided to each of the clients.

2.4 Normalisation and Aggregation

In order to provide comparison between the changes in the performance of individual enterprises, and to calculate the average impact of AMSCO over the whole sample, the financial data have been "normalised" to US dollar values (using the exchange rate applicable in each of the relevant year).

Aggregation of these data has also enabled the financial impact of AMSCO during the period of intervention (in terms of increased volume, profit, etc.) to be directly compared with the AMSCO expenses incurred by or on behalf of the clients on management fees, MLF loans and MDF contributions.

The on-going financial impact of the AMSCO interventions is also identified from the actual/estimated performance of each company in its current financial year. These have also been converted to US dollars and presented individually and in aggregate form.

2.5 Leverage

Finally, an Annex to the report includes data on the further benefits to the selected cases in the form of additional equity, loans and grants attracted to the clients as a result of the improved credibility and confidence provided by the AMSCO management intervention.

3 Summary

3.1 AMSCO Impact

i) Normalization of the data

To enable the data in the individual case studies to be aggregated the financial figures have been converted to US dollars. Table 1 (pages 13 and 14) summarize the "impact" information from the case studies (converted at the exchange rates in each of the relevant years). Table 2 (page 15) summarizes similar information for the current fiscal year, in both local currency and US dollars.

It must be noted that conversion into US dollars will give a considerable conservative bias to the aggregate figures, as, with the exception of the two most recent contracts under review, the local currency of the remainder of the clients under study has been devalued during the periods of AMSCO intervention by average of 42.5% - that is to say that during the AMSCO management period the local currencies were devalued by almost 50% against the US dollar.

The effect of the devaluations is to reduce the dollar value of the improvements, relative to the US dollar "base-line" performance established at the beginning of the AMSCO intervention, in the areas of turnover, gross and net profits, asset values, labour efficiency ratios and shareholders' equity. In addition, due to the fact that a majority of the medium and long term liabilities of the enterprises were hard currency loans, there was not the offsetting advantage of the reduction of liabilities in dollar terms.

These factors should be borne in mind in evaluating the US Dollar impact figures presented in Tables 2 and 3, and summarized below.

ii) Aggregate and average impact

• Employment:

The total number of jobs "saved" (on the assumption that without AMSCO intervention the client would have eventually gone out of business) totals 2,218 (an average of 202 per client). The number of new jobs created is 324 (average 30 per client).

The overall impact of AMSCO on the entire sample was to reduce the total employment by a net figure of 624, due to the necessity to improve labor efficiency substantially in order to survive (see Labour Efficiency, below). However the "quality" of the surviving jobs in terms of security and economic contribution has been greatly improved.

- Turnover:

Over the period of AMSCO intervention the turnover in local currencies of the nine sample clients for which data were available has more than doubled (an average increase of 109%, unweighted).

The "base line" total turnover of the nine companies for which data were available was US\$40 million (average US\$4.4 million per client). Over the periods of intervention the total cumulative increase in these revenues was US\$18,13, million despite the fact that on average the local currencies had devalued by more than 40%.

This aggregate figure is also significantly distorted by the inclusion of one company, which suffered a reduction of US\$15 million in cumulative turnover over the five year period of AMSCO intervention (refer to Case Study 5 for details). If the figures for this company are omitted, the gross revenues of the remaining eight clients have increased 119% from US\$30.2 million to US\$66 million (an average increase of US\$4.5 million per company).

- Profitability:

The figures available on profit were not always reliable, sometimes being deliberately understated. In at least two cases the figures on net and gross profits provided for the case studies are known to be substantially lower than the actual profit performance of the companies.

Only three of the AMSCO clients under study were making a net profit at the beginning of the AMSCO intervention. Operating losses across all eleven clients averaged US\$5,000 and net losses averaged almost US\$500,000 per company.

In the cases for which data are available (including the 1993 figures for Company A) the following dramatic changes have occurred:

- in the current fiscal year the average net profit is US\$378,000 per client, compared with an annual loss of US\$478,200 per client at the beginning of the AMSCO intervention (based on seven companies);
- in the current fiscal year the average operating profit is US\$1 million per client, compared with an average marginal operating loss at the beginning of the AMSCO intervention (based on nine companies);
- the cumulative aggregate increase in net profits during the AMSCO intervention is US\$13.7 million, an average of US\$1.52 million per client (based on nine companies);

- the cumulative aggregate increase in gross profits during the AMSCO intervention is US\$18.13 million, an average of US\$1.65 million per client (based on nine companies).

In assessing these figures it is important to remember that these figures are after conversion to US dollars at the rate applicable in each year. Figures for the improvements for individual enterprises in both turnover and profit performance are even more impressive in local currencies.

- Balance Sheet:

The large changes in currency values experienced by almost all of the eleven clients (particularly those in the FCFA system and in Kenya) has played havoc with their balance sheets. The fact that most of the companies have significant hard currency liabilities compounded the problems, leading some companies to revalue their capital assets.

Despite these structural difficulties, the balance sheets of several of the companies studied were strengthened during the AMSCO intervention, even in US dollar terms. The average current assets / current liabilities ratio for the eight companies for which data are available was 1.04 : 1 at the commencement of the AMSCO intervention. At the end of the intervention periods this ratio improved to 1.36 : 1.

For the nine clients for which data or adequate estimates are available their equity in local currency has increased by an unweighted average of 50%. In addition, at least three of the companies have distributed profits during the AMSCO intervention period. Although reliable data are not available it is believed that distributions could amount to more than US\$4 million.

The substantial increase (50%) in balance sheet equity in local currency is masked when converted to US dollars, because of the devaluation of local currencies during the AMSCO intervention. In US dollar terms the aggregate equity value of the nine clients has gone down from US\$20.8 million to US\$19.2 million, a 7.5% reduction.

- Labour efficiency:

In the nine companies for which productivity figures are available the average increases in labour productivity (in terms of increased turnover) during the AMSCO intervention periods was US\$14,500 per employee.

Behind this single statistic lie dramatic increases in labour productivity in terms of local currency: in the periods of AMSCO intervention labour productivity in the same seven clients increased on average (unweighted) more than two and one half times the base figure.

The improvement in the profitability of labour, in terms of the increase in the annual net and operating profits per employee, was equally dramatic: average increases of US\$2,322 and US\$3,599 respectively per employee during the AMSCO intervention periods reflected a turn-around from sustained operating losses in six of the clients to net and operating profits in nine of them. One of the major strengths demonstrated by AMSCO managers has been improved control of labour and productivity.

- Capital Efficiency

The capital efficiencies of all of the clients under review have increased, with the exception of one (Company J). Reliable data were not available for three of the clients, and the calculation of capital efficiencies for two other clients was compromised by the revaluation of their assets, following the FCFA devaluation.

Firm data or reliable estimates are available on seven of the clients, which indicate an average increase in capital efficiency of 127% in terms of increased turnover and 130% in terms of net profitability.

- Export / Foreign Currency Earnings:

Six of the companies under study directly earn foreign currency, and of these five increased the US\$ value of these earnings during the AMSCO intervention (Company G being the exception, where exports halved in US dollar value, solely due to the FCFA devaluation).

The export value "base line" for all six companies, converted at the exchange rates at the beginning of the AMSCO interventions, totaled US\$4.36 million. In the current fiscal year, at current exchange rates, the total foreign currency earnings of the same six companies is US\$13.3 million, a 200% increase. The average foreign currency earnings per company of these six companies has gone from US\$725,000 to US\$2.22 million per year.

Again, the normalisation of the figures to US dollars obscures the fact that since much of the exports were intra-regional, the percentage of the local currency value of the increase in export earnings was almost double the US dollar figure.

- Import Substitution:

All of the companies contribute import substitution benefits (hard currency savings) to their local economies (with the exception of Company J for which, the product is 100% for export). However reliable statistics on both the gross and net import substitution impact were difficult to obtain.

It is reasonable to assume that the contribution of the AMSCO interventions in assisting in the recovery and successful development of these enterprises, has protected and increased the import substitution benefit of their operations.

- Technology Transfer:

In all eleven of the clients the transfer of technology has played an important role. In eight clients technology transfer has been a central feature of the AMSCO intervention, through the provision of technological expertise in the seconded managers and specialist consultants.

In two of the clients (Companies D and F) the principal areas of expertise transfer has been sales and marketing management.

In all of the clients the provision of management expertise (planning, financial and technical control, human resources, etc.) has played a vital role in achieving improved performance.

4.2 Post AMSCO Intervention Impact

The figures presented in paragraph 4.1 (ii) above refer only to the impact of AMSCO during the periods of intervention. The AMSCO management contract has been completed in five of the eleven cases under review, and each of these companies continue to enjoy the long term benefits of the improved levels of performance achieved during the AMSCO intervention.

Two of the cases, (Companies A and C) are enterprises that AMSCO successfully prepared for privatisation. Both were making substantial losses and operating at a fraction of their capacity at the beginning of the AMSCO intervention. Both were sold off towards the end of the intervention period: Company C for US\$2 million; and Company A for an undisclosed sum (but at least US\$3 million). The sales also terminated the need for government subsidies, which had been running at the annual rates of US\$2 million and US\$1.2 million respectively.

In three more of the companies under study (Companies B, D and G) the AMSCO management contracts were completed in mid-1995. This is too recent to provide any indication of the sustainability of the AMSCO

million (an average of US\$200,000 per client). 73% of these funds were provided by FMO. (Annex 1 deals with the "leverage" benefits of AMSCO intervention in more detail).

The non-recoverable ATMS grant funds expensed from the MDF have an even greater leverage impact through AMSCO intervention. The average MDF budget for the management development for the eleven companies under review is US\$79,500 per company. The benefit of this expenditure in terms of average net and operating profits is ten fold and fifteen fold respectively. This is a remarkable leverage achievement on Technical Assistance development funds.

In addition to the management fees and MDF grants, the ATMS project has also supported some of the AMSCO clients through MLF loans. Six of the eleven clients under review have been assisted in this manner, to a total of US\$1.41 million. As at June 30, 1995 US\$498,407 of this amount was outstanding.

4.5 Expenses on the total of 50 AMSCO clients to June 30, 1995

The whole portfolio of AMSCO clients since inauguration of the project to June 30, 1995 has involved 52 contracts, with a total of 50 clients. The aggregate and average commitments of AMSCO during this period are summarised as follows:

- Management Fees - Total US\$23.36 million (average US\$467,000 per client);
- MLF Loans - Total US\$8.07 million (average US\$160,000 per client);
- MDF Budgets - Total US\$4.98 million (average US\$100,000 per client).

From these figures it is clear that the average financial expenses incurred on the AMSCO contracts for the eleven selected clients are very close to the averages for the whole portfolio.

The scope of this report does not extend to the economic impact of AMSCO on the remainder of the portfolio. However, it is worth noting that the cumulative increase in operating profits on the eleven selected clients during the AMSCO intervention periods is approximately three-fold the total MDF budget allocation for the entire AMSCO portfolio as at June 30, 1995.

AMSCO IMPACT REPORT

TABLE 1: SUMMARY OF FINANCIAL / ECONOMIC PERFORMANCE DURING THE PERIOD OF AMSCO INTERVENTION (in US\$'000) FOR ELEVEN SELECTED COMPANIES

Page 1 of 2

AMSCO Clients	1 Company A Mar.31.93 (privatisation)	2 Company B DEC.31.93	3 Company C (privatisation)	4 Company D June 30.95	5 Company E June 30.95	6 Company F June 30.95	7 Company G June 30.95	8 Company H Dec.31.94 (new project)	9 Company I June 30.95	10 Company J June 30.95	11 Company K Sept.30.95 (new project)	TOTAL
1. Labour Financial Data												
No. of jobs lost	129	nil	373	*	nil	14	379	nil	nil	52	nil	895
No. of jobs saved	918	nil	351	*	121	110	200	70	80	12	89	2,288
No. of jobs created	nil	70	nil	*	12	37	nil	60	15	12	89	324
Total jobs saved and created	918	70	351	*	133	147	200	60	95	64	89	2,542
2. Gross Revenue												
Based Maintained	10,292	1,204		*	7,048	4,371	9,818		2,994	236	nil	40,622
Cumulative Increases	12,962	1,662		*	5,508	4,225	(15,731)		750	126	1,129	18,128
3. Net Profit												
Based Maintained	(1,292)	(1,633)		*	594	220	(480)		(1,894)	6	nil	(4,782)
Cumulative Increases	4,576	2,809		*	603	292	(244)		2,274	(63)	282	13,684
4. Operating Profit												
Based Maintained	(625)	(742)		*	2,404	303	(480)		(1,165)	6	nil	(45)
Cumulative Increases	3,669	2,340		*	2,198	555	(1,193)		1,236	(37)	564	11,935
5. Assets												
i) Current	4,750	n.a.		*	3,317	2,929	8,306	6	3,004	153	n.a.	25,031
Base	3,818	532		*	4,935	5,143	4,707	354	2,862	269	n.a.	23,020
Increase / decrease to												
ii) Fixed												
Base	3,292	6,825 est.		*	5,836	853	4,632	507	3,579	120	n.a.	35,997
Increase / decrease to	2,727	4,909		*	3,600	791	3,650	425	3,161	198	n.a.	26,727
6. Liabilities												
i) Current												
Base	4,292	1,971		*	3,372	1,745	6,752	34	4,793	145	n.a.	26,066
Increase / decrease to	4,208	685		*	3,359	3,374	4,390	8	3,964	132	n.a.	26,159
ii) Medium and Long Term												
Base	1,280	6,025		*	2,621	515	3,673	521	855	53	n.a.	17,925
Increase / decrease to	468	6,159		*	1,150	186	2,016	284	1,139	232	n.a.	11,634

AMSCO IMPACT REPORT

TABLE 1: SUMMARY OF FINANCIAL / ECONOMIC PERFORMANCE DURING THE PERIOD OF AMSCO INTERVENTION (in US\$'000) FOR ELEVEN SELECTED COMPANIES

(page 2 of 2)

AMSCO Clients	1 Company A Mar.31.93	2 Company B DEC.31.93	3 Company C	4 Company D June.30.95	5 Company E June.30.95	6 Company F June.30.95	7 Company G June.30.95	8 Company H Dec.31.94	9 Company I June.30.95	10 Company J June.30.95	11 Company K Sept.30.95	TOTAL
7. Shareholders' Equity												
Base	2,500	n.a.		*	3,159	1,519	2,513	37	927	75	n.a.	20,772
Increase / decrease to	1,870	1,422		*	4,083	2,353	1,952	486	920	98	n.a.	19,190
						divl = 500						
8. Improved Labour Efficiency												
per Employee:												
i) Increase (decrease) annual turnover (in local currency)	176%	96%	n.a.	*	60%	98%	197%	n.a.	124%	20%	60%	111% (unweighted average - 9 clients)
ii) Increase (decrease) annual net profitability (local currency '000 (US \$))	7,298 1,647	3,720 6,339	n.a. n.a.	*	403 4,857	16.7 340	776 1,611	n.a. n.a.	5,958 1,221	16.9 (1,099)	n.a. n.a.	2,322 average (8 clients)
iii) Increase (decrease) annual operating profitability (local currency '000 (US\$))	6,100 1,370	2,360 4,306	n.a. n.a.	*	1,278 15,043	68 1,435	1,444 2,998	n.a. n.a.	4,326 886	13.7 (1,095)	1,780 3,469	3,557 average (9 clients)
9. Capital Efficiency Increase												
i) Productivity	233%	34%		*	179%	591%	82%	nil	94%	5%	n.a.	
ii) Profitability	79%	(12%)		*	15.7%	48%	12.9%	nil	54%	23%	n.a.	
10. Export Earnings												
Base Maintained (US\$'000)	n.a.	nil		*	nil	44	1,669	nil	2,000	236	nil	
Cumulative Increase (US\$'000)	n.a.	nil		*	nil	381	(658)	nil	1,035	126	960	
11. Import Substitution												
Base Maintained (US\$'000)	100%	100%		*	100%							
Cumulative Increase (US\$'000)	10,300	nil		*	7,048			nil	n.a.	nil	n.a.	
	600	1,300		*	5,508			nil	n.a.	nil	n.a.	

Notes:

1. Company A - balance sheet as at August 31, 1993 - operating statement estimate as at March 31, 1993
2. Company G - balance sheet information available as at December 31, 1994 only
3. Company D - please see Special Note on page 46

AMSCO IMPACT REPORT

TABLE 2: GROSS REVENUE, PROFITABILITY, CHANGE IN EQUITY VALUE AND EXPORT EARNINGS FOR FINANCIAL YEAR ENDING ON / OR BEFORE DECEMBER 31, 1995 FOR ELEVEN SELECTED COMPANIES

Company	% Increase in Gross Volume	Net Profit		Operating Profit		% Change in Equity Value	Export Value (Current Year)
	Local currency	Local Currency	US\$'000	Local Currency	US\$'000	Local Currency	US\$'000
Company A (privatised) (ye June 1993)	130%	n.a.	n.a.	3.6 m	926	50%	n.a.
Company B (ye Dec.31.95 based on Dec.31.94)	110%	(133) m	(272)	28 m	57	deficiency	nil
Company C (privatised)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Company D (ye June 30,95)	.	.	.	.	.	.	.
Company E (ye Dec.31,95)	75%	96.6 m	1,164	344 m	4,146	48% (+ dividends)	nil
Company F (ye Dec.31,95)	164%	30 m	625	42 m	875	155% (+ dividends)	250
Company G (ye Dec.31,95)	15%	33.44 m	68	124.8 m	256	36%	1,445
Company H (ye Dec.31,95)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	nil
Company I (ye Dec.31,95)	125%	15.3 m	31	165 m	338	61%	3,580
Company J (ye Dec.31,95)	23%	(1,008) m	(58)	(0.787) m	(45)	27%	491
Company K (period ended Dec.31,95)	44%	n.a.	n.a.	415 m	850	25%	1,646
TOTAL (US\$'000)	----	----	2,649	----	8,931	----	13,742
Average per Client	109% (unweighted)	----	378	----	992	50% (unweighted)	2,290
Number of Clients	9 clients		7 clients		9 clients	8 clients	6 clients

Notes:

1. Companies E and J - turnover for the six month period to June 30, 1995 represent 40% and 43% respectively. The estimated turnover for the ye Dec.31, 1995 would be twice that to June 30, 1995 in all other cases.
2. Exchange rate for US\$ at December 31, 1995 assumed to be the same as June 30, 1995
3. Company D* - Please refer to the Special Note on page 46.

AMSCO "IMPACT" REPORT

TABLE 3.: SUMMARY OF FEES, MLF (LOANS) AND TRAINING EXPENSES (in US\$)

	1	2	3	4	5	6	7	8	9	10	11	TOTAL
	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H	Company I	Company J	Company K	TOTAL
1. Management Fees (US\$) Receivable as at Nov.10, 95 (US\$)	240,100 50,000	38,180 40,000	561,438 nil	318,000 91,503	962,450 105,840	420,000 65,190	721,1725 43,648	636,000 nil	882,800 255,763	168,200 58,500	223,650 12,180	5,172,543 722,941
2. MLF (Loan) (US\$) Receivable as at Nov.10, 95 (US\$)	190,000 190,000	nil nil	nil nil	146,880 nil	443,509 nil	215,200 nil	175,492 134,604	237,415 173,603	nil nil	nil nil	nil nil	1,408,795 498,407
3. MD expenses (as at May 31, 1995) NFI US\$ (Rate NFI1.64 = \$1)	308,199 187,926	114,438 69,779	89,369 54,493	76,801 46,830	223,600 136,341	45,826 27,943	354,949 216,432	11,218 6,840	75,007 45,736	104,596 63,778	29,981 18,281	1,433,984 874,379

Section 4. Conclusions

4.1 Conclusions

In the eleven cases under review the economic impact of the AMSCO intervention has been very positive and impressive:

- **Turnover** have more than doubled, on average, in local currencies (a 45% increase in US dollars - an average of US\$2 million per company);
- **Net profits** have achieved an average turn-round of US\$856,000 per company (from an average annual net loss of US\$478,200 to a net profit of US\$378,000 per company);
The cumulative increase in net profits during the period of AMSCO interventions totals US\$13.7 million (an average of US\$1.52 million per company);
- **Operating profit** have achieved an average turn-round of US\$1 million per company (from an annual marginal operating loss to an average operating profit of US\$1 million per company);
The cumulative increase in operating profits during the period of AMSCO interventions totals US\$18.13 million (an average of US\$2.015 million per company);
- **Balance Sheets** show improvements in current assets/liabilities' ratio from 1.04 to 1.36 : 1 .
Achieved on average a 50% increase in value of shareholder's equity in local currency;
- **Employment and Labour Efficiencies** The local currency value of production per employee has increased on average by 142%. In dollar terms these increases convert to US\$14,500 per employee per annum; 2,218 jobs have been protected, and 324 new jobs created. However, the improvements in labour efficiency have been achieved by the elimination of 948 jobs.
The average annual net profitability per employee has increased by US\$2,322, and the operating profit by US\$3,599, despite substantial devaluation.
- **Capital Efficiencies** have increased by an average of 127% in terms of increased turnover, and 130% in terms of net profit.
- **Export Earnings** have more than doubled, from an average of US\$928,400 per company to US\$2.22 million per year; 13 US\$2.22 million per year.

- **Import Substitution** The value of imports plus foreign currency earnings have increased pro-rata in line with the increase in gross revenue, increasing by 45% in US dollars;
- **Technology Transfer** on a substantial scale has been a hallmark of almost all the cases under review.

4.2 Value for Money

The financial performance statistics have been normalised to US dollars, and averages calculated for comparison with the average hard currency expenses involved in AMSCO management fees and MDF training for the selected cases.

In terms of value for money, analysis of the data available on the eleven selected clients show that clearly that:

- The AMSCO contract has, at an average cost of US\$497,000, been an extremely good “investment” for these clients, on average giving a three-fold return in the cumulative increase in net profits, and four-fold return in the cumulative increase in operating profits during the period of AMSCO intervention. This is in addition to fully recovering the client expenses of the AMSCO contract, and without consideration of the average subsidy of US\$115,000 technical assistance funding for expatriate management expenses procured with AMSCO assistance.
- The funding of management development through the MDF provides a massive financial leverage in the development of improved performance of the recipient companies. The direct impacts in net and operating profits show an average of ten-fold and fifteen-fold return on the MDF expenses during the period of AMSCO intervention. These improvements continue after the completion of the AMSCO contracts.

In addition to these direct benefits there are also the broader financial and economic features of stronger balance sheets, improve labour and capital efficiencies, and substantially greater value of export earnings and import substitution.

4.3 Financial Leverage

In addition to the direct financial benefits of AMSCO intervention, ten of the selected companies benefited directly through further funding from shareholders, lenders and/or donors as a result of the management credibility and stabilisation effected by the AMSCO intervention.

- four of the companies received a total of US\$1.55 million additional equity subscriptions, an average of US\$388,950 per company;
- four of the companies obtained a total of US\$10.2 million additional loan funds, an average of US\$ 2.6 million per company;
- seven of the companies received a total of US\$4.8 million grants or soft loans/technical assistance, an average of US\$ 680,000 per company.

The total additional funding (in the form of equity, loans and grants) “leveraged” as a result of the confidence in the management of the company arising from the AMSCO intervention amounted to an average (over ten companies) of US\$ 1.65 million per company.

Section 5. Case Studies

Since inauguration in April 1989 to June 30, 1995 AMSCO has signed 52 management and training contracts involving 50 client enterprises in Africa (two clients signed extension contracts).

Fifteen of the AMSCO client contracts were terminated before completion of their full term. Eight other contracts were commenced in the first half of 1995, and were therefore not sufficiently advanced to justify study at this time. Of the remaining 27 clients, the following eleven were selected for detailed study:

- 5.1 Company A - Production of maize and wheat flour.
- 5.2 Company B - Production and distribution of dairy products and fruit juices.
- 5.3 Company C - Groundnut processing.
- 5.4 Company D - Production and distribution of biscuits, breakfast cereal.
- 5.5 Company E - Production and distribution of beer and soft drinks
- 5.6 Company F - Paint manufacture and distribution
- 5.7 Company G - Manufacture and distribution of inner tubes and tyres
- 5.8 Company H - Horticulture production of cashew and mangos
- 5.9 Company I - Plastic product manufacture
- 5.10 Company J - Typesetting and photocomposition
- 5.11 Company K - Hotel operation

To set the context of the AMSCO involvement each study provides a brief history of the enterprise prior to the intervention. The main content of each of the studies includes specific information on:

- the form, period and value of the AMSCO management contract (including the MDF contribution and any MDF loan);
- a summary of the AMSCO intervention, detailing the management and training activities of the AMSCO managers;
- details of the economic impact of the AMSCO intervention, under the five main headings of : turnover and profitability; balance sheet; labour and capital efficiency; export and/or import substitution; and technology transfer.

Each study concludes with a summary of the overall impact of the AMSCO intervention.

5.1 CASE STUDY NO.1

1. Name : Company "A" ("the Company")
2. Location : Southern Africa
3. Primary Products : Production of maize and wheat flour.
4. Secondary Products : Animal feed manufacture
5. Principal Shareholders : 100% by a state-owned holding company.
6. Size: (as at Aug.31, 1990)
 - No. of Employees : 1,047
 - Annual Sales : US\$18.7 million equivalent
 - Fixed Asset Value : US\$3.5 million equivalent
 - Net Loss : US\$(1.2 Million) equivalent

7. Summary

In November 1990 an AMSCO team took executive control of the Company, to improve its performance prior to privatisation. At that time the Company suffered 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 credit facilities by two local commercial banks.

The new managers benefited from the detail analysis, audit and business plan that AMSCO had undertaken prior to contract. As a result of this the impact of the AMSCO intervention was immediate and dramatic. However, within six months of taking over the Company the AMSCO managers were faced with a series of unanticipated difficulties, the greatest of which was a 50% drop in sales due to importation of flour at heavily discounted prices.

Having successfully petitioned the government to impose a surcharge on these imports the management continued to improve the technical and commercial performance of the Company, and to complete an intensive training programme for senior and middle managers.

At the end of the second year of AMSCO management a controlling interest in the Company was acquired by a large local business, at a price substantially greater than originally offered, and the AMSCO mandate was extended for a further year.

The success of the AMSCO intervention was testified by the new owners, who wrote to an international donor that:

"AMSCO...proceeded to improve operating and financial systems and controls and upgraded technical aspects. They improved product presentation and customer relations. AMSCO also arranged a considerable amount of in-house and external training at all levels.

The result was improved operations, products and profitability and a better commercial image.

Indeed we (the new majority shareholder) were sufficiently satisfied to formalise their share offer and to ask AMSCO to extend their contract for an extra year. Thus AMSCO has been good for Company A .."

A further measure of the AMSCO contribution is the fact that over the two year period prior to privatisation it earned performance bonuses totalling US\$82,600.

8. Brief History of the Company

Until 1978 the Company was reportedly run as a profitable operation. Thereafter, the Company experienced a dramatic decline, culminating in an accumulated loss of US\$1.35 million in 1983 and a negative shareholder's equity of US\$875,000. The primary reason for this decline was that the wheat mill was virtually idle because demand was being fulfilled by imports of South African flour, which were subsidised.

In 1984 the Company was restructured financially. Major creditors, converted outstanding payments to equity and long term debt (US\$2.1 million and US\$958,000 respectively).

Despite this substantial improvement in the balance sheet the financial position of the Company remained weak and the years of loss making operations had led to serious technical and managerial deterioration to the point that the Company could not satisfy the limited local market available. In 1988 the Company was selected for privatisation by the government, but with the history of steady losses and failure to keep up with local demand, no offers were received that came close to the government's estimate of the Company's worth.

i) Management

The two AMSCO managers were selected with the assistance of a private sector AMSCO shareholder with experience in Africa. Immediately upon arrival 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 the first month of taking over the new management team became aware of serious errors in the balance sheet as at October 31, 1990, and that the cash resources of the Company at that date had been over-stated by US\$583,000.

The immediate efforts of management were aimed at cost reduction, through a freeze on recruitment, the elimination of overtime and casual labour, improved stock control and better sourcing of raw materials. A radical technical programme for improved mill efficiency was introduced, and a major marketing and public relations campaign was launched.

By December 1990, the detailed proposals of the AMSCO management team were incorporated into a revised business plan. The plan included:

- a Statement of Purpose and Company Objectives;
- a detailed market analysis;
- specific objectives, strategies, action plans and time allocations for seven key management areas;
- four year cash flow and financial forecasts to achieve the Company objective of a 20% return on capital.

An immediate problem was the supply of wheat to the Company. Supplies to augment the local crop were bought into the country under military escort. This route was unreliable, leading to frequent shut-down of mills due to lack of raw material.

Two local banks, holding debenture security on the assets of the Company, had refused to activate credit lines, due to their concern regarding the financial position of the company. Negotiations were reopened, and credit lines of US\$181,000 and US\$1.1 million were reactivated.

Overdue receivable from three major clients were pursued, and new credit terms and payment procedures were negotiated, bringing accounts into line.

A restructure of the marketing department, and co-ordination of distribution from the main production centres were introduced, to improve sales performance. Contact with major customers was

developed, to rebuild confidence in the improving performance of the company in terms of reliable delivery, quality and consistency of product. This included sample trials and extensive sample analysis on different types of flour from various sources.

Contact was also made with local potential sources of industrial by-product (such as molasses, spent yeast, fruit pulp, etc.) to substitute for the expensive imported raw materials (such as soya beans and fishmeal) used as stock for cattle feed manufacture.

Most importantly, the management determined that the impact of the immediate cost saving steps, plus the increased revenue being generated, would enable the Company to postpone the major capital improvement investments (totalling US\$3.23 million) for six months, at which time they could be financed out of profits. This, plus confirmation of the reactivation of the line of credit would have enabled the Company to complete the business plan rehabilitation programme without further medium or long-term outside financing.

At the end of January 1991, AMSCO withdrew the CEO from the company at the request of the Company. This situation appears to have arisen as a result of the very tough decisions required to turn the Company around, and the disagreements between the CEO and the Board of Directors arising from these decisions. The Technical Director took over as CEO, and his replacement was recruited by AMSCO.

By the end of March 1991, the impact of the immediate actions taken by management were reflected in the performance of the Company. In the first four months of AMSCO management, the value of sales and gross profit were 22% above the revised business plan, and operating profit was 72% above plan. After provision for AMSCO fees and stock write-off identified after take-over, the net income before taxes was 82% above plan. AMSCO earned a performance-related bonus of US\$36,000 for the period.

During the balance of 1991 the management faced a series of unanticipated problems, that caused a significant drop in performance below the business plan:

- improvements in the accounting system brought to light serious stock discrepancies, some going back two years. These led to write-offs and adjustments in excess of US\$290,000;
- a major contract with the World Food Programme (UNHCR) in April 1991 to mill 6,600 metric tonnes of imported maize for refugees was cancelled after only 10% performance, due to the failure of suppliers to deliver the maize.
- the imposition by the government of a 10% surtax on all sales of animal feed;

- the increase in the cost of landed wheat by more than 35%. This was mainly due to the closure of the normal delivery route, and the strengthening of the U.S. dollars;
- increases in electricity charges, insurance premiums and labour costs;
- sales of maize flour fell below forecast, due to continued imports from Holland and South Africa, at heavily subsidised prices.

Accounting control continued to be a problem during the period, and in November 1991 management placed an order for complete computerisation of the accounting and production record systems, due to be on line by April 1992.

On the basis of the March 31, 1991 accounts, a major local private company, acting on behalf of a joint venture company with a South Africa company made a bid in November 1991 of US\$2.3 million for 80% of the equity of the Company, as a going concern. The bid, which included acceptance of the liability for inter-company loans, was refused.

During this six month period of losses the Company received the spare parts and capital equipment ordered at the beginning of AMSCO intervention. The spare parts were installed, and resulted in further improvements in technical performance. However, the Board decided that, in the light of the financial restraints on the Company arising from the 1991/92 set backs, not all of the new equipment should be installed. This decision reflected the equivocal attitude of the Board to many of the policy issues and recommendations being presented by the AMSCO team at that time, caused by the immanence of privatisation.

Following the presentation by the AMSCO managers of documented evidence of subsidies of up to 47% on imported flour, the government imposed a surcharge on imported flour in April 1992.

Performance of the Company stabilised during 1992, and management efforts were concentrated on the establishment of financial and technical control systems, and the intensive management training programme introduced by AMSCO. From early 1992, the Company returned to profitability, and achieved the original target of a rate of return on capital invested of greater than 20% over the period of AMSCO management.

In November 1992, the government sold a controlling interest in the Company to a major local private company, for a considerably larger sum than previously offered. As part of that transaction the AMSCO contract was extended for a further twelve months, to October 31, 1993. Both of the AMSCO managers remained at the new company for the duration of the contract, and one of them stayed on as a senior manager with the local purchaser thereafter.

At the end of the AMSCO contract period the local investor organised the purchase of a further equity participation a major South African milling company, who took over responsibility for technical management of the Company, using the existing management team.

ii) Training

On the job training at the production units was initiated immediately following the take-over of executive responsibility by the AMSCO managers in November 1990.

In March 1991, the AMSCO Training Director visited the Company to assess the training needs of the local senior management team and formulated a full training programme, which commenced in May 1991. The critical area of employee discipline and morale was addressed in the preparation of a human resources programme. This was a particularly sensitive area, due to the fact that the government's intention eventually to privatise the enterprise was public knowledge.

Early in the training programme AMSCO assisted with the recruitment of a local Training Officer.

The training programme was based on an assessment of the individual need of each of the local managers, including the development of two potential successor general managers.

Twelve managers received training ranging from two-week courses and seminars to a twelve month MBA degree course in Europe. Training took place in five African countries (including South Africa) and four European countries.

As a result of intensive external and internal training the managers became aware of the interdependency of departments, and communications improved throughout the Company.

11. Summary of economic impact of AMSCO :
(refer to Table 4.1, page 30)

Following the acquisition of a controlling interest in the Company in November 1992, the Company ceased to send financial or other reports to AMSCO. Specific commentary is therefore limited to the available data for the first 22 months of the 36 month contract period.

i) Turnover and profitability

During AMSCO intervention the gross revenue of the Company more than doubled, mainly reflecting the increased sales made possible as a result of the additional capacity available with the improved plant operations.

The dramatic initial impact of the first six months of the AMSCO mandate turned a US\$625,000 annual operation loss to US\$1.16 million annual profit. This situation was reversed in the following twelve months, due to several serious external factors beyond the control of the company. However, having absorbed the impact of these factors, and obtained a government restraint on the subsidised imported flour, operating profits rose to an annual level of US\$926,000 in 1992/3.

ii) Balance Sheet

Due to the short term method of financing the raw material feed to the mills the current ratio of the Company has always been close to unity, and this had not improved during the AMSCO intervention. However, the long term liabilities were steadily reduced, and the value of fixed assets increased by 33%. This improved the ratio of fixed assets value to long term liability from 2.6:1 to 8.9:1.

More importantly, given the government objective of selling off the Company, the shareholders' equity increased by 20% in local currency.

iii) Labour and Capital Efficiency

Labour efficiency improve dramatically over the period. Capacity utilisation doubled, whilst the number of employees was reduced by 16%. In the initial twelve months of AMSCO management labour efficiency, in terms of gross sales in local currency per employee, doubled. With steady further improvements over the following eighteen months the labour efficiency improved a further 50%. giving an overall increase in labour productivity of 182%.

Profit per employee changed from an operating loss of US\$541 per employee to an operating profit of US\$902 per employee, giving a cumulative profit improvement of US\$3,963 per employee during the two year period of AMSCO intervention..

Capital efficiency ratios improved by 75% in terms of gross sales.

iv) Export and/or Import Substitution

The Company's products were sold locally, but some hard currency was earned through sales to the World Food Programme. No firm data on these earnings were available.

All of the value added by the Company was effective import substitution, but figures of raw material imports cost are not available to enable calculation of the net hard currency savings.

v) Technology Transfer

The entire technical programme of the AMSCO managers of the Company was the transfer of contemporary milling and control technology to a largely obsolescent plant and process. This was achieved through the technical expertise of the managers themselves and the specialist consultants brought in to advise. Through this the Company achieved increased volumes, improved process efficiencies and the reliable quality of product and delivery which were key to the rehabilitation, the recovery of financial health, improved employee morale and the eventual successful sale of the enterprise.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.1 : Company A

(Financial Performance Figures - expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION : NOVEMBER 1990 TO OCTOBER 1993				
	YE Mar.31.90	YE Mar.31.91	YE Mar.31.92	5 month end. Aug 31.92 (5 months)	Estimated Mar.31.93
1. <u>TURNOVER</u>	24.7	44.9	41.9	23.8 (5 months)	57
2. <u>NUMBER OF EMPLOYEES</u>	1,100	1,095	918	918	918 (est.)
3. <u>NET PROFIT/(LOSS)</u>	(3.1)	2.5	(2.9)	1.5 (5 months)	3.6
4. <u>OPERATING PROFIT/(LOSS)</u>	(1.5)	3.2	(0.83)	1.7 (5 months)	4.1
5. <u>ASSETS</u>					
i) Current	11.4	14.7	12.3	14.7	n.a.
ii) Fixed	7.9	8.4	10	10.5	n.a.
6. <u>LIABILITIES</u>					
i) Short Term	10.3	12.1	13.6	16.2	n.a.
ii) Medium and Long Term	3.0	2.5	3.1	1.8	n.a.
7. <u>SHAREHOLDERS EQUITY (DEFICIENCY)</u>	6.0	8.5	5.6	7.2	9.0 (estimated selling price)
8. <u>LABOUR EFFICIENCY RATIOS</u>					
i) Sales Value/Employee	0.022	0.041	0.046	0.03	0.062
ii) Operating Profit/Employee	(0.0013)	0.003	(0.001)	0.002	0.004
9. <u>CAPITAL EFFICIENCY RATIOS</u>					
i) Gross Sales/Fixed Asset Value	312%	534%	419%	227% (5 months)	545% (estimated)
ii) Net Profit/Fixed Asset Value	(45%)	2.8%	(29%)	14.3% (5 months)	34% (estimated)
10. <u>EXPORT EARNINGS</u>					
i) Percentage	nil	nil	nil	nil	n.a.
ii) US\$ Value	nil	nil	nil	nil	n.a.
11. <u>IMPORT SUBSTITUTION</u>					
i) Percentage	100%	100%	100%	100%	100%
ii) US\$ Value (million)	10.3	16.3	14.7	5.4 (5 months)	n.a.

Sources: AMSCO files and Client reports -

: Audited Financial Statement, YE Mar.31.90, 91,92

: Management Accounts for August 1992

5.2 CASE STUDY NO. 2 :

1. Name : Company "B" ("The Company")
2. Location : West Africa
3. Primary Products : Production and Distribution of dairy products and fruit juices
4. Secondary Products :
5. Principal Shareholders :

Local Investors	67.6%
Foreign Partner	10.8%
IFU	10.8%
FinnFund	5.4%
Foreign Partner	5.4%
6. Size: (as at December 31, 1990)
 - No. of Employees : 70
 - Annual Sales : US\$1.2 million equivalent
 - Fixed Asset Value : not available
 - Annual Net Loss : US\$1.6 million equivalent
7. Summary

The AMSCO relationship with Company B differed from the normal AMSCO method of operation in that AMSCO did not supply any executive managers to the project, but supported the Company through management and technical advisory services and a training and management development programme specifically designed for the new local senior managers.

The Company has been run entirely by a team of local executives since mid-1990, immediately prior to the AMSCO intervention. At that time they inherited a loss-making enterprise, with an unsustainable capital structure. Despite this latter difficulty, which has still not been resolved, the Company has successfully dealt with its technical problems, bringing its performance up to European standards, with high standards of product quality and hygiene. Effective commercial development has also continued, within the financial restraints imposed by the capital structure. In 1993 the Company acknowledge that the AMSCO management support and training largely contributed to the improved performance of the Company.

Quantitatively, the Company has created 70 jobs, producing import substitutes to a value of US\$1.3 million per year, and raised living standards

in an otherwise completely undeveloped region of the country. Most importantly, the Company has demonstrated the successful transfer and adaptation of dairy farm technology to the West African environment and created a centre for training and propagation of this technology in West Africa.

8. Brief History of the Company:

Based on a test project by the local Agricultural Institute in mid'70s, involving the importation of dairy cows from France, a retired senior politician invited a Danish technical mission to visit him at the end of 1986 to evaluate the feasibility of establishing a local integrated dairy farm with milk and juice pasteurisation and packaging facilities.

The mission reported favourably on the proposal and this resulted in an offer of Danish participation in the project, and the formation in October 1987 of the Company, with an initial capital of US\$3.09 million, fully paid. In addition the Company obtain concessionary loans from three Nordic development agencies (IFU, Finnfund and Finnish Export Credit Ltd) totalling US\$5.1 million

The first phase of the project, which was initiated in mid-1988 and completed by late 1989, consisted of the delivery of 300 pregnant Jersey dairy heifers from Denmark, plus 3 bulls, and the construction of the milk and juice pasteurisation processing facilities. The cattle settled in well, fed on a diet of purchased industrial by-products, supplemented by a small quantity of forage grown on Company land. The processing plant operated well, and the Company successfully developed a local market for milk products and fruit juices (orange and hibiscus). The products were acknowledged for their high quality and hygiene.

The operation of the Company represented a totally new commercial development within the country, and involved a large transfer of technology: modern livestock husbandry and management; dairy processing and technology; and commercial corporate development and organisation. None of the technical skills required were available locally, and it was obvious that it would take several years of cooperation to successfully transfer this expertise to local managers. During the start-up phase of the project three expatriate managers (CEO, a farm manager and a dairy manager) were provided by a foreign technical partner, (an AMSCO shareholder), and paid from a technical assistance grant from DANIDA.

Despite the encouraging initial technical progress, the financial performance of the Company did not match the projections of the feasibility study. Lower than forecast production led to lower than budgeted revenue, and the cost of feed and other operating costs were substantially higher than forecast.

By the end of 1989 the Company had incurred cumulative losses of more than US\$1.45 million and suffered a further net loss of US\$1.6 million in 1990. By that time it was clear that the Company would not be able to service its debt burden, and that a major financial restructure and significant improvements in performance were necessary to enable the Company to continue trading.

9. AMSCO Management Contract

On December 16, 1990 AMSCO signed a conditional three years Management and Training Agreement with the Company. Certain of the conditions required by AMSCO were not fulfilled, and the Agreement was not implemented. In January 1992, the Company and AMSCO executed a revised two year agreement (a "Protocole de Collaboration"), under which AMSCO would provide training and other management services (but excluding the provision of expatriate executives). The total AMSCO management fee was US\$38,180 and a training budget of Nfl 180,000 was agreed (of which Nfl 114,438 (US\$70,000) was expensed). There was no MLF involvement.

10. AMSCO Intervention

In the latter part of 1989 AMSCO had participated in the preparation of a new business plan for the Company, prior to the execution of the initial Management and Training Agreement. At that time AMSCO proposed four pre-conditions for its participation in the Company:

- the replacement of the expatriate DGA;
- the remaining technical assistance funds to be incorporated into the AMSCO support budget;
- a further injection into the Company of US\$1.2 million equity capital, and
- the limitation of the payment of all fixed charges to not more than 80% of the gross revenue of the Company, leaving sufficient income to meet the variable operating expenses of the project. This latter condition implied that the capital of the Company should be restructured, to permanently reduce the debt burden.

The shareholders of the Company were unable to agree on a refinancing/ financial restructure of the Company and it was therefore unable to comply with the AMSCO pre-conditions. This was partly due to the ambiguous legal status of the land "owned" by the project, and the impossibility of providing the institutional lenders with meaningful security.

Despite the lack of formal agreement, AMSCO maintained close contact with the project through 1991. A training consultant visited the Company in early 1991 and prepared a human resource training and development programme for the Company, specific to the needs of the new local

managers. AMSCO also advised on the job description and selection of these managers to replace the three Danish expatriate managers, who left the Company in mid-1991.

During this period of informal collaboration and support by AMSCO the two principal aims of the Company were to reduce the expenses of the farm through cheaper feed costs, and to increase the revenue stream, through better marketing, improved milk yields and growth in the size of the herd.

By the end of 1991, three of the four AMSCO conditions had been fulfilled. Negotiations on the fourth condition, the financial restructure of the Company, had reached agreement in principle with the institutional lenders, but the implementation was delayed by legal problems regarding title and security. However the lenders had accepted the de facto situation that the Company would not be able to service its debt for several years, and a compromise was reached to postpone interest payments on the existing debt for three years.

In January 1992, the financial position of the Company was improved by an equity subscription of US\$1.2 million, and the Company and AMSCO signed a "Protocole de Collaboration", under which AMSCO would provide a management training and development programme, and advisory support to the senior local management of the Company

i) Management

During 1992/3 the Company management, with guidance from AMSCO, concentrated on controlling the main variable elements of the business:

- With the successful acclimatisation of the Jersey herd to local sub-tropical conditions, the main objectives of the farm were to increase the milk yield and to reduce the cost of feed.

By the end of 1993, the yield per milk cow had risen to 4,115 litres per annum, double the figure achieved in 1989 (and comparable with yields achieved by commercial Jersey dairy herds in Denmark). This was achieved by better technical control of feed and the breeding cycle.

The feed stock initially used by the farm was a mixture of bought-in straw and industrial by-products (molasses, sugar cane, peanut waste, etc.), all of which were expensive and not ideal nutritionally.

In 1991 the farm raised a trial crop of 300 tons of sorghum, to use as silage for feed stock. This was successful, and 1,700 tons of silage was grown in 1992, reducing the need for bought-in feed. The unit cost of the sorghum silage feed was US\$0.11, compared with US\$0.36 for bought-in feed. The effect of this policy was to reduce the overall cost of feed in 1993 by 20%.

Company, an evaluation of the training needs of the senior managers and the preparation of a three year training programme.

In February 1992 AMSCO produced a two year full training and development programme based on the 1991 assessment, for the three senior local managers and the five key middle managers of the Company. The plan provide for training courses for each individual (based on an up-dated assessment), and inter-active training to improve communications and team building.

The programme included seminars, group study, study trips, and short apprenticeships outside the Company. Within the Country, seminars were held at a local management institute and in the Company. For senior managers the crucial aim was to reinforce the existing competence and to develop knowledge of modern management techniques and technical methods.

For the five middle managers (accountant/finance; institutional sales; retail sales; maintenance; and assistant dairy manager) a similar range of training methods and tools was applied.

The total cost of the programme US\$153,100, of which AMSCO provided US\$114,438 from the MDF. More than two thirds of the training was conducted in Africa.

An independent professional review of the Company training programme in 1994 reported that it was outstandingly the best example of AMSCO fully achieving the training objectives identified at the beginning of its intervention.

11 Summary of Economic Impact of AMSCO
(refer to Table 4.2, page 38)

The financial status of the Company is still uncertain, with long term debts greater than its asset value (even before devaluation of the currency in 1994), modest operating profits inadequate to service its debts, and no progress on a sensible restructure of its capital. For the past five years the Company has effectively been operating on a cash management basis.

i) Turnover and Profitability

During the period of AMSCO intervention the annual gross revenue increased almost 50%. By the end of 1994 this had further increased by another 43%.

From 1992 onwards the Company has made a small operating profit.

ii) Balance Sheet

For the past five years, the Company has operated on a cash management basis, marginally solvent. This has not changed. The small operating profits have been re-invested in small capital improvements and a larger herd.

The fixed asset/ long term liability situation has not been resolved by the institutional shareholders/lenders, frustrating any opportunity for the Company to refinance and develop their expansion plans.

iii) Labour and Capital Efficiency

The labour efficiency has steadily increased over the period of AMSCO intervention, as the gross revenue and operating profitability increased with no increase in the workforce.

The revenue per employee more than doubled from 1990 to 1994.

Due to the absence of balance sheets it is not possible to calculate capital efficiency ratios, which would in any case be completely distorted by an unrealistic capital structure of the enterprise.

iv) Export and/or Import Substitution

The products of the Company are 100% direct import substitution. In local currency the value of this has almost doubled. However, due to currency devaluation, the dollar value of the import substitution has remained in the range of US\$1.3 million to US\$1.92 million.

v) Technology Transfer

The original "raison d'être" of the project concept was the transfer of the technology of dairy herd and process technology from northern Europe to sub-tropical Africa. Although the original transfer was achieved by the Danish partner, their mandate expired before the project was economically viable (leaving the project with an untenable debt structure).

The AMSCO intervention was deliberately pitched to concentrate on technical and operational training of the local managers, as an alternative to imposing specialist expatriate managers. The improvements in the technical performance of the project, achieving European standards of productivity, hygiene and cattle breeding/raising, are testimony to the effectiveness of this transfer and adaptation of technology.

TABLE 4.2: Company "B"
SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

(Financial Performance Figures in million local currency units)

PERIOD OF AMSCO INTERVENTION : DECEMBER 1990 TO DECEMBER 1993

	YE		YE		YE		YE		YE		YE		estimated	
	Dec.31.90	Dec.31.91	Dec.31.92	Dec.31.93	Mar.31.94	June 30.94	9 mths end. Sept.30.94	6 mths end. June 30.94	3 mths end. Mar.31.94	3 mths end. Dec.31.93	3 mths end. Dec.31.94	3 mths end. Dec.31.94	3 mths end. Dec.31.94	3 mths end. Dec.31.94
1. <u>TURNOVER</u>	331	460	530	486	158	339	522							696
2. <u>NUMBER OF EMPLOYEES</u>	n.a.	75	69	70	n.a.	n.a.	n.a.							85
3. <u>NET PROFIT/LOSS</u>	(449)	(257)	(150)	(176)	(28)	(62)	(121)							(133)
4. <u>OPERATING PROFIT/LOSS</u>	(204)	(14)	40	6	12	19	21							28
5. <u>ASSETS</u>														
i) Current	n.a.	n.a.	n.a.	272	286	n.a.	286	n.a.	286	n.a.	n.a.	286	n.a.	n.a.
ii) Fixed	n.a.	n.a.	n.a.	1,311(est)	1,317(est)	n.a.	1,317(est)	n.a.	1,317(est)	n.a.	n.a.	1,317(est)	n.a.	1,470
6. <u>LIABILITIES</u>														
i) Short Term	542	240	244	200	279	274	284	274	279	200	274	284	n.a.	n.a.
ii) Long Term	1,877	1,491	1,505	1,798	1,778	1,778	1,778	1,778	1,778	1,798	1,778	1,778	n.a.	1,778
7. <u>SHAREHOLDERS' EQUITY (DEFICIENCY)</u>	n.a.	(47)	(143)	(415)	(454)	(489)	(547)	(547)	(454)	(415)	(489)	(547)	(559)	(559)
8. <u>LABOUR EFFICIENCY RATIOS</u>														
i) Sales Value/Employee	n.a.	6.1	7.7	6.9	(3 mths)	(6 mths)	(9 mths)							9.9
ii) Operating Profit/Employee	n.a.	(0.2)	0.57	0.09										0.4
9. <u>CAPITAL EFFICIENCY RATIOS</u>														
i) Gross Sales/Fixed Asset Value	n.a.	n.a.	n.a.	33.9%										47.3%
ii) Operating Profit/Fixed Asset Value	n.a.	n.a.	n.a.											
10. <u>EXPORT EARNINGS</u>														
i) Percentage	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
ii) US\$ Value	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
11. <u>IMPORT SUBSTITUTION</u>														
i) Percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
ii) US\$ Value (million)	1.2	1.69	1.92	1.66	..	..	..	..	..	..	..	..	..	1.3

SOURCE: AMSCOTTIES AND CLIENT REPORTS

5.3 CASE STUDY NO.3 :

1. Name : Company "C" ("the Company")
2. Location : West Africa
3. Primary Products : Groundnut processing
4. Secondary Products : Cotton and rice processing
5. Principal Shareholders : State-owned (sold in July 1993 to for US\$2.1 million)
6. Size: (as at July 1991)
 - No. of Employees : 724
 - Annual Sales : US\$8.26 million equivalent
 - Fixed Asset Value : US\$19.5 million equivalent
(valued at replacement cost)
 - Annual Net Loss : US\$1.96 million equivalent
7. Summary

The effective and speedy rehabilitation and privatisation of this state-owned enterprise were of vital importance to the national government, as a key national organisation that the World Bank insisted be privatised before further tranches of structural adjustment funds would be released. It was a politically sensitive and urgent situation.

As a result of the effectiveness of the AMSCO intervention the management team were able to mobilise financial support for the enterprise from the Swiss government, the World Bank, USAID and the European Union. In direct support this amounted to more than US\$2 million.

Accepting this assignment represented a significant risk and potential benefit for AMSCO: a high profile project with international institutions and the first opportunity to demonstrate the contribution of AMSCO to the process of privatisation of state-owned enterprises in Africa.

Most importantly, the AMSCO team had maintained in operation a key enterprise vital to a major sector of the economy, during a period of intense

financial pressure. In fact, the team turned the slow-down in activity to advantage, using the time and available labour to complete plant rehabilitation, management restructure and training programmes.

Despite initial resistance from the local management, and the major problem created by the policy of the government of a contiguous country to subsidise groundnut purchase prices, the AMSCO team met the technical and commercial objectives identified in its initial business plan, and enabled the successful sale of the core assets for US\$2.0 million. This terminated the string of previous losses subsidized by the national government ranging from US\$1.5 to US\$6 million per annum. At the signing ceremony, the Minister of Finance paid tribute to AMSCO's contribution in achieving this satisfactory conclusion.

8. Brief History of the Company :

The enterprise was created over 30-years ago by the national oil seed marketing board. In March 1971, it assumed the additional role of rice marketing. Throughout the majority of its existence it had a national monopoly for the purchase, processing and sales/export of groundnuts and groundnut oil. It is thus of major importance to the economy, as groundnuts are the biggest agricultural crop, and decorticated groundnuts and crude groundnut oil the biggest export commodity. Groundnuts account for roughly half of all farmer crop income, and the Company had a pivotal role in the economic welfare of the country.

Financially, the Company was profitable until the mid 1970's. It was then nationalised and had shown losses nearly every year since then. Normally it had processed between 80,000 and 125,000 tonnes of groundnuts annually, but by 1991/2, this had been reduced to less than 10,000 tons, as a result of the price subsidy offered for groundnuts by the neighbouring government, which was higher than the purchase price set by the local government. With the liberalisation of national boundaries the farmers were selling to the highest bidder.

By 1991 the Company had been kept afloat for several years only by produce price support and special government grants.

9. AMSCO Management Contract

The initial Management and Training Contract for the period from October 1991 to July 1992 was subsequently extended to July 1993. Total AMSCO management fees amounted to US\$561,438, and training expenses of Nfl 89,369 (US\$54,493). There was no MLF participation.

10. AMSCO Intervention

The urgency of the need to restructure and rehabilitate the Company was increased with the discovery of a suspected fraud in the Company, and the suspension of the majority of the senior management. As a result AMSCO acted quickly and after a rapid assessment an AMSCO management team was in the field by late June 1991, a 10 month management agreement between AMSCO and the national government was signed in September 1991, and a formal take-over of the operation by an AMSCO management team in October 1991.

i) Management

The criteria adopted by AMSCO in preparing the business plan and project budget was to ensure that the processing efficiency of the Company was improved to make the enterprise attractive for privatisation.

Initially, a team of four AMSCO managers was introduced (CEO, Operations Director, Finance Director, and Up River Manager) Two members of the team were on secondment from Cargill. The main objectives of the team were:

- to effect the rehabilitation of the operating plant and river transports;
- to install soil erosion control;
- to improved the operating and labour efficiency of the Company; and
- to restore the financial integrity of the operation.

The AMSCO intervention immediately released Swiss technical assistance funds to cover the initial AMSCO management fees, and AMSCO introduced ECU 1.14 million EEC Stabex funds to cover the capital cost of the rehabilitation of the plant, equipment and river transport, and implementation of a plan to stop soil erosion.

The technical rehabilitation of the production facilities was a major programme, involving a plant that was largely based on pre-1930 technology and had not been maintained for the previous ten years. In addition the AMSCO team also had to deal with the major issue of finding finance for the 1991/92 crop, the negotiation with the government of the crop pricing to compete with the rising subsidy being offered by the neighbouring government, and funding the resulting operating losses.

By late November 1991, the management had produced a draft business plan, identifying specific targets in the technical rehabilitation, staffing and management reorganisation, control systems installation, purchase and marketing strategies, programmes for training key management personnel and financing strategy.

During the following six to eight months the AMSCO team had to deal with several major issues;

- Completion of the placing of all orders for the rehabilitation of the plant and river transport, and the completion of the major components of the rehabilitation and maintenance programme. This included a complete rebuild of the oil mill, rehabilitation of 2 tugs and 23 lighters, repair of wharves, conveyor repairs, refurbishment of the decortification plant, boilers and steam turbines, and 14 generators.
- Negotiation with the government of an increase of the price for the purchase of groundnuts to US\$166 per tonne. This was not sufficient to compete with the steady increase in the price offered by the neighbouring government, and as a result only 10,000 tons of the 80,000 tons of the local 1991/92 crop of groundnuts was purchased by the Company and local traders.
- Negotiation of Central Bank finance to pay off outstanding notes of US\$1.14 million due on previous year crop purchase (the funds having disappeared during the suspected fraud by the previous management), and to enable the purchase of the 1991/92 crop. These funds were raised partly by selling off redundant assets.
- Initiation of the management training programme.
- Reduction of the workforce from 724 to 351 employees.

As a result of the improvement achieved under AMSCO management USAID agreed to provide technical assistance funding for the preparation of the prospectus for the privatisation of the assets. This was completed by the end of September 1992. The Swiss government also agreed to continue to provide the technical assistance funding of the AMSCO management.

In anticipation of privatisation, a new company was formed to which the core assets of the existing Company were to be transferred prior to sale.

As part of the financial restructuring the IMF agreed that the government could cover the US\$664,000 of the Company operating losses and the US\$7.4 million accumulated debts.

In view of the delay in the privatisation programme the AMSCO contract was extended, and a revised set of performance targets for the 1992/3 season was established by the management team. These were formulated in a period of falling international prices for groundnut products (by 40%) and a further increase in the subsidised price offered by the neighbouring government.

Despite this, over the next months the following objectives were achieved:

- an increase to US\$221 per tonne of the official price for purchase of groundnuts (the neighbouring government subsidised price had been increased to US\$299/tonne);
- an increase in the crop purchase to 20,000 tons of groundnuts;
- the negotiation of a £3.5 crop finance facility from Standard Chartered Bank, reducing the interest costs by more than 50% (the rate was reduced from the 24% charged by the Central Bank to 11%).

By the end of the season in the Spring 1993, it was clear that with the overall improved efficiency of the rehabilitated plant, improved labour efficiency, and an improved range of products for the international market, the only reason for the new operation not being profitable was the high subsidy price paid by government of the neighbouring country and the resulting loss of volume to the new company. With that eliminated, it could trade profitably by adjusting farm prices to international prices.

In December 1992, the government received three bids for the purchase of the new company, two of which qualified. However, the amounts offered were not acceptable. Negotiations were continued with Alimenta S.A. of Switzerland, but as they dragged on the government considered closing down the operation to limit the cash drain. In May 1993 the Company received instructions to issue redundancy notices to 80% of the remaining employees. These notices were withdrawn due to the fact that the government did not have the US\$166,000 of redundancy payments.

In May Alimenta doubled their offer for the Company to US\$2.16 million and on July 27, 1993 a sale agreement was signed. The AMSCO contract terminated on August 8, 1993, following hand over to the new management team.

ii) Training

Due to the nature of the AMSCO assignment involving a rapid restructure and turn around of the Company, training and management development were initially not a long term commitment. The target of privatisation, almost certainly involving replacement of top management, eliminated the need for the identification and training of a replacement CEO. Training was therefore concentrated on improved efficiency and middle management team building.

AMSCO undertook an initial review, through questionnaires and discussions with heads of departments and the AMSCO management team of the training needs of the key local management. From this AMSCO developed a comprehensive training plan, with the objective of improving the overall level of competence of the existing management team to provide a qualified team of local management by the time of privatisation.

The programme consisted of "in house" training workshops concentrating on team building, organisation and general management, and external training courses customised to meet the individual specific needs of eight key managers. These programmes went beyond the termination of the AMSCO management contract.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.3, page 45)

The Company case is not a standard AMSCO project, and fits in the special category of the rehabilitation of a badly managed technically run-down parastatal organisation, in preparation for privatisation.

During the AMSCO intervention the Company was run on a project basis, within cash restraints. Conventional management operating accounts for the period are not available, and there was no final balance sheet drawn for the Company.

The core physical production assets of the organisation were completely rehabilitated, with a massive immediate transfer of technology to improve the process and labour productivity. This both increased the overall availability of the plant from less than 30% to better than 85%, and achieved a 50% reduction in the workforce. Appropriate maintenance and control systems were installed, to enable these improvements to be sustained.

Drastic financial restructuring was undertaken, together with a substantial reduction in the labour force and a complete reorganisation and training of the local management. Labour efficiency was doubled.

The bottom line impact of AMSCO was that it eliminated the large scale government loss subsidies, generated a once-off capital benefit of \$2.16 million, and left an economically viable key national production unit in commercial operation.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.3 : Company "C"

(Financial Performance Figures expressed in thousand local currency units)

	PERIOD OF AMSCO INTERVENTION: OCTOBER 1991 to JUNE 1993		
	YE Nov.30.90	YE Nov.30.91	Assets transferred to NewCo as at July 31.92
1. <u>TURNOVER</u>	125.1	84.5	n.a.
2. <u>NUMBER OF EMPLOYEES</u>	725	724	351
3. <u>NET PROFIT/(LOSS)</u>	(4.5)	(18.4)	n.a.
4. <u>OPERATING PROFIT/(LOSS)</u>	(4.2)	(14)	n.a.
5. <u>ASSETS</u>			
i) Current	33.3	26.6	14.6
ii) Fixed (revalued at replacement cost)	^190.4	184.2	173.6
iii) Investment and loans	7.1	11.2	
6. <u>LIABILITIES</u>			
i) Short Term	10.9	20.6	nil
ii) Medium & Long Term	67.1	67.	nil
7. <u>SHAREHOLDERS EQUITY</u> <u>(DEFICIENCY)</u>	152.8	134.4	20 (sale price)
8. <u>LABOUR EFFICIENCY RATIOS</u>			
i) Sales Value/Employee			
ii) Operating Profit/Employee			
9. <u>CAPITAL EFFICIENCY RATIOS</u>			
i) Gross sales/ Fixed Assets Value		46%	
ii) Net Profit/Fixed Asset Value		(10)%	
10. <u>EXPORT EARNINGS</u>			
i) Percentage	100%	100%	100%
ii) US\$ Value ('000)		9,327	
11. <u>IMPORT SUBSTITUTION</u>			
i) Percentage	nil	nil	nil
ii) US\$ Value	nil	nil	nil

Sources: Draft Business Plan, November 1991 quoting Audited financial statements
 Management monthly reports to AMSCO, November 1991 through August 1993
 Draft Prospectus for sale of company

5.4 CASE STUDY NO.4:

1. Name : Company "D" ("the Company")
2. Location : East Africa
3. Primary Products : Production of biscuits, breakfast cereals, sweets, pasta.
4. Secondary Products : Contract manufacturer for trade brand name products.
5. Principal Shareholders : 100% owned by a local family

Special Note:

The principals of Company D have requested that the authors of this report and AMSCO do not publish any specific information relating to Company D. This request has been respected by both parties. The reader should be aware, however that the data obtained from Company D have been included in the statistical and financial summaries presented in the conclusions of this report.

Local employees have taken all key management positions except CEO. Most importantly, the management and financial resources of the Company have been strengthened sufficiently to cope with the loss of its privileged tax status, and to face the prospect of increased competition from foreign products if and when the government reduces the protection afforded to imported beers and colas.

To date AMSCO has earned performance bonuses of US\$2 million and US\$53,182 for 1993 and 1994 respectively under this contract.

8. Brief History of the Company

The Company was formed in 1985 as a result of an initiative and feasibility study funded by CDI Brussels. The Company was a joint venture for the manufacture of beer and soft drinks between the government, and a foreign brewing company. The foreign technical partner was responsible for the construction and operation of the brewery, under a management agreement.

Production commenced in 1988, and within two years the Company was profitable. Within four years of operation the Company was established as a successful manufacturer of beer and soft drinks, meeting international quality standards. The local market was protected by restrictions on the importation of beer and soft drinks for the first five years of operation. The Company achieved 85% to 90% of the revenue forecasts of its original business plan. Despite these successes the Company had a working capital deficit by December 1992, when it became liable to start paying taxes under its tax holiday status. As a result the Company was finding it difficult to fund the extensive training programmes necessary to maintain and develop the local workforce and management team.

As the first industrial undertaking in the country, the workforce and management of the Company required extensive education and training to fulfil industrial posts, and to take over the management of the operations from the foreign technical partner. In 1992 the foreign technical partner was absorbed into its parent company, who took over responsibility for the management contract, which was due to terminate mid-February 1993. In reviewing the future prospects of the Company it was clear that future commercial survival would require a continuation of protection from foreign imports, an expansion of the business to provide a larger profit base, the ability to source raw materials on an internationally competitive basis, and a continuation of the intense training and management development of local employees.

At the request of the Company and one of its institutional shareholders AMSCO became involved, and recommended that the Company put the management contract out to international tender. In December 1992 tenders were sent to three multi-national brewing companies including the foreign technical partner. The lowest bidder in the competition was another foreign company which was also an AMSCO shareholder.

9. AMSCO Management Contract:

This is a Management and Training Agreement between AMSCO and the Company, backed up by a joint venture agreement between AMSCO and the new foreign technical partner for the provision of technical assistance. The contract provides for 2 managers and the training of 13 local senior and middle management for the period from February 1993 to February 1996. Total AMSCO management fees of US\$962,450 and training expenses of Nfl 365,000 (US\$222,560). MLF participation was US\$237,500, which has been fully repaid.

10. AMSCO Intervention

AMSCO negotiated a joint venture management agreement with the foreign technical partner, to back up an AMSCO Management and Training Agreement signed with the Company on January 11, 1993. The intervention started mid-February 1993 with AMSCO sending two managers deputed by the foreign technical partner: the CEO and the technical director.

i) Management

During the first year of the AMSCO contract the management had to deal with a serious tax problem inherited from the previous management. The Company had received foreign investment tax incentives for a period of five years in the form of a tax holiday. Under these privileges, the Company did not have any tax liability for the first four years and the first taxes due were at a rate of 50% for the year 1992, and at the full rate thereafter. No provision had been made for this liability, and this caused a serious cash problem at the end of 1992. The AMSCO management negotiated with the government and settled the back taxes, keeping this account current thereafter.

The new management also made substantial improvements in the efficiency of the operation in 1993, specifically:

- through the better sourcing of raw materials, and placing orders in combination with the foreign technical partner (which is twenty times the size of the Company), the Company achieved a 30% reduction in raw material costs;

- by changing the colour of its beer bottles from green to brown the Company reduced significantly the cost of its bottles.
- in October 1993 by introducing draft beer in kegs, to reduce the replacement cost of bottles, and enabling stocks to be maintained in smaller local markets. Again the kegs were purchased from Germany as part of the bulk orders by the foreign technical partner;
- by investing in an adequate supply of spare parts;
- by concentrating the annual maintenance shut-down into 15 days in February, and avoiding unscheduled stoppages due to shortage of bottles or the lack of spare parts, the management significantly improved the efficiency of use of both capital and labour.

The impact of these improvements came into full effect in 1994 and is reflected in the financial performance of the Company in that year and thereafter.

ii) Training

The foreign technical partner included a training commitment in their bid for the Company management contract, and with minor changes this became the basis for the AMSCO training programme. The programme started in May 1994.

Initially the programme concentrated on key managers with individual training, particularly on the technical and financial management side. Three persons were sent overseas on brew master courses of up to one year. The results have been that local employees can now fill the Technical Director and Finance Director posts.

The programme is now concentrating on a general upgrading of the quality of management, and team building. To date a potential successor managing director has not been identified, but the identification and development of a person for this post will probably be a component of the final portion of the programme.

11. Summary of economic impact of AMSCO

(Refer to Table 4.5, page 59)

i) Turnover and profitability

In the first 30 months of the AMSCO management contract the turnover of the Company has increased by 75%. This has been achieved through a steady expansion in the volume of sales, particularly in the beer product.

The audited accounts for 1992 (the year immediately prior to the AMSCO management) did not provide the tax liability for that year, which then had to be included in the 1993 accounts. Those results were adjusted to take into account this tax expenses.

Average operating margins have increased by 4% to 38%, leading to an annual overall estimated operating profit double the level at the beginning of the base period. Net profits increased by 125% over the same period, despite the imposition of corporate tax at standard rate. Net profit increased from 8.4% to 10.8% of turnover.

ii) Balance Sheet

At the beginning of the AMSCO intervention, the Company had a small working capital deficiency. By June 1995 the company was "cash rich", with US\$1.65 million in cash and a 1.5 : 1 ratio of current liabilities to current assets. As a result the company is seeking diversification opportunities, and has invested US\$241,050 in a local insurance company earlier this year.

The fixed assets of the Company have been amortised at an accelerated rate, and despite steady investment in capital improvements, the fixed assets of the Company are now carried on the books at 30% below that at the beginning of the AMSCO intervention.

As a result of the substantial improvement in performance the shareholders's equity has increased by 50%, to US\$4 million, in the period. This has lead the Company to propose that the government dispose of some of its residual shareholding, at a profit. A study of the value of these shares is now being initiated and the sale of the government participation is expected to take place in the near future. This full privatisation would accomplish another of the goals of the AMSCO intervention.

iii) Labour and Capital Efficiency

Despite the substantial increase in turnover the labour force has increased by only 5%, with labour efficiency rising by 60%. Labour profitability (in terms of profit per employee) has increased by 80%.

Capital efficiency, based on book values, has increased by 100% in terms of both gross revenue and net profitability.

iv) Export and/or Import Substitution

There is no significant export of products. All sales are effectively substitution for imported beer and soft drinks. The net balance of payment impact must take into account the fact that almost all of the

production inputs are imported. Data on the value of imported production inputs were not available.

It is relevant to note that the Company has been protected by legislation against foreign beer imports since its inception. Liberalisation of this protection has been under discussion for several years, and has recently been approved, but not enacted. Liberalisation would create competition from major foreign producers.

v) Technology Transfer

No major technology transfer has been involved during the AMSCO intervention, although technical support for the local management has continued at a high level. However, the AMSCO managers provided by the joint venture partner have challenged every aspect of the existing process and marketing methods, and introduced changes which collectively have made a significant improvement in the overall performance of the Company

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.5 : Company "E"

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION: FEBRUARY 1993 TO FEBRUARY 1996								Latest Data	Estimated
	YE	6 mths end	6 mths end	YE	6 mths end	6 mths end	YE	6 mths end	YE	
	Dec.31.92	June 30.93	Dec.31.93	Dec.31.93	June 30.94	Dec.31.94	Dec.31.94	June 30.95	Dec.31.1995	
1. <u>TURNOVER</u>	510.1	268.9	388.3	657.2	309.6	458	767.6	357.9	895	
2. <u>NUMBER OF EMPLOYEES</u>	121	121	117	117	122	122	122	133	133	
3. <u>NET PROFIT/(LOSS)</u>	43.0	20.8	20.8	41.6	24.9	58.2	83.1	38.7	96.6	
4. <u>OPERATING PROFIT/(LOSS)</u>	174	98.7	126.3	225	102.1	169.8	271.9	137.6	344.	
5. <u>ASSETS</u>										
i) Current	240.1		305.6	305.6		370.6	371.5	411.1	411.1	
ii) Fixed	422.4		360.0	360.0	317.7	329.2	330.3	298.7	298.7	
5. <u>LIABILITIES</u>										
i) Short	244.1		283.1	283.1	212.0	272.1	272.1	278.7	278.7	
ii) Medium & Long Term	189.7		142.5	142.5		107.3	107.3	95.4	95.4	
6. <u>SHAREHOLDERS EQUITY</u>	228.7		241.9	241.9	266.7	325	325	338.8	338.8	
<u>(DEFICIENCY)</u>										
7. <u>LABOUR EFFICIENCY RATIOS</u>										
i) Sales Value/Employee	4.21	2.21	3.31	5.61	2.54	3.75	6.2	2.69	6.79	
ii) Operating Profit/Employee	1.43	0.81	1.08	1.92	0.84	1.39	2.23	1.03	2.58	
8. <u>CAPITAL EFFICIENCY RATIOS</u>										
i) Gross Sales/Fixed Asset Value	121%		70%	183%	97%	139%	233%	119%	300%	
ii) Net Profit/Fixed Asset Value	16.34%		6%	11.5%	7.8%	17.7%	25.2%	12.9%	32%	
9. <u>EXPORT EARNINGS</u>										
i) Percentage	0%	0%	0%	0%	0%	0%	0%	0%	0%	
ii) US\$ Value	nil	nil	nil	nil	nil	nil	nil	nil	nil	
10. <u>IMPORT SUBSTITUTION</u>										
i) Percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%	
ii) US\$ Value (million)	7.0			8.86			9.25		10.79	

Sources: Audited accounts: Dec.31.1992,1993,1994

Client's management accounts, half yearly :1993, 1994, 1995

AMSCO and Client records

AMSCO and Client records

5.6 CASE STUDY N0.6 :

1. Name : Company "F" ("the Company")
2. Location : East Africa
3. Primary Products : Paint manufacture and distribution mainly to automotive and industrial customers.
4. Secondary Products : Decorative paints, and packaging ink and resin manufacture.
5. Principal Shareholders : 100% by local company
Owned by 4 local investors.
6. Size (as at December 31, 1992 audited financial statements)
 - No. of Employees : 124
 - Annual Sales : US\$4.5 million equivalent
 - Fixed Asset Value : US\$878,000 equivalent
 - Annual Net Profit : US\$230,000 equivalent
(before taxes)
7. Summary

The Company has responded exceptionally well during the AMSCO intervention. It is currently operating at a net profit level of US\$600,000 per annum, and operating profit of US\$800,000, each almost doubled the rate in 1992.

Dividend distributions in excess of US\$600,000 have been made. This, plus the strengthening of the entire management structure through the AMSCO human resources development programme has enabled the present Company's shareholders to make further Group acquisitions in the same sector in two neighbouring countries, plus the acquisition of two local companies - a food processing operation and a hardware and electrical supplies distributor for an artisan market.

The annual national economic contribution of the Company in terms of import substitution has doubled in the period, to US\$ 6 million per annum, and export earnings have risen from US\$44,000 to US\$250,000 per annum. 37 more jobs have been created to a total of 147, plus the additional employment in the four acquired associate companies.

The Company itself is now on the threshold of becoming a serious challenge to the local market leader. In 1992, the volume of the Company was approximately 10% of that of the leader; currently the volume is up to one third of the leader. In the view of the management the main targets for dramatic growth in the future are industrial paints, printing inks and coatings for cans. The company intends to attack these markets aggressively.

To date, AMSCO has earned a performance bonus payment of US\$3,553 in 1993, and bonuses for 1994 and 1995 are currently under negotiation with the Company. The Company has also fully repaid the MLF loan.

8. Brief History of the Company:

The Company was established in 1959 to manufacture automotive paints for the local market. The Company traded profitably and was able to grow from a small cottage-type industry to a prominent local business.

Prior to 1991 the Company was a subsidiary of a leading European paint manufacturer. In 1991 it was taken over by a local company representing a group of local investors. The Company retained a trade mark and technology agreement with the European paint manufacturer. Since take over it has been managed by one of the local investors, as Managing Director.

The Managing Director has spent more than 25 years with the leading manufacture of paint in the country. For several years he had been deputy managing director of the local market leader, and two years as managing director of a subsidiary paint manufacturing company.

For the first six months following acquisition the new management studied the Company, identifying weaknesses and initiating the sale of intermediate products for which there was excess capacity, particularly resins.

As a result of its earlier expansion the Company had outgrown its system for control of production, administration and marketing. It was recognised that although the Company was moderately profitable, it was vulnerable to production breakdown and/or market attack in its narrow principal market of automotive paint. The Company urgently needed to plan for development of its product range and markets, including exports. To achieve this it required systems installations, management strengthening and training. However, the Company did not have the cash or management resources for such a programme, and was introduced to AMSCO by another local client of AMSCO.

9. AMSCO Management Contract

The AMSCO Management and Training Contract between AMSCO and the Company was signed at the end of March 1993, for the three year period

from April 1993 to April 1996. The total AMSCO management fee, for the provision of a general manager was US\$420,000 plus a management training budget of Nfl 240,000, of which Nfl 45,826 has been expensed as at June 30, 1995. AMSCO arranged a loan of US\$215,200 from the management loan fund, and assisted in obtaining a technical assistance grant of Nfl 284,000 (US\$173,170) from FMO/IBTA, to contribute to the AMSCO budget for the expatriate manager.

10. AMSCO Intervention

AMSCO, jointly with the local Managing Director, identified and appointed a general manager who joined the Company in April 1993.

i) Management

In May 1993 the management produced a comprehensive business plan and five year financial projections for the Company. The plan included a detailed analysis and projections of the local market for the range of the Company's products, a technical audit of the production plant, and a full marketing plan for each product. The plan established specific annual targets for all key financial performance ratios. The organisational structure of the Company was critically examined, and individual manager appraisals made. Specific departmental strategic objectives were identified. The future marketing strategy was spelled out in great detail.

During the balance of 1993, the local economy was in recession, This, together with the increased smuggling of products into the country (including paint products) caused a reduction of 20 - 25% on the demand in the local paint market, and a serious credit squeeze on all businesses.

The marketing plan of the Company included the establishment of a national distribution of all products, and the introduction of a new range of economy paint. Accounts with 20 distributors in key towns were opened up as general stockists, and the management launched a search for a depot to develop the principal other regional market.

The poor national economic environment resulted in a 16.4% lower physical volume of sales, but increased value and larger margins enabled the Company to achieve an annual net profit of US\$1.75 million for 1993, to meet the original business plan target.

1994 was a period of growth and consolidation in the Company. Despite a 100% revaluation in the local currency against the US dollar, economic activity was still depressed, at 5% below the previous year. This led to increased price discounting by manufacturers in the paint industry.

Sales volume, revenue and net profit of the Company maintained their growth by 13 %, 12.5% and 50% respectively, again approximately on

the targets set out in the business plan, but with lower volume and higher margins.

During the year the management of the production and technical departments were combined, and the earlier problems solved by promotion from within the Company of junior managers that had been trained.

The result of earlier marketing decisions and programmes started to bring results, and the position of the Company improved in all main product lines. With colour cards, redesigned tin livery, and country-wide distribution, the management turned attention to the improvement of the sales management and sales force.

External expansion by the Group continued with the acquisition of small paint manufacturing companies in two contiguous countries. AMSCO was invited to assist in the management of one of these enterprises.

Growth has continued in 1995, with much improved margins. In the first half year sales volume, sales revenue and net profit were up 31%, 31% and 53% respectively on the same period of 1994 - well above business plan.

ii) Training

In 1993, production break-downs were experienced, and a lack of production management commitment identified. This latter problem became a major objective for the training programme.

During 1994/95 the continued growth of the Company has stretched the controls, and highlighted the urgency for the introduction of computerisation, which is now taking place, together with plans for upgrading the accounts staff through a training programme.

The owner and senior management of the Company have been extremely supportive and active in the AMSCO management training programmes. This has covered both successor manager development and a wide range of individual training programmes and team building workshops. The management have also participated in regional training seminars organised by AMSCO.

The impact of these programmes in the Company has been effective in the wider field of human resource development and organisational development, rather than the narrower field of "management training". This is reflected in the breakdown of communication barriers within the Company and "empowerment" of local managers to grow into senior

positions and work together as a team. An outstanding example of the effect of these programmes is the promotion earlier this year of the technical manager to the Board of Directors, as Technical and Production Director, the first African to be appointed to the Board in the history of the company.

11. Summary of Direct Economic Impact
(refer Table 4.6, page 66)

i) Turnover and profitability

The turnover of the Company has steadily improved during the first 26 months of AMSCO involvement and by June 1995 it was 264% above the 1992 level.

Over the same period operating profits and net profits have increased by 375%. This enabled the Company to make dividend distributions of US\$146,000 and US\$355,000 for the years 1993 and 1994, whilst doubling the shareholders' equity in the company and continuing to make capital investment in the plant.

ii) Balance Sheet

Whilst the working capital ratio of the Company has remained approximately the same at 1:1.5%, the ratio of fixed assets to long term debt has improved from 1:1.65 to 1: 3.8

iii) Labour and Capital Efficiency

Labour efficiency (in terms of annual turnover per employee) doubled, increasing from 1.48 million to 2.86 million in local currency per employee. Annual net profitability per employee has increased by 75% in local currency. This converts to US\$340 net profit per employee, and US\$1,435 operating profit per employee. Over the period the labour force increased by only 33% from 110 to 147 employees.

Similarly, the ratio of turnover to fixed asset value and net profit to fixed asset value has both doubled over the 26 month period.

iv) Export and/or Import Substitution

Over the past 30 months the level of annual exports of the Company has quadrupled, in terms of local currency, and is currently at the rate of US\$250,000 per year, accounting for 3% of the total revenue.

The net value of import substitution (calculated as the full value of imports substitute sales less the total cost of imported materials, etc) doubled from US\$3 million in 1992 to a rate of US\$6 million in 1995.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.6 : Company "F"

(Financial Performance Figures in million local currency units)

	PERIOD OF AMSCO INTERVENTION: APRIL 1993 TO APRIL 1996			
	YE Dec.31.92	YE Dec.31.93	YE Dec.31.94	Latest Data 6 mths end. June 95
1. <u>TURNOVER</u>	158.8	252	320	210
2. <u>NUMBER OF EMPLOYEES</u>	110	124 (May 1.93)	147	147
3. <u>NET PROFIT/(LOSS)</u>	6	12	16	15
4. <u>OPERATING PROFIT/(LOSS)</u>	11	19	26	21
5. <u>ASSETS</u>				
i) Current	106.4	130.5	147	247
ii) Fixed	31	34	37	38
6. <u>LIABILITIES</u>				
i) Short Term	63.4	95.7	121	162
ii) Medium & Long Term	18.7	11.8	7.	10
7. <u>SHAREHOLDERS EQUITY</u>	55.2	57	56	113
<u>(DEFICIENCY)</u>				
Dividends	4	10	16	
8. <u>LABOUR EFFICIENCY RATIOS</u>				
i) Sales value/ employee	1,444	2,032	2,176	2.857
ii) Operating Profit/Employee	0.101	0.477	0.177	0.272
9. <u>CAPITAL EFFICIENCY RATIOS</u>				
i)Gross Sales/Fixed Assets Value	514%	741%	864%	1105%
ii) Net Profit/Fixed Assets Value	26%	35%	43%	74%
10. <u>EXPORT EARNINGS</u>				
i) Percentage	0.9%	3%	2.7%	3%
ii) US Value ('000)	44	132	222	137
11. <u>IMPORT SUBSTITUTION</u>				
i) Percentage	67.5	66.4	66.0	73.4
ii) US Value (US\$ million)	2.95	2.45	4.68	2.87

Sources: Audited accounts for the year ended Dec,31.1992, 1993 and 1994. Auditors: Coopers & Lybrand

: Client's management accounts for 6 month period ended June 1995

: AMSCO files

: Client principal and senior management personnel

5.7. CASE STUDY 7:

1. Name : Company "G" ("the Company")
2. Location : West Africa
3. Primary Products : Inner tubes and tyres for bicycles and motor cycles
4. Secondary Products :
5. Principal Shareholders :

Local Investors	59.94%
Government	15.26%
Foreign Investor	
plus PROPARCO and FMO	24.80%
6. Size (as at Dec.31, 1990)
 - No. of Employees : 579
 - Annual Sales : US\$11.53 million equivalent
 - Fixed Asset Value : US\$4.27 million equivalent
 - Annual Net Loss : US\$480,000 equivalent
7. Summary

The intervention in the Company has been the longest and probably the toughest assignment that AMSCO has undertaken to date. Over the five year period from October 1990 the Company has encountered almost all the problems that can beset an African enterprise other than civil war: devaluation; smuggled goods; "dumping" of foreign imports; national labour strikes; termination of credit lines; power shortages; blocked foreign exchange transactions; etc...

The five years of AMSCO involvement in the Company coincided with the introduction by the World Bank of a Structural Adjustment Programme in the country, with all its attendant disruptive changes and difficulties for local industry. It is very unlikely that the Company would have survived these problems without the assistance of AMSCO.

Over the past five years the Company has been completely "overhauled", achieving major improvements in every department. It has survived major crisis, including major capital restructure, extremely fierce foreign price competition and illegal imports.

It has emerged a profitable, more efficient and better managed enterprise, with a senior executive management team of local employees that have developed in experience and training with AMSCO.

During this period AMSCO has provided strong senior executive managers, and has been a vehicle for substantial technical assistance to the Company in specialist areas. It has also provided successful management development programmes for senior executives (both PDG and the successor DGA) and helped to build an indigenous executive management team for the Company.

Although the Company still faces serious problems, such as foreign competition, it is much better equipped to deal with them than it was five years ago. Survival of the Company has saved 200 jobs. In addition, substantial savings in foreign currency through import substitutions continue to be made.

Repayment by the Company of the MLF loan is continuing, following a rescheduling earlier this year. As at June 30, 1995, this outstanding obligation was US\$134,604.

Under the terms of the management contract AMSCO has earned a performance bonus of US\$5,930 from the Company for the period from October 1990 to December 1992.

8. Brief History of the Company

Formed in February 1974, the Company is the largest private enterprise in the country. The Company sells motorcycle and bicycle inner tubes and tyres. In its initial years it had a local monopoly of manufacture of these products. Relatively small volume export sales were made in three or four neighbouring countries.

After many years of successful operations, the Company suffered a series of losses, recovering to make a small profit in 1988 and 1989. However, by that time the fabric of the Company had deteriorated seriously, with inefficient production processes, poorly controlled purchasing, non-existent marketing, and weak financial and accounting functions and controls. Senior management were inadequately trained. From June 1989 the Company has some technical assistance from FMO - a production expert.

In May 1990, the project was referred to AMSCO by FMO and PROPARGO, with a request from the Company shareholders to intervene.

9. AMSCO Management Contract

AMSCO has had two Management and Training Agreements with the Company: the first for the period October 1990 to December 1992; the

second from June 1993 to June 1995. The AMSCO management fees for these contracts were US\$316,365 and \$405,360 respectively; and the training budgets Nfl 277,227 and Nfl 87,773 respectively. MLF participation was US\$175,492 in the second contract only.

10. AMSCO Intervention

Following the request from the the Company shareholders AMSCO acted immediately, under a temporary contract, to permit corrective action to be undertaken in advance of the execution of a formal agreement. In July/August AMSCO undertook a diagnostic mission, resulting in a proposed programme of remedial measures, including the appointment of a DGA and the installation of an intensive training programme. In October 1990 a 26 month Management and Training Agreement between AMSCO and the Company was signed, and a general manager, recruited by AMSCO, took up his position in November 1990. AMSCO assisted the Company in obtaining a technical assistance grant of Nfl 32,500 towards the cost of the AMSCO intervention.

i) Management

During 1991 and 1992 the Company continued to lose market share, and sales volume fell steadily. This was mainly due to the competition of imports from the Far East, which were priced at less than 50% of the production costs of the Company, and permitted to enter the country under the economic liberalisation programme.

The Company was short of cash, and on several occasions production was stopped due to lack of funds to buy raw materials. This resulted in further loss of sales due to unavailability of stock. The overdraft facility of the Company was cut by 50%, causing further difficulties in meeting its payroll. A 48 hours national labour strike also affected the operation marginally.

These circumstances restricted the scope of the general manager to improve the Company, and forced him to work only on matters that did not require cash. However progress was made in some important areas of operations:

- improvement in the technical quality of the products and reduction of the production reject rate. Improved inspection and safety standards.
- finding alternative and cheaper sources for raw materials and their transportation - achieving a 30% reduction in the cost of raw rubber (previously most purchases had been made through a Company run by the Belgian shareholder);
- improvement in the product distribution system;
- substantial reduction of the number of employees (from 579 to 349), through the introduction of more efficient working practices;
- updating of the accounts and accounts analysis system, to provide more immediate control of the operations.

In November 1992, towards the end of the first contract period, the DGA was removed by AMSCO at the request of the Company. The principal reason for this request was the breakdown in the relationship between the Executive Chairman (PDG) of the Company and the DGA.

At that time there were still many outstanding difficulties facing the Company:

- the training and development of the successor to the general manager was not yet completed;
- electricity supply and electricity costs were erratic, causing production interruptions and uncertainties in product costs;
- although the Company had purchased the hardware, the computerisation of the accounts department had not yet commenced;
- the marketing and sales strategy had not yet been clearly analysed and defined for the various products. An unacceptable level of bad debts had not been dealt with effectively.

At the end of the first contract AMSCO commissioned an independent consultant assessment of its achievements. The report recommended that, in addition to the provision of a DGA, experts should be sent to support the Company on three important aspects of operations:

- the marketing policy and re-organisation of the marketing department;
- the production aspects;
- computerisation.

In early 1993, the Company requested a renewal/extension of the AMSCO Agreement, and a new two year contract was agreed, running from June 1993 to June 1995. A former technical director of one of the Company's clients was recruited by AMSCO as DGA, and started a two year contract in July 1993. AMSCO assisted the Company in obtaining a technical assistance grant of Nfl 330,000 towards the expenses of the AMSCO second contract. AMSCO also arranged an MLF loan to cover the cost of management support for one year.

The accounts for the year indicate that the Company was technically bankrupt with a shareholders' deficiency of US\$1.1 million. By law the Company had to correct this situation within a limited time or else cease trading.

The appointment of the replacement DGA manager released the PDG to deal with the serious external problems still faced by the Company:

- negotiation with the government of a further rescheduling of back taxes;
- negotiation of a rescheduling of debts to foreign lenders (principally FMO, and PROPARCO);
- negotiation of a reduction of import duty rates on raw materials.

During 1993/94 a series of policies were initiated by the DGA to further improve the performance of the Company:

- a concentrated campaign to reduce the fraudulent importation of competitive products. This included bringing pressure on the government to maintain and apply barriers to illegal imports, and assisting those efforts by employing agents to work with the government. The illegal imports included smuggled goods from the Far East and the Company's export products "diverted" back to the country of origin.
- detailed analysis of the market for the products of the Company, to provide a basis for the planning of production and maintaining minimum stocks of raw material and of finished goods.
- a marketing campaign to demonstrate the better quality of the Company products.
- further cost reductions through better purchasing from new suppliers, negotiation of lower insurance premiums, higher productivity (the work force was reduced by a further 133, to 200), improved technical and cost controls and reduced overhead expenses.

To ease the financial pressure CFD agreed an interest-free loan of FF750,000 to the Company, to meet the cost of expert intervention within the AMSCO contract. This covered the expenses of experts on marketing, production quality control, and computerisation.

At the end of the second AMSCO contract, the turnover of the Company was at a record high rate in local currency, (twice the figure for 1993), and 20% over budget. The operating and net profits for the first six months of 1995 were higher than for any previous twelve month period in the history of the Company.

ii) Training

The initial training programme, which commenced in January 1991, involved customised programmes for eight senior members of the Company management, including the PDG (amounting to 28 months of formal training, of which approximately two thirds were undertaken in African training institutions). In addition a Company wide "quality circle" system, and a voluntary literacy programme for workers were initiated. The impact of these programmes was to bring an element of training culture to the Company, and to initiate the process of "team building".

The search for a suitable DGA local candidate took longer than anticipated, and the person finally selected required substantial technical

and other formal training prior to taking up the position. This absorbed a substantial portion of the MDF budget allocated to the Company.

The general training programme was continued in the six month period between the AMSCO contracts. In the second period the training programme concentrated more on team building development, broad internal training to upgrade the management across the board, and more short-term specific training assignments for individual executives.

After extensive training abroad the successor DGA returned to the Company at the end of 1994, and after a further six months on-the-job training with the AMSCO manager, took over as DGA in June 1995.

The PDG of the Company is a strong supporter of the AMSCO training programmes has personally participated in direct training and regional seminars, and has indicated that he wishes the training programme to continue beyond the end of the second management contract.

11. Summary of Direct Economic Impact of AMSCO Intervention
(Refer to Table 4.7, page 75)

i) Turnover and profitability

During the first two years of AMSCO management the gross turnover of the Company dropped by 34%, but over the following two year period the turnover recovered by 57% to a level 32% above the initial figure.

Net profit over the same four year period varied widely, from an approximate break-even point at the beginning, down to a loss of US\$1.5 million in 1993, and then up to a net profit of US\$36,000 in 1994, and US\$48,000 for the first 7 month period of 1995. This wide fluctuation was due in part to massive bad debts' write-off provision in the 1992 - 1993 accounts.

These write-offs were made on the advice of the two independent accounting advisors who reported that the earlier period accounts had overstated the assets of the Company, specifically trade debtors and stock values.

ii) Balance Sheet

The fixed assets of the Company have remained relatively static during the period. However, the Company revalued these assets in 1994 to take account of the local currency devaluation in 1994.

At the commencement of the first contract the Company successfully negotiated a reduction and rescheduling of the overdue tax and duties' debt to the Government, reducing overall liabilities by approximately

20%. Thereafter hard currency loans represented the greater part of the liabilities of the Company and these were effectively doubled by local currency devaluation in 1994. However, the Company successfully negotiated the rescheduling of part of the foreign obligations, and the settlement of other loans at a 75% discount. This had the overall effect of maintaining the total liabilities at the same level, despite the 1994 devaluation.

In the accounts for 1993, in addition to a depreciation provision, the Company also wrote off US\$565,000 trade bad debts. Much of these were attributable to earlier years trading, distorting the true trend of net profitability. These write-offs wiped out the shareholders' equity (to a deficiency of US\$ 1.13 million). The subsequent re-evaluation of the fixed assets, plus accumulated profits and the write-down of certain long-term liabilities in 1994, restored the shareholders' equity to US\$1.13 million (some 30% higher in local currency than in 1991).

iii) Labour and Capital Efficiency

As a result of substantial reductions in the work force, the labour productivity was maintained during the first two years of reduced sales volume, and by mid-1995, as a result of further improvements in operating methods during a period of increasing output, has improved by three fold the 1990 figures.

Previous operating losses have been converted into profit through an improvement of US\$2,998 in annual operating profits per employee, and net profit improved by US\$1,611 per employee.

The capital efficiency of the Company has remained relatively stable apart from the impact of the 1994 revaluation of the fixed assets.

iv) Export and/or Import Substitution

Unfortunately the 1991/93 figures for export earnings by the Company are not reliable, due to the fact that many traders diverted products back to country of origin (to take advantage of the export incentive prices). This practice has been curtailed by direct intervention by the Company inspectors working with the government, and the current export figure of 22.5% of turnover is considered reliable.

Local sales of the Company's products are a direct import substitution, and the net balance of payments effect (before allowance for the cost of raw material imports) is currently US\$878,172 per annum.

v) Technology Transfer

The major period of technology transfer to the Company was during the first AMSCO management contract, with concentration on process

improvement, product quality, safety, and cheaper sources of raw materials. These transfers were made through the experience of the AMSCO general manager and the many specialist technical consultant advisors sent by AMSCO to advise the Company.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.7 : Company "G"

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION:					Latest Data 7 mths end July 31.95
	1st Contract: Oct. 1990 to Dec.1992 ; 2nd Contract June 1993 to July 1996					
	YE Dec.31.90	YE Dec.31.91	YE Dec.31.92	YE Dec.31.93	YE Dec. 31.94	
1. <u>TURNOVER</u>	2,700	2,404	2,026	1,595	2,092	1,804
2. <u>NUMBER OF EMPLOYEES</u>	519	405	349	333	200	200
3. <u>NET PROFIT/(LOSS)</u>	(132)	7	(303)	(428)	19.4	23.2
4. <u>OPERATING PROFIT/(LOSS)</u>	(202) (estimated)	83	11	(464)	31.2	86.8
5. <u>ASSETS</u>						
i) Current	2,284	2,088	1,866	1,034	1,432	2,267
ii) Fixed	1,274	1,214	1,081	938	1,798	1,758
6. <u>LIABILITIES</u>						
i) Short Term	1,857	1,531	1,741	1,320	1,117	2,114
ii) Medium & Long Term	1,010	1,073	811	984	1,228	971
7. <u>SHAREHOLDERS EQUITY (DEFICIENCY)</u>	691	698	395	(331)	885	940
8. <u>LABOUR EFFICIENCY RATIOS</u>						
i) Sales Value/Employee	5	6	6	5	10	13 (est)
ii) Operating Profit/Employee		0.205	0.031	(1.393)	.156	.625 (est)
9. <u>CAPITAL EFFICIENCY RATIOS</u>						
i) Gross Sales/Fixed Asset Value	230%	214%	209%	182%	116.3%	148% (est)
ii) Net Profit/Fixed Asset Value	(11%)	0.6%	(31%)	48.7%	1.08%	1.9% (est)
10. <u>EXPORT EARNINGS</u>						
i) Percentage of turnover	17%	24%	18%	29.7%	22.5%	22.5%
ii) US\$ Value	US\$1,669,000	US\$2,115,000	US\$1,325,475	US\$1,622,800	US\$878,000	US\$842,816 (7 mths)
11. <u>IMPORT SUBSTITUTION</u>						
i) Percentage	83%	76%	82%	70.3%	77.5%	77.5%
ii) US\$ Value (million)	8.15	6.7	6.02	3.84	3.02	2.90 (7 mths)

Sources: AMSCO files and client reports

: Discussion with Client principal

: Supplementary information from management

Note : Devaluation Feb.1994

5.8 CASE STUDY NO. 8:

1. Name : Company "H" ("the Company")
2. Location : West Africa
3. Primary Products : Horticultural production of cashew, mango and citrus fruit.
4. Secondary Products : Maize and cassava as intercroops within the young orchards.
5. Principal Shareholders :

Foreign Partner	53%
Eurofinanciera	26%
IFC	17%
Private local investors	4%
6. Size (as at March 31, 1995)
 - No. of Employees : 60
 - Annual Sales : Not applicable, start up project.
 - Fixed Asset Value : US\$1.8 million
 - Annual Net Profit : Not applicable, start up project.

7. Summary

The first objective of the ASMCO intervention , to act as a catalyst to bring the major finance to the project, was achieved in early 1995, when the International Finance Corporation (IFC) and the Banco de Fomento made commitments to provide a total of US\$75,000 equity and loans of US\$ 1.25 million to the project.

The second objective, which is to complete the implementation of the project, is now 60% completed and is within the original plan budget and time targets. Sixty jobs have been created.

Work on the third objective, to establish a well managed and profitable farm operation with indigenous managers, is programmed for 1996/97.

With the completion of the entire Company programme AMSCO will have assisted in the creation of an agro-business project from a "green field" start. The effectiveness of the AMSCO support for the project sponsor has already

agreement with the National Research Institute of the U.K. to provide technical assistance and expert personnel to the project.

AMSCO assisted the Company to obtain an interest free loan of Nfl 133,500 and a grant of Nfl 200,000 from FMO/IBTA, as a contribution to the AMSCO budget for the general manager over the three year period November 1 1994 through to November 1, 1997. To accomodate this the agreement between AMSCO and the Company was extended to November 1, 1997.

The FMO technical assistance funds, together with the loan from the MLF covered the total cost of the general manager, and enabled the Company to redirect resources to speed up the start-up phase of the project. This expedited the discussions with major institutional investors, resulting in the Company obtaining commitments from AEF/IFC for a loan of US\$750,000 and an equity subscription of US\$75,000 (15% of the capital of the Company), and a commitment from Eurofinanciera (a subsidiary of Banco de Fomento e Exterior, Portugal) for a loan of US\$500,000.

i) Management

During 1994, the technical programme of the general manager was to clear the bush and construct the farm infrastructure, particularly farm access roads, buildings and fences.

By mid-1995 the project was well into implementation. All items were in line with or ahead of business plan:

- the acquisition of machinery, agricultural implements and other equipment was completed, all within budget. In fact more equipment than planned was acquired, at no extra cost, as a result of good purchases and favourable prices;
- the plan of acquisition of vehicles and tools was totally fulfilled, within budget, and with a larger capacity vehicle included;
- the programme for house building was exceeded: instead of the three housing quarters planned to be constructed in this period, 20 quarters (10 for single employees and 10 for married ones) have been completed;
- The 1995 plan for plantation of cashews was 650 hectares. The entire area was cleared before the rainy season and by September 120,000 specimen are available in the nursery and 250 hectares planted. This is in line with the plan;
- 60 persons have been employed and trained as farm workers.

In terms of the overall implementation of the project, some 60% of the planned amount of the investment in the project has been expensed, reflecting the degree of completion of the project. This is also in line with the plan.

ii) Training

A training programme has been prepared by AMSCO. However, at present the Company is in a "project" mode, recruiting local employees and training them as farm labourers. The training of indigenous employees to take managerial responsibilities in the Company will start in 1996.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.8, page 80)

It will not be possible to measure the full impact of the intervention until the project implementation stage is largely completed and the farm is in commercial operation. This situation will begin to develop in 1996, and will be in full operation by the end of 1997.

However, in the first two years of AMSCO involvement the project has developed from a concept without financial backing to a fully funded 60% implemented reality, which has been achieved within the original plan in both expenditure and time table. This has been achieved through the application of the substantial relevant technical experience of the foreign technical partner.

Sixty jobs have been created and housing provided, in an area of the country which is completely underdeveloped, and where the population is at a subsistence level.

The Company has now commenced to generate limited revenue, through the production of inter-crops for the local market during the period in which the mango, cashew and citrus trees are maturing.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.8 : Company "H"
(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION : AUGUST 1993 TO OCTOBER 1997				Latest Data - (End of June 95)	
	YE DEC. 31. 93		YE DEC. 31. 94		ACTUAL	BUSINESS PLAN
	ACTUAL	BUSINESS PLAN	ACTUAL	BUSINESS PLAN		
1. <u>TURNOVER</u>	nil	nil	nil		60	
2. <u>NUMBER OF EMPLOYEES</u>	10	nil	40			
3. <u>NET PROFIT/(LOSS)</u>	(166)	nil	n.a.			(571)
4. <u>OPERATING PROFIT/(LOSS)</u>		nil	(176)			
5. <u>ASSETS</u>						
i) Current	32	nil	4,806	88		10,482
ii) Fixed	7	nil	5,762	7,963		
6. <u>LIABILITIES</u>						
i) Short Term	9	nil	112	468		11,070
ii) Medium & Long Term	145	nil	3,850	7,080		
7. <u>SHAREHOLDERS EQUITY (DEFICIENCY)</u>	(116)	nil	6,606	503		
8. <u>LABOUR EFFICIENCY RATIOS</u>						
i) Sales Value/Employee	nil	nil	nil	nil	nil	nil
ii) Operating Profit/ Employee	nil	nil	nil	nil	nil	nil
9. <u>CAPITAL EFFICIENCY RATIOS</u>						
i) Gross Sales/Fixed Asset Value	nil	nil	nil	nil	nil	nil
ii) Net Profit/Fixed Asset Value	nil	nil	nil	nil	nil	nil
10. <u>EXPORT EARNINGS</u>						
i) Percentage	nil	nil	nil	nil	nil	nil
ii) US\$ Value	nil	nil	13,569		16,748	
iii) Rate PG = US\$1	5,000					
11. <u>IMPORT SUBSTITUTION</u>						
i) Percentage	nil	nil	nil	nil	nil	nil
ii) US\$ Value	nil	nil	nil	nil	nil	nil

Sources: AMSCO files and client reports
: Audited Financial Statements for the year ended Dec.31, 1994 Auditors: Price, Waterhouse

5.9 CASE STUDY NO.9 :

1. Name : Company "I" ("the Company")
2. Location : West Africa.
3. Primary Products : Plastic products: pipes, screens and casings for tubewells, injection and blow moulded household articles, injection moulded industrial products (buckets for paint industry, etc.) and film products (i.e. shopping bags).
4. Secondary Products : Product range complemented by imported trade articles like fittings, pumps and valves.
5. Principal Shareholders : The shareholders since the privatisation in 1988/89 are:

Group Shell	37.5%
Foreign Partner	9.8%
Foreign Partner	4.2%
Foreign Partner	9.8%
IFU	21.6%
FMO	17.1%
6. Size (as at December 31, 1993)

· No. of Employees	: 80
· Annual Sales	: US\$ 2.9 million equivalent
· Fixed Asset Value	: US\$ 3.6 million equivalent
· Annual Net <u>Loss</u>	: US\$ 1.9 equivalent
7. Summary

The Company was a successful African regional Company, with good quality supportive shareholders, driven to insolvency and near-bankruptcy by a short period of severe local political and economic instability. The role of AMSCO in the recovery process has been to provide a supportive framework (in the form of MDF monies for training and supplementary technical assistance management funding from a donor) to enable the existing technical partner/ shareholder of the Company to provide the management support and training required to rehabilitate the Company.

This support has been provided through a joint venture agreement between AMSCO and the foreign technical partner, under which AMSCO has played a relatively passive role. Differences in interpretation of the relative roles has led to some friction and misunderstanding between the parties.

At the half-way stage of the AMSCO contract, the Company is on the way to regaining its market volume (in old FCFA value), and has returned to profitability for the first time since 1992. In August 1994 the Company replaced the AMSCO appointed general manager with a local senior manager, who continues to benefit from strong technical management support from the foreign technical partner. The devaluation of the FCFA in 1994 lead to the doubling of the Company's foreign debts, raw material and spare part costs, putting financial pressure on the Company and reducing margins. The recovery of the Company has been assisted by the improvement in the general economic environment in West Africa resulting from the FCFA devaluation. However the main credit must go to the impact of the new management team.

The two major areas still remaining to be improved are the financial (debt) structure of the Company, and the management development programme (to supplement the effective intensive training programme already in place).

8. Brief History of the Company

Formed in 1980 as a state enterprise, with the financial assistance of IFU and a credit line from the Swiss government, the Company was partly privatised in 1985/6. It was fully privatised in 1988 with participation by IFU, FMO, two foreign technical partners.

At the time of privatisation, the Company entered three commercial contracts with two of its foreign shareholders:

- a management and technical assistance contract;
- a service contract to act as purchasing agent of raw materials, spare parts and equipment, for a commission ranging from 2.5% to 5% of FOB value. This range was increased to 10% of FOB value in a renewal of the agreement in 1993;
- an agreement for commission on sales.

In 1990 the Company was granted a three year tax exemption, and exemption from import duty and tax for raw materials and consumable (three years), and spare parts (five year commencing in 1992).

Between 1986 and 1992, the Company was technically upgraded in order to be capable to participate in international tenders, in direct competition with

European products. The cost of this technical assistance from its one of its industrial shareholder was paid for by the Company. By 1992, exports to West African markets, principally tubewells and pipe systems, represented 65% of the turnover of the Company. Most of the export business was realised in close cooperation with the foreign industrial partners of the Company.

From mid-1992 to the late 1993, the Company experienced very serious problems as a result of the political and social instability in the country: general strikes; closed borders; disappearing local market; and no banking services. As a consequence, the turnover of the Company fell from US\$4.8 million in 1992 to US\$3 million in 1993. The Company's cumulated losses wiped out its shareholders' equity by the first semester of 1993, entering a serious cash crisis and bankruptcy.

The Company lost its legal status as a result of the shareholder's deficiency. This was overcome technically at the end of 1993 by the revaluation of fixed assets, anticipating the devaluation of the FCFA. However, this did not correct the basic financial problems created by the destabilising political events in the country, and the resulting loss of revenues, profitability and cash flow.

The net losses of 1993 were increased by the write-off of bad debts and amortisation postponed from 1992. This "clean up" of the balance sheet was to make way for the revaluation of fixed assets.

As a result of the sustained financial pressure on its management, the Company experienced a deterioration of the standards and technical systems previously installed, to the point where it could not achieve the ISO 8000 standards required for international tendering. The Board of the Company determined that to correct this situation it was vital for the Company to have the benefit of experienced expatriate management for a period of not less than three years. However the Company did not have the financial resources to pay for such technical assistance.

In June 1993, AMSCO was invited by one of the foreign partners to assist in the rehabilitation management of the Company.

9. AMSCO Management Contract

A three year Management and Training Agreement between AMSCO and the Company was signed in December 1993. This was backed up by a joint venture agreement between AMSCO and one of the foreign partners for the provision of technical assistance and training services to the Company. The contracts provided for two expatriate managers (a general manager and a technical manager) and the training of three local managers. Total AMSCO management fees amount to US\$ 882,800, and a training budget of FF1.6 million (US\$183,000). No MLF participation was involved.

10. AMSCO Intervention

The AMSCO intervention commenced on February 1, 1994 with the appointment of the two expatriate managers (a general manager and a technical director).

AMSCO assisted the Company to obtain an interest-free technical assistance loan of Nfi 500,000 (US\$304,900) from FMO/IBTA to cover up to 50% of the budget for the AMSCO expatriate managers.

i) Management

The immediate priority of the new management team was to recover from the damage caused to the commercial reputation and the physical capability of the Company. To achieve this it was essential for the Company to effect a financial restructure, including new funds, and the rehabilitation of the manufacturing assets and technical workforce.

As part of the immediate refinancing of the Company, the management produced within one month of arrival a "loan profile", being a background document in support of a loan application to Caisse des Etats de l'Afrique Occidentale (CEDEAO), a regional financial institution. This loan was to be used to provide working capital for the Company and to provide funds for additional investment in machinery and equipment, and to partly retire some of the existing long term debt. The application was unsuccessful

During 1994 the Company negotiated a rescheduling of its debt with to the government, obtaining a three year moratorium on repayment to March 31, 1998. Negotiations are continuing with the objective of obtaining a total write off of the US\$765,000 debt to the government.

In October 1994 the Company also signed with the local development bank an agreement for the four year rescheduling of a US\$168,000 equivalent loan obligation.

In November 1994, the management produced a comprehensive business plan and a ten year financial forecasts for the overall rehabilitation of the Company. The plan included specific proposals in the areas of refinancing and financial restructure, personnel, maintenance and technical upgrading, and market studies of the local and export markets in the West African region.

With the assistance of one of the foreign technical partner, management identified building, machinery and equipment to be maintained and upgraded. The management prepared three investment budgets classified in accordance to the minimum, most urgent and priority of needs. The

first capital budget for 1995 identified the minimum priority of investment for 1995. The second and third budgets target the replacement and upgrading of the building, machinery and equipment.

ii) Training

The training programme at the Company was conducted primarily by one of the foreign technical partner, under terms of the joint venture agreement.

Management undertook an assessment of the human resources and the training needs of the Company and a reorganisation aimed to better work relations and communication between employees. Management also prepared a job description and responsibilities for each employee. The initial target areas for training were:

- technical and production;
- maintenance of equipment;
- management and accounting

New personnel were recruited in each of these areas, and specific training programmes developed.

A technical team from one of the foreign technical partner visited the Company in April 1995 to work with local technical employees in the evaluation of the extrusion plant and ancillary equipment. Other visits by technical experts in production and manufacturing protocols were organised with the purpose of ensuring that the Company will be able to meet the more stringent ISO 9000 Standards coming into operation in 1996 for international contracts.

The deputy general manager, a local employee, was given eight months specific training plus on-the-job experience, and took over when the expatriate general manager left in August 1994, and was confirmed as general manager in June 1995.

The initial concentration on "technical on-the-job" training has had the desired results of regaining high technical standards and the higher productivity essential for the survival of the Company as an international competitor.

Subject to the review of the AMSCO training director, the future management development programme will concentrate on general management training and team building.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.9, page 88)

i) Turnover and profitability

A modest recovery of the turnover of the Company had started in the second half of 1993, and has accelerated since the AMSCO intervention in February '94. By the end of 1994 the turnover in local currency has recovered to the 1992 level, and the first half of 1995 indicates a further improved performance for the full year at almost double the 1992 turnover, and equivalent to the 1992 turnover in US dollar value.

The two year period of substantial losses has been broken. In the first half of 1995 the Company has made an operating profit of 6.1 % and a net profit of 0.56% compared with 3.1% and 0.38% respectively in 1992. Although improved, these are still relatively low levels of profitability. The declared management target is a net profit of 1.36%

ii) Balance Sheet

Through negotiated loan terms the short term liabilities of the Company have been reduced, but still marginally exceed current assets. Substantial further work is needed on the remaining unstructured debts. As a result of the revaluation of capital assets, the fixed assets are now three-fold long term liabilities. The same revaluation also contributed towards the 50% restoration of the shareholders' equity.

iii) Labour and Capital Efficiency

As a result of the recent reduction of the overall workforce (notwithstanding record manufacturing volume), labour productivity, in terms of turnover in local currency, has more than doubled since 1992. Annual net profits have increased by US\$1,221 per employee, operating profits by US\$886 per employee.

Numeric comparison between 1992 and 1995 accounts of the capital efficiency ratios has been made invalid due to the revaluation of the capital assets. However, the substantial increase in turnover and profitability generated from the same physical assets indicate similar gains in capital efficiency to those identified for labour.

iv) Export and/or Import Substitution

The entire output of the Company is either for local household and industrial application or for export to the West Africa region (principally Benin, Niger, Ghana and Burkina Faso), and therefore qualifies as import substitution or export. The export amounted to 75%, 67%, 65% of turnover for the years 1992, '93, and '94 respectively. In the first six

months of 1995 turnover amounted to US\$2.39 million, of which 75% were in export earnings. Export Earnings for 1995 are estimated to be US\$3.6 million.

v) Technology Transfer

Originally the Company was set up with extensive technology transfer from its foreign technical shareholder. In the rehabilitation of the manufacturing processes and technical standards of the Company one of the foreign technical partner has continued to contribute heavily, principally through visiting teams of foreign experts and the training of local staff. This project is a good demonstration of comprehensive technology transfer.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.9 : Company "I"

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION: FEBRUARY 1994 TO JANUARY 1997					Latest Data
	YE	YE	6 mths end.	6 mths end.	YE	6 mths end
	Dec.31.92	Dec.31.93	June 30.94	Dec.31.94	Dec.31.94	June 30.95
1. <u>TURNOVER</u>	1,328	874	613	605	1,418	1,165
2. <u>NUMBER OF EMPLOYEES</u>	121	80	102	103	103	95
3. <u>NET PROFIT/(LOSS)</u>	5.1	(552.8)	(153.9)	(130.9)	(233)	6.6
4. <u>OPERATING PROFIT/(LOSS)</u>	40.9	(340)	(49.6)	(256.4)	(308)	71.0
5. <u>ASSETS</u>						
i) Current	954.6	877		1,332	1,332	1,397
ii) Fixed	641.6	1,042		1,551	1,551	1,543
6. <u>LIABILITIES</u>						
i) Short Term	927.9	1,399		1,949	1,949	1,935
ii) Medium & Long Term	388.7	249.5		555.7	556	556
7. <u>SHAREHOLDERS EQUITY/ (DEFICIENCY)</u>	279.6	270.5	281.	378.1	378	449
8. <u>LABOUR EFFICIENCY RATIOS</u>						
i) Sales Value/Employee	10.975	10.621			13.767	28.516/est yr
ii) Operating Profit/Employee	.338	(4.250)			(2.990)	1.737/est yr
9. <u>CAPITAL EFFICIENCY RATIOS</u>						
i) Gross Sales/Fixed Asset Value	207%	81%			132%	175% est/yr
ii) Net Profit/Fixed Asset Value	.8%	(53%)			0.5%	1% est/yr
10. <u>EXPORT EARNINGS</u>						
i) Percentage	75%	67%			65%	75%
ii) US\$ Value (million)	3.6	2.0			1.7	1.8
11. <u>IMPORT SUBSTITUTION</u>						
i) Percentage	25%	33%			35%	25%
ii) US\$ Value (million)	1.2	1.0			0.9	0.6

Sources: Audited Accounts -Year Ended Dec.31, 1993 and 1994

- : AMSCO files and client's reports
- : IFU files

colour processing. The Company is presently forming a joint venture, with four French companies in the high-technology end of the business, to give it access to a wider and more technically sophisticated pre-press market.

The operating loss of US\$44,500 sustained in the first six months of 1995, due to the breakdown of the film processor, should not be allowed to mask the improvement in the basic technical resources and competitive capacity of the Company.

Within the past year the Company has transferred 52 jobs to a neighbouring country and upgraded the skills in a reduced local workforce. It is an outstanding example of an enterprise in Africa successfully competing internationally in one of the most rapidly developing high-tech international markets.

8. Brief History of the Company

The Company was started in January 1989, promoted within the local export zone. Its founder shareholders included the main printing companies of the country, their intention being to jointly develop the export market. After a series of failures the Company was taken over by the current owners in September 1990. One of the new owners had relevant experience in an editing company in Paris. With a set up of 45 Apple and Macintosh computers, the Company was at that time able to process manuscript text for French and U.K. publishers.

To take advantage of the extraordinary pace of technological change which is revolutionising the pre-press and printing industries, it is vital that the Company develop into the more sophisticated typesetting services of mathematics, scientific text, and children's book, using modular system software. This requires higher skills of desk top publishing ("DTP") staff.

The problem faced by the Company was that if it remained primarily at the simple stage of pre-press electronic technology, DTP, which is labour intensive, it would fairly rapidly become uncompetitive, due to lower labour costs in Asia, North Africa and elsewhere. To maintain its position the Company has to develop towards the technically sophisticated end of the market. Initially this would involve producing graphs and special layouts, moving to colour processing, and eventually to full integration with information technology.

The solution proposed by the Company was to upgrade the skills of its workforce, through training and management organisation, and to locate (and if necessary relocate) its lower skill operations to lower labour cost markets. However, this inevitably would involve intensive training by "industrialised world" technicians, at "industrialised world" costs, to train people whose typography products could only be charged out (invoiced) at

"emerging world" rates. The Company did not have the resources to undertake such a programme.

On the recommendation of the local export development association the Company contacted AMSCO in September 1993.

9. AMSCO Management Contract

On December 8, 1993, AMSCO and the Company signed a Technical Management and Training Agreement for the period May 1994 to May 1996. The total AMSCO management fee was FF 800,000 (US\$168,000), and a training budget of Nfl 125,000 (US\$76,220) (of which the Company would meet 25%). There was no participation in MLF. AMSCO also assisted in obtaining a technical assistance grant of Nfl 125,000 (US\$76,220.) from FMO/IBTA to meet up to 50% of the budget for the expatriate technical manager.

10. AMSCO Intervention

The solution agreed with AMSCO was to provide the Company with a technical manager, specialist in the more complex aspects of electronic pre-press production. The manager's responsibilities would be to manage production and the development/training of the local workforce, both technically and in the management of production assignments. The technical manager was recruited by the Company from one of its customers in Paris.

i) Management

The technical manager took up his position in the Company in June 1994. In August 1994 the Company initiated its programme to move the text keying operation to an associate company in a neighbouring low labour cost country. By January 1995, the transfer of 50 personal computers ("Apple MacIntosh") was completed and this satellite operation is now responsible for all text key-in operations. All formatting, administration and commercial operations remained in the home country. The manager of the satellite operation was previously the head of the keying department in headquarters.

To meet the increased volume of business and guarantee continuity of service the satellite operation is now being expanded to 70 work stations, and the installation of a stand-by generator. This development is being funded by a loan of FF 300,000 from PROPARCO, the private sector arm of the Caisse Française de Développement. The economics of the satellite operation were substantially improved by a 50% devaluation of the local currency in July 1994.

In October 1994, the Company set up an office in Paris, to strengthen the marketing efforts and provide a better and more efficient service to

customers. Contacts were established with major publishers in Germany and the U.K., as sources of future business.

In January 1995 the Company commenced the re-engineering of its control production process to build a corporate structure that could flexibly respond to developments in the pre-press business environment, which is changing very rapidly. In addition to the transfer of the data capture operation to a satellite this programme involved the re-organisation and enlargement of the page-setting department to cope with the additional volume, and the transfer of this operation to a location where ISDN telecommunication facilities were available. This system allows the transfer of data at high speed and relatively low cost per minute.

In February 1995 the technical manager was terminated by AMSCO at the request of the Company. The reasons for this were that the requirements of the Company had changed, requiring a higher technical expertise in the business. In addition, although hard working and technically capable, the manager was not able to plan or prioritise his work, and had not integrated well into the Company team. It was acknowledged by the Company that part of the problem was the lack of care on their part in the introduction of the new manager to the Company.

The replacement technical manager was recruited and selected jointly by AMSCO and the Company, and took up her duties on July 1, 1995. Her background was technical, with substantial experience in DTP. Within the first month of joining the Company she had produced a report outlining the on-going management development and training programme.

With the technical management support the Company is now preparing to move into colour processing in order to broaden its customer base, and to provide a more comprehensive, higher added-value service.

ii) Training

A thorough training programme for selected staff was designed jointly by AMSCO and the Company, and commenced in December 1994. Intensive courses on commonly used software (such as Quark, Xpress, Illustrator and Photoshop) were given, and the programme included training in more general areas such as typography and the environment and peripherals of the computer hardware.

The object of the training programme was to build up the theoretical and practical knowledge of the staff in head office on the software and computers used by the Company, to improve utilisation. The programme was popular with the staff and the result was a marked improvement in efficiency.

To further upgrade the staff, and to involve them in the planning and design of the layout of work projects a "bureau d'étude" was formed, to organise the preparation of production prior to being passed on for execution. Each member of the staff will, on a rotational basis, be a member of the bureau, which will consist of two staff members under the supervision of the technical manager. This is proving to be a very good development tool for the entire layout staff.

The presence of the technical manager also released the workshop production manager to undertake a five week training course in France, to work with clients and potential clients to get an understanding of their requirements.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.10, page 95)

i) Turnover and profitability

In the first twelve months of AMSCO intervention the turnover of the Company has increased by 22% over the previous twelve month period. This was achieved despite fierce competition from lower labour rate international operators. Sales were also affected adversely by a breakdown of the film processor in early 1995.

The "outage" of the film processor was the result of the failure of the local agent to provide an adequate maintenance and repair service. This led to the Company turning away business involving the film processor, and sub-contracting to a (high cost) European Company work of US\$36,000 value in order to fulfil commitments already accepted. This has contributed to an exceptional loss of US\$44,500 in the first half of 1995.

ii) Balance Sheet

As a result of AMSCO intervention the Company has been able to raise loan capital to make a substantial increase (almost 150%) in its fixed asset base.

The liquidity of the Company has also improved, from a current asset/current liability ratio of 1:1.06 to 1:1.96. The value of the shareholders' equity has also increased by 42.7% to US\$97,000.

iii) Labour and Capital Efficiency

Profitability ratios of both labour and capital have been adversely affected by the equipment breakdown during the past six months.

Labour productivity in terms of turnover per employee has increased over the twelve month period, by 20%, but both net and operating profits per annum per employee have dropped, marginally. The benefits of the heavy investment made by the Company over the

past several months have not yet had time to influence capital productivity.

iv) Export and/or Import Substitution

The output of the Company is entirely for export. Despite the serious "once-off" problem of the film processor, foreign earnings have increased by 22% over the previous twelve months, to US\$462,763.

v) Technology Transfer

The origin of the Company is the concept of the wholesale transfer of DTP technology to the low labour cost environment of southern Africa. To maintain its market position in this rapidly developing technology it is essential for the Company to continue this technology transfer. The AMSCO intervention, in the form of providing a technical manager, is a vital contribution to this process.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.10 : Company "J"

(Financial Performance Figures - expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION : MAY 1994 TO MAY 1996				Latest Data 6 mths end. June 30,95
	6 mths end.	YE	6 mths end.	YE	
	Dec.31.93	Dec.31.93	June 30,94	Dec.31.94	
1. <u>TURNOVER</u>	2.533	5.934	4.231	8.094	4,277
2. <u>NUMBER OF EMPLOYEES</u>	52	52	52	53	64
3. <u>NET PROFIT/(LOSS)</u>	.103		.246	.217	(.979)
4. <u>OPERATING PROFIT/(LOSS)</u>	.103		.312	.301	(.776)
5. <u>ASSETS</u>					
i) Current	2.745	2.745	3.090	4.459	4.694
ii) Fixed	2.149	2.149	1.438	2.884	3.462
6. <u>LIABILITIES</u>					
i) Short Term	2.596	2.596	2.141	3.502	2.397
ii) Medium & Long Term	.950	.950	1.123	2,356	4.050
7. <u>SHAREHOLDERS EQUITY</u> <u>(DEFICIENCY)</u>	1.348	1.348	1.197	1.485	1.708
8. <u>LABOUR EFFICIENCY RATIOS</u>					
i) Sales Value/Employee	.048	.114	.081	.152	.67
ii) Operating Profit/ Employee	.002	.001	.006	.006	(.012)
9. <u>CAPITAL EFFICIENCY RATIOS</u>					
i) Gross Sales/Fixed Asset Value	118%	276%	294%	281%	123%
ii) Net Profit/Fixed Asset Value	4.8%	4.8%	17%	8%	28%
10. <u>EXPORT EARNINGS</u>					
i) Percentage	100%	100%	100%	100%	100%
ii) US\$ Value					
11. <u>IMPORT SUBSTITUTION</u> <u>(US\$ VALUE)</u>	nil	nil	nil	nil	nil

Sources: Client's management accounts for the 6 month period ended Dec.31,93, June 94, Dec.94 and June 95

: Audited Financial Statements for the year ended December 31, 1994

: AMSCO files

: Discussions with Client Principal

5.11 CASE STUDY NO. 11 :

1. Name : Company "K" ("the Company")
2. Location : West Africa
3. Primary Products : Hotel (74 rooms)
4. Secondary Products : -
5. Principal Shareholder : Local investment Company 100%
6. Size (as at March 1994)
 - No. of Employees : 89 employees
 - Annual Sales : Not applicable - Start Up
 - Investment Value : US\$3.35 million equivalent
 - Annual Net Profit : Not applicable - Start Up

7. Summary

The full economic impact of the AMSCO intervention in the Company will not be clear until the full two year contract period is completed. However, the basic groundwork for the future success of the project has been completed, and the results of the first seven months of full operation are significantly better than the targets of the original business plan. They are also better than the more ambitious revised budget formulated in February, just prior to opening. Average occupancy rates are 33% higher and gross revenue and operating profitability 50% higher than the revised business plan. The achievement of the high standards of efficiency and performance are in large part due to the competence of the AMSCO manager and the comprehensive pre-start up and on-going training programme provided to the hotel management and staff, under the AMSCO contract.

8. Brief History of the Company

The hotel was constructed in 1952, in a neo-colonial style. It was nationalised in the early 1980's and was operated by the government for the next ten years, unprofitably. In 1993 the decision was made to privatise, through the sale of the assets. In anticipation of the sale the government closed the hotel and laid-off all of the employees.

Prior to the announcement of privatisation the principal had considered the possibility of building an hotel in the capital city, and APDF had collaborated in the preparation of a feasibility study.

The public tender for the hotel took place in December 1993 and the principal was assisted by APDF in the preparation of his bid. APDF prepared a full feasibility study for the rehabilitation of the hotel, based on the earlier study, approached the African Enterprise Fund for rehabilitation finance, and AEF referred the Company to AMSCO. The government accepted the bid by the principal, through the Company, in March 1994.

The feasibility study indicated a requirement of FF10.75 million for the rehabilitation of the Hotel to a "three star" international standard. Commitments were secured for a FF 5 million loan from AEF, and a similar loan amount from local banks.

The total investment involved was FF 16.75 millions.

9. AMSCO Management Contract

An AMSCO Management and Training contract for the period September 1994 to September 1996 was signed on September 8th, 1994. It provided for total AMSCO management fees of US\$223,650 (for a general manager), and a training budget of Nfl 90,000 (US\$58,878), of which the Company would contribute 25%.

10. AMSCO Intervention

Management and Training

From an extensive list of candidates prepared by a French consultant AMSCO short-listed two, which were presented to the owners with a specific recommendation. The owner accepted the recommendation and the general manager took up his post in September 1994.

AMSCO provided a consultant to work with the general manager in the preparation of a recruitment and training programme for both the specialist managers (front desk, head chef, personnel, etc...) and the general staff of the hotel.

The managers were recruited in November 1994 and AMSCO retained a consultant to assist the hotel manager in the initial training over a two month period.

In January the remainder of the staff were recruited (82 persons), and a two month training programme was undertaken by each of the departmental managers. The cost of this, and the early induction training of the managers was met 75% by MDF.

The programme of physical rehabilitation of the interior of the hotel, which had commenced in May 1994, was completed on schedule by the end of February 1995, and the hotel was opened on a "staff-in-training" basis on March 1. The official opening of the hotel took place at the end of March.

The total cost of the rehabilitation was 10% over the original budget due to changes in specifications (to improve the final product) being introduced by the owners during the construction programme. The final cost of rehabilitation was FF 11.75 million. The additional funds were provided by the owners.

The performance of the hotel since opening has been substantially above the business plan forecasts. The estimated turnover as at December 31, 1995 is FF 8.30 million compared with a Business Plan projections of FF 6.04 million.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.11, page 100)

i) Turnover and profitability

As at September 30, 1995, the turnover for the first 7 months of operation was FF 5.79 m - vs - budget FF 4.04 m (43% over budget).

The gross margin during the same period was FF 4.28 m - vs - budget FF 2.36 m (81% over budget). The operating profit was FF 2.89 m - vs - budget FF 1.47m (97% over budget).

ii) Balance Sheet

No specific balance sheet information is available. The Company is currently in the process of preparing the accounts for the first seven months of operation (to September 30, 1995).

iii) Labour and Capital Efficiency

Labour efficiency, in terms of gross revenue per employee, is 60% higher than forecast in the business plan, and 50% higher in terms of operating profitability per employee (which is US\$3,469 per employee) than business plan for the first seven months of operation.

Capital efficiency ratios cannot be calculated without reliable balance sheet figures, but despite a capital investment cost overrun of 10%, it can be reasonably estimated that the capital efficiency will be 40% greater than revised business plan, in terms of turnover and net profitability.

iv) Export and/or Import Substitution

A high proportion of the guests at the Hotel are visitors to the country. Data from the guests register indicates that 85% were foreign, of which

54% were from Europe and North America. This suggest that foreign earnings in the first seven months of operation were US\$960,000 and it will be of the order of US\$1.445 million at December 31, 1995

v) Technology Transfer

The principal of Company has no previous experience in hotel management, and this was a major reason for seeking AMSCO intervention. The appointment of the AMSCO manager, an experienced hotelier, provided the transfer of the technical know-how necessary to establish a first class hotel operation.

AMSCO IMPACT REPORT

TABLE 5: ADDITIONAL FUNDING OF CLIENTS OBTAINED DURING AMSCO INTERVENTION PERIOD (US\$)

Clients	EQUITY	COMMERCIAL LOAN	GRANT / SOFT LOAN	SUB-TOTAL	DETAILS:	SOURCES
Company A (privatised)	nil	US\$1,087,000 US\$ 190,000	nil	US\$1,277,000	Credit lines	Commercial Bank MLF
Company B	US\$1,100,000	nil	nil	US\$1,100,000	Equity subscription	Principals
Company C (privatised)	nil	nil US\$6,284,000	US\$100,000 (estimate) - US\$1,468,300 US\$50,000 (estimated) US\$100,000 (estimated) US\$664,500	US\$8,666,800	TA for Management Expenses Stabex Grant for Plant TA for Management Expenses TA for Prospectus Preparation Debt Forgiveness Crop Finance	Swiss Govt. EC Swiss Govt. USAID Government/IMF approved Commercial Bank
Company D	nil	nil	US\$42,700 US\$122,000	US\$164,700	TA for Business Plan Preparation TA for Management Expenses	FMO FMO
Company E	nil	nil	nil		n.a.	n.a.
Company F	nil	nil	US\$173,200	US\$173,200	TA for Management Expenses	FMO
Company G	nil	nil	US\$19,900 US\$131,580 US\$201,200 US\$1,100,000	US\$1,452,680	TA for Management Expenses TA for Expert Intervention TA for Management Expenses 75% Discount on Current Liabilities, Medium & Long Term Loans & Equity	FMO CFD FMO Financial Institutions
Company H	US\$75,000	US\$1,250,000 US\$1,250,000	US\$122,000 US\$81,400	US\$2,778,400	Equity Loan TA for Management Expenses Soft Loans for Management Expenses Loan	IFC Banco de Formento FMO FMO Banco de Formento
Company I	nil		US\$304,900	US\$304,900	Soft Loans for Management	FMO
Company J		US\$27,900 US\$55,800 US\$16,750 US\$52,630 US\$55,800	US\$76,200	US\$285,080	Soft Loans for Management Loan for capital equipment Conversion of overdraft to long term loan Loan Term Loan for equipment Equity	FMO Commercial Bank Commercial Bank Development Bank PROPARGO Principals
Company K	US\$325,000	nil	nil	US\$325,000	Additional Equity	Principals
TOTAL	US\$1,555,800	US\$10,214,080	US\$4,757,880	US\$16,527,760	---	---

NORMAN INTERNATIONAL
Investors and Business Consultants

AMSCO IMPACT STUDY: ELEVEN SELECTED CASES

A Study of the financial impact of the intervention by the African Management Services Company (AMSCO) on eleven selected client enterprises.

Prepared by:
M.S.C. Boucher and K.J. Norman.

For:
The Private Sector Development Programme,
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AMSCO IMPACT STUDY: ELEVEN SELECTED CASES

Section 1 Executive Summary

1.1 Purpose and Method

The purpose of the study is to quantify the economic impact of the intervention of AMSCO in the management of a sample of eleven AMSCO clients. In five of these clients the AMSCO management contract has been completed; in six of them the contracts were on-going as at June 30, 1995.

The sample of eleven clients represents more than 25% of the total AMSCO client base signed up before January 1, 1995, and 40% of that base after elimination of those 15 clients whose management contracts were terminated before completion.

"Case Studies" have been prepared for each of the selected clients. Each study includes a brief history of the company, details of the form of the AMSCO management and training programmes, and quantifies the changes in the key financial and other economic variables during the period of AMSCO intervention.

1.2 Summary of conclusions

Each of the case studies provides a clear indication of the significant improvement in economic performance by the sample clients during the AMSCO intervention. These improvements have been aggregated, after conversion into US dollars, to provide the following average impact figures for key economic indicators:

- **Turnovers** have more than doubled, on average, in local currencies (a 45% increase in US dollars - an average of US\$2 million per company);
- **Net profits** have achieved an average turn-round of US\$856,000 per company (from an average annual net loss of US\$478,200 to a net profit of US\$378,000 per company);
The cumulative increase in net profits during the period of AMSCO interventions totals US\$13.7 million (an average of US\$1.52 million per company);
- **Operating profit** have achieved an average turn-round of US\$1 million per company (from an annual marginal operating loss to an average operating profit of US\$1 million per company);

The cumulative increase in operating profits during the period of AMSCO interventions totals US\$18.13 million (an average of US\$2.015 million per company);

- **Balance Sheets** show improvements in current asset/liability's ratio from 1.04 to 1.36 : 1 .
Achieved on average a 50% increase in value of shareholder's equity in local currency;
- **Employment and Labour Efficiencies** The local currency value of the annual production per employee has increased on average by 116%. In dollar terms this increase converts to US\$14,500 per employee per annum;
2,218 jobs have been protected, and 324 new jobs created. However, the improvements in labour efficiency have been achieved by the elimination of 948 jobs.
The average annual net profitability per employee has increased by US\$2,322, and the operating profit by US\$3,599, despite substantial devaluation.
- **Capital Efficiencies** have increased by an average of 127% in terms of increased turnover, and 130% in terms of net profits;
- **Export Earnings** have more than doubled, from an average US\$928,400 per company to US\$2.22 million per year;
- **Import Substitution** The value of import substitution plus foreign currency earnings have increased pro-rata in line with the increase in gross revenue, increasing overall by 45% in US dollars;
- **Technology Transfer** on a substantial scale has been a hallmark of the AMSCO intervention in almost all the cases under review.

1.3 Value for Money

The financial performance statistics have been normalised to US dollars, and averages calculated for comparison with the average hard currency expenses involved in AMSCO management fees and MDF training for the selected cases.

In terms of **value for money**, analysis of hard currency costs to the selected clients involved in AMSCO management fees and MDF training contributions indicates the following:

- The AMSCO contract has, at an average cost of US\$497,000, been an extremely good "investment" for these clients, on average giving a three-fold return in the cumulative increase in net profits, and four-fold return in the cumulative increase in operating profits during the period

of AMSCO intervention. This is in addition to fully recovering the client expenses of the AMSCO contract, and without consideration of the average subsidy of US\$115,000 technical assistance funding for expatriate management expenses procured with AMSCO assistance.

- The funding of management development through the MDF provides a massive financial leverage in the improved performance of the recipient companies. The direct impacts in net and operating profits show an average of ten-fold and fifteen-fold return on the MDF expenses during the period of AMSCO intervention. These improvements appear to be sustained after the completion of the AMSCO contract, but it is too early to make this a general conclusion.

In addition to these direct benefits there are also the broader financial and economic benefits of stronger balance sheets, improve labour and capital efficiencies, and substantially greater export earnings and import substitution. There also has been a substantial transfer of technology.

1.4 Financial Leverage

In addition to the direct financial benefits of AMSCO intervention, ten of the selected companies benefited directly through further funding from shareholders, lenders and/or donors as a result of the management credibility and stabilisation effected by the AMSCO intervention.:

- four of the companies received a total of US\$1.55 million additional equity subscriptions, an average of US\$388,950 per company;
- four of the companies obtained a total of US\$10.2 million additional loan funds, an average of US\$ 2.6 million per company;
- seven of the companies received a total of US\$4.8 million grants or soft loans/technical assistance, an average of US\$680,000 per company.

The total additional funding (in the form of equity, loans and grants) "leveraged" as a result of the confidence in the management of the company arising from the AMSCO intervention amounted to an average (over ten companies) of US\$ 1.65 million per company.

Section 2. Introduction

2.1 Purpose of the Study

The purpose of the study is to quantify and evaluate the impact of AMSCO intervention on eleven selected AMSCO clients (the selection of the clients being done jointly with AMSCO senior management).

2.2 Sources

The primary criteria used to measure the impact of AMSCO intervention on these selected enterprises are changes in their financial and operational performance during the period of AMSCO intervention in the following areas:

- Turnover;
- Number of employees;
- Net profit;
- Operating profit;
- Assets;
- Liabilities;
- Shareholders' equity;
- Labour efficiency ratios;
 - on turnover;
 - on operating profits;
- Capital efficiency ratios;
 - on turnover;
 - on net profits;
- Export earnings;
- Import substitution;
- Technology transfer.

Data on some of these functions was not available (or necessarily relevant) for some of the selected enterprises. However, for every case it was possible to complete an analysis to quantify in clear terms the financial impact of the AMSCO intervention.

2.3 Case Studies

The primary analysis of each enterprise is presented in the form of a case study. The primary sources of data for these studies were the annual financial statements, and the monthly and/or quarterly management operating reports of the relevant companies. These data were supplemented extensively from business plans, technical assessments, and correspondence on the files of AMSCO, plus direct discussions with client companies' executives and principals.

It is relevant to note that the information available in the AMSCO files indicated a very wide range in the quality and quantity of reporting from

the field managers, and that no standard form of regular monthly/quarterly operational report had been established and imposed. In some cases the monthly reports are very detailed, in much greater detail than a normal monitoring function would require. In other cases the reporting is occasional and incomplete. In one case there have been no regular reports. These inconsistencies in reporting standards suggest that the monitoring of the performance of the clients and their AMSCO managers has also been irregular and of variable standards.

To provide the context in which each intervention took place, the case studies also provide a brief history of each company and a fairly detailed summary of the management and training intervention that has been provided to each of the clients.

2.4 Normalisation and Aggregation

In order to provide comparison between the changes in the performance of individual enterprises, and to calculate the average impact of AMSCO over the whole sample, the financial data have been "normalised" to US dollar values (using the exchange rate applicable in each of the relevant year).

Aggregation of these data has also enabled the financial impact of AMSCO during the period of intervention (in terms of increased volume, profit, etc.) to be directly compared with the AMSCO expenses incurred by or on behalf of the clients on management fees, MLF loans and MDF contributions.

The on-going financial impact of the AMSCO interventions is also identified from the actual/estimated performance of each company in its current financial year. These have also been converted to US dollars and presented individually and in aggregate form.

2.5 Leverage

Finally, an Annex to the report includes data on the further benefits to the selected cases in the form of additional equity, loans and grants attracted to the clients as a result of the improved credibility and confidence provided by the AMSCO management intervention.

3 Summary

3.1 AMSCO Impact

i) Normalization of the data

To enable the data in the individual case studies to be aggregated the financial figures have been converted to US dollars . Table 1 (pages 13 and 14) summarize the "impact" information from the case studies (converted at the exchange rates in each of the relevant years). Table 2 (page 15) summarizes similar information for the current fiscal year, in both local currency and US dollars.

It must be noted that conversion into US dollars will give a considerable conservative bias to the aggregate figures, as, with the exception of the two most recent contracts under review, the local currency of the remainder of the clients under study has been devalued during the periods of AMSCO intervention by average of 42.5% - that is to say that during the AMSCO management period the local currencies were devalued by almost 50% against the US dollar.

The effect of the devaluations is to reduce the dollar value of the improvements, relative to the US dollar "base-line" performance established at the beginning of the AMSCO intervention, in the areas of turnover, gross and net profits, asset values, labour efficiency ratios and shareholders' equity. In addition, due to the fact that a majority of the medium and long term liabilities of the enterprises were hard currency loans, there was not the offsetting advantage of the reduction of liabilities in dollar terms.

These factors should be borne in mind in evaluating the US Dollar impact figures presented in Tables 2 and 3, and summarized below.

ii) Aggregate and average impact

- Employment:

The total number of jobs "saved" (on the assumption that without AMSCO intervention the client would have eventually gone out of business) totals 2,218 (an average of 202 per client). The number of new jobs created is 324 (average 30 per client).

The overall impact of AMSCO on the entire sample was to reduce the total employment by a net figure of 624, due to the necessity to improve labor efficiency substantially in order to survive (see Labour Efficiency, below). However the "quality" of the surviving jobs in terms of security and economic contribution has been greatly improved.

- the cumulative aggregate increase in gross profits during the AMSCO intervention is US\$18.13 million, an average of US\$1.65 million per client (based on nine companies).

In assessing these figures it is important to remember that these figures are after conversion to US dollars at the rate applicable in each year. Figures for the improvements for individual enterprises in both turnover and profit performance are even more impressive in local currencies.

- Balance Sheet:
The large changes in currency values experienced by almost all of the eleven clients (particularly those in the FCFA system and in Kenya) has played havoc with their balance sheets. The fact that most of the companies have significant hard currency liabilities compounded the problems, leading some companies to revalue their capital assets.

Despite these structural difficulties, the balance sheets of several of the companies studied were strengthened during the AMSCO intervention, even in US dollar terms. The average current assets / current liabilities ratio for the eight companies for which data are available was 1.04 : 1 at the commencement of the AMSCO intervention. At the end of the intervention periods this ratio improved to 1.36 : 1.

For the nine clients for which data or adequate estimates are available their equity in local currency has increased by an unweighted average of 50%. In addition, at least three of the companies have distributed profits during the AMSCO intervention period. Although reliable data are not available it is believed that distributions could amount to more than US\$4 million.

The substantial increase (50%) in balance sheet equity in local currency is masked when converted to US dollars, because of the devaluation of local currencies during the AMSCO intervention. In US dollar terms the aggregate equity value of the nine clients has gone down from US\$20.8 million to US\$19.2 million, a 7.5% reduction.

- Labour efficiency:
In the nine companies for which productivity figures are available the average increases in labour productivity (in terms of increased turnover) during the AMSCO intervention periods was US\$14,500 per employee.

Behind this single statistic lie dramatic increases in labour productivity in terms of local currency: in the periods of AMSCO intervention labour productivity in the same seven clients increased on average (unweighted) more than two and one half times the base figure.

The improvement in the profitability of labour, in terms of the increase in the annual net and operating profits per employee, was equally dramatic: average increases of US\$2,322 and US\$3,599 respectively per employee during the AMSCO intervention periods reflected a turn-around from sustained operating losses in six of the clients to net and operating profits in nine of them. One of the major strengths demonstrated by AMSCO managers has been improved control of labour and process efficiency.

- Capital Efficiency

The capital efficiencies of all of the clients under review have increased, with the exception of one (Company J). Reliable data were not available for three of the clients, and the calculation of capital efficiencies for two other clients was compromised by the revaluation of their assets, following the FCFA devaluation.

Firm data or reliable estimates are available on seven of the clients, which indicate an average increase in capital efficiency of 127% in terms of increased turnover and 130% in terms of net profitability

- Export / Foreign Currency Earnings:

Six of the companies under study directly earn foreign currency, and of these five increased the US\$ value of these earnings during the AMSCO intervention (Company G being the exception, where exports halved in US dollar value, solely due to the FCFA devaluation).

The export value "base line" for all six companies, converted at the exchange rates at the beginning of the AMSCO interventions, totaled US\$4.36 million. In the current fiscal year, at current exchange rates, the total foreign currency earnings of the same six companies is US\$13.3 million, a 200% increase. The average foreign currency earnings per company of these six companies has gone from US\$725,000 to US\$2.22 million per year.

Again, the normalisation of the figures to US dollars obscures the fact that since much of the exports were intra-regional, the percentage of the local currency value of the increase in export earnings was almost double the US dollar figure.

- Import Substitution:

All of the companies contribute import substitution benefits (hard currency savings) to their local economies (with the exception of Company J for which, the product is 100% for export). However reliable statistics on both the gross and net import substitution impact were difficult to obtain.

It is reasonable to assume that the contribution of the AMSCO interventions in assisting in the recovery and successful development of these enterprises, has protected and increased the import substitution benefit of their operations.

- Technology Transfer:

In all eleven of the clients the transfer of technology has played an important role. In eight clients technology transfer has been a central feature of the AMSCO intervention, through the provision of technological expertise in the seconded managers and specialist consultants.

In two of the clients (Companies D and F) the principal areas of expertise transfer has been sales and marketing management.

In all of the clients the provision of management expertise (planning, financial and technical control, human resources, etc.) has played a vital role in achieving improved performance.

4.2 Post AMSCO Intervention Impact

The figures presented in paragraph 4.1 (ii) above refer only to the impact of AMSCO during the periods of intervention. The AMSCO management contract has been completed in five of the eleven cases under review, and each of these companies continue to enjoy the long term benefits of the improved levels of performance achieved during the AMSCO intervention.

Two of the cases, (Companies A and C) are enterprises that AMSCO successfully prepared for privatisation. Both were making substantial losses and operating at a fraction of their capacity at the beginning of the AMSCO intervention. Both were sold off towards the end of the intervention period: Company C for US\$2 million; and Company A for an undisclosed sum (but at least US\$3 million). The sales also terminated the need for government subsidies, which had been running at the annual rates of US\$2 million and US\$1.2 million respectively.

In three more of the companies under study (Companies B, D and G) the AMSCO management contracts were completed in mid-1995. This is too recent to provide any indication of the sustainability of the AMSCO

influence on those enterprises. In due course this may be a useful area of study. It is significant that two of these companies have requested that AMSCO training support is continued beyond the contract period.

4.3 AMSCO expenses on the eleven selected clients

In the full evaluation of the economic impact of the AMSCO intervention on its clients it is relevant to compare this with the cost of that intervention.

Table 3 (page 16) summarises the total amount of management fees, MLF loans, and MDF expensed in each of the eleven selected AMSCO clients. All figures have been converted to US dollars. The table indicates the following aggregate and average commitments to these eleven clients:

- Management Fees - Total US\$5.17 million (average US\$470,000 per client);
- MLF Loans - Total US\$1.41 million (average US\$128,000 per client)
- MDF Expenses - Total US\$874,500 (average US\$79,500 per client).

4.4 Value for money

Comparison of the expenses involved in the provision of AMSCO services with the economic results of those interventions for the eleven clients under review indicate that these services have been good value for money.

For the individual client companies the average total expenses of AMSCO services has been US\$470,000, plus a contribution of approximately US\$27,000 to the expenses of the management development programme - a total of less than US\$500,000 per company.

Against this the average benefits per company during the period of intervention has been a cumulative increase in net profitability of US\$1.52 million and a cumulative increase in operating profits of more than US\$2 million. Both of these figures are after the management fees and training expenses have been provided for. In simple terms, the AMSCO impact has been to earn three fold its cost in net profits and four fold its cost in operating profits, both after full allowance for the expenses of the AMSCO intervention.

In those cases where the intervention by AMSCO has encouraged development institutions to provide development grants and/or soft loans to cover a proportion of the management fees, the return to the company of its investment in the services of AMSCO are even greater. Seven of the companies under review have received such support, to a total of US\$1.4

million (an average of US\$200,000 per client). 73% of these funds were provided by FMO. (Annex 1 deals with the "leverage" benefits of AMSCO intervention in more detail).

The non-recoverable ATMS grant funds expensed from the MDF have an even greater leverage impact through AMSCO intervention. The average MDF budget for the management development for the eleven companies under review is US\$79,500 per company. The benefit of this expenditure in terms of average net and operating profits is ten fold and fifteen fold respectively. This is a remarkable leverage achievement on Technical Assistance development funds.

In addition to the management fees and MDF grants, the ATMS project has also supported some of the AMSCO clients through MLF loans. Six of the eleven clients under review have been assisted in this manner, to a total of US\$1.41 million. As at June 30, 1995 US\$498,407 of this amount was outstanding.

4.5 Expenses on the total of 50 AMSCO clients to June 30, 1995

The whole portfolio of AMSCO clients since inauguration of the project to June 30, 1995 has involved 52 contracts, with a total of 50 clients. The aggregate and average commitments of AMSCO during this period are summarised as follows:

- Management Fees - Total US\$23.36 million (average US\$467,000 per client);
- MLF Loans - Total US\$8.07 million (average US\$160,000 per client);
- MDF Budgets - Total US\$4.98 million (average US\$100,000 per client).

From these figures it is clear that the average financial expenses incurred on the AMSCO contracts for the eleven selected clients are very close to the averages for the whole portfolio.

The scope of this report does not extend to the economic impact of AMSCO on the remainder of the portfolio. However, it is worth noting that the cumulative increase in operating profits on the eleven selected clients during the AMSCO intervention periods is approximately three-fold the total MDF budget allocation for the entire AMSCO portfolio as at June 30, 1995.

AMSCO IMPACT REPORT

TABLE 1: SUMMARY OF FINANCIAL / ECONOMIC PERFORMANCE DURING THE PERIOD OF AMSCO INTERVENTION (in US\$'000) FOR ELEVEN SELECTED COMPANIES

(page 1 of 2)

AMSCO Clients	1 Company A Mar.31.93 (privatisation)	2 Company B DEC.31.93	3 Company C (privatisation)	4*	5 Company D June 30.95	6 Company E June 30.95	7 Company F June 30.95	8 Company G June 30.95 (new project)	9 Company H Dec.31.94 (new project)	10 Company I June 30.95	11 Company J June 30.95	11 Company K Sept.30.95 (new project)	TOTAL
1. Labour Financial Data													
No. of jobs lost	129	nil	373	*	14	14	379	nil	nil	nil	nil	nil	895
No. of jobs saved	918	nil	351	*	121	110	200	70	80	52	52	nil	2,288
No. of jobs created	nil	70	nil	*	12	37	nil	60	15	12	12	89	324
Total jobs saved and created	918	70	351	*	133	147	200	60	95	64	64	89	2,542
2. Gross Revenue													
Based Maintained	10,292	1,204		*	7,048	4,371	9,818		2,994	236	236	nil	40,622
Cumulative Increases	12,962	1,662		*	5,508	4,225	(15,731)		750	126	126	1,129	18,128
3. Net Profit													
Based Maintained	(1,292)	(1,633)		*	594	220	(480)		(1,894)	6	6	nil	(4,782)
Cumulative Increases	4,576	2,809		*	603	292	(244)		2,274	(53)	(53)	282	13,684
4. Operating Profit													
Based Maintained	(625)	(742)		*	2,404	303	(480)		(1,165)	6	6	nil	(45)
Cumulative Increases	3,669	2,340		*	2,198	635	(1,193)		1,236	(37)	(37)	564	11,935
5. Assets													
i) Current	4,750	n.a.		*	3,317	2,929	8,306		6	3,004	153	n.a.	25,031
Base	3,818	932		*	4,935	5,143	4,707		354	2,862	269	n.a.	23,020
Increase / decrease to													
Base	3,292	6,825 est.		*	5,836	853	4,632		587	3,570	120	n.a.	35,997
Increase / decrease to	2,727	4,909		*	3,600	791	3,650		425	3,161	198	n.a.	26,727
ii) Fixed													
Base													
Increase / decrease to													
6. Liabilities													
i) Current													
Base	4,292	1,971		*	3,372	1,745	6,762		34	4,793	145	n.a.	26,066
Increase / decrease to	4,208	685		*	3,359	3,374	4,390		8	3,964	132	n.a.	26,159
ii) Medium and Long Term													
Base	1,280	6,825		*	2,621	515	3,673		521	855	53	n.a.	17,925
Increase / decrease to	468	6,159		*	1,150	186	2,016		284	1,139	232	n.a.	11,634

AMSCO IMPACT REPORT

TABLE 1: SUMMARY OF FINANCIAL / ECONOMIC PERFORMANCE DURING THE PERIOD OF AMSCO INTERVENTION (in US\$'000) FOR ELEVEN SELECTED COMPANIES

AMSCO Clients	(page 2 of 2)											
	1 Company A Mar.31.93	2 Company B DEC.31.93	3 Company C	4* Company D June.30.95	5 Company E June.30.95	6 Company F June.30.95	7 Company G June.30.95	8 Company H Dec.31.94	9 Company I June.30.95	10 Company J June.30.95	11 Company K Sept.30.95	TOTAL
7. Shareholders' Equity												
Base	2,500	n.a.		*	3,159	1,519	2,513	37	927	75	n.a.	20,772
Increase / decrease to	1,870	1,422		*	4,083	2,353	1,952	486	920	98	n.a.	19,190
					divl + 500							
8. Improved Labour Efficiency per Employee:												
i) Increase (decrease) annual turnover (in local currency)	176%	96%	n.a.	*	60%	98%	197%	n.a.	124%	20%	60%	111% (unweighted average - 9 clients)
ii) Increase (decrease) annual net profitability (local currency '000 (US \$))	7,298	3,720	n.a.	*	403	16.7	776	n.a.	5,958	16.9	n.a.	
	1,647	6,939	n.a.	*	4,857	340	1,611	n.a.	1,221	(1,099)	n.a.	2,322 average (8 clients)
iii) Increase (decrease) annual operating profitability (local currency '000 (US\$))	6,100	2,360	n.a.	*	1,278	68	1,444	n.a.	4,326	13.7	1,780	
	1,370	4,906	n.a.	*	15,043	1,435	2,998	n.a.	886	(1,095)	3,469	3,597 average (9 clients)
9. Capital Efficiency Increase												
i) Productivity	233%	34%		*	179%	591%	82%	nil	94%	5%	n.a.	
ii) Profitability	79%	(12%)		*	15.7%	48%	12.9%	nil	54%	23%	n.a.	
10. Export Earnings												
Base Maintained (US\$'000)	n.a.	nil		*	nil	44	1,669	nil	2,000	100%	nil	
Cumulative Increase (US\$'000)	n.a.	nil		*	nil	381	(658)	nil	1,035	126	960	
11. Import Substitution												
Base Maintained (US\$'000)	100%	100%		*	100%							
Cumulative Increase (US\$'000)	600	1,300		*	7,048			nil	n.a.	nil	n.a.	

Notes:

1. Company A - balance sheet as at August 31, 1993 - operating statement estimate as at March 31, 1993
2. Company G - balance sheet information available as at December 31, 1994 only
3. Company D - please see Special Note on page 46

AMSCO IMPACT REPORT

TABLE 2: GROSS REVENUE, PROFITABILITY, CHANGE IN EQUITY VALUE AND EXPORT EARNINGS FOR FINANCIAL YEAR ENDING ON / OR BEFORE DECEMBER 31, 1995 FOR ELEVEN SELECTED COMPANIES

Clients	% Increase in Gross Volume Local currency	Net Profit		Operating Profit		% Change in Equity Value Local Currency	Export Value (Current Year) US\$'000
		Local Currency	US\$'000	Local Currency	US\$'000		
Company A (privatised) (ye June 1993)	130%	n.a.	n.a.	3.6 m	926	50%	n.a.
Company B (ye Dec.31.95 based on Dec.31.94)	110%	(133) m	(272)	28 m	57	deficiency	nil
Company C (privatised)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Company D (ye June 30,95)	*	*	*	*	*	*	*
Company E (ye Dec.31,95)	75%	96.6 m	1,164	344 m	4,146	48% (+ dividends)	nil
Company F (ye Dec.31,95)	164%	30 m	625	42 m	875	155% (+ dividends)	250
Company G (ye Dec.31,95)	15%	33.44 m	68	124.8 m	256	36%	1,445
Company H (ye Dec.31,95)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	nil
Company I (ye Dec.31,95)	125%	15.3 m	31	165 m	338	61%	3,580
Company J (ye Dec.31,95)	23%	(1,008) m	(58)	(0.787) m	(45)	27%	491
Company K (period ended Dec.31,95)	44%	n.a.	n.a.	415 m	850	25%	1,646
TOTAL (US\$'000)	---	---	2,649	---	8,931	---	13,742
Average per Client	109% (unweighted)	---	378	---	992	50% (unweighted)	2,290
Number of Clients	9 clients		7 clients		9 clients	8 clients	6 clients

Notes:

1. Companies E and J - turnover for the six month period to June 30, 1995 represent 40% and 43% respectively. The estimated turnover for the ye Dec.31, 1995 would be twice that to June 30, 1995 in all other cases.
2. Exchange rate for US\$ at December 31, 1995 assumed to be the same as June 30, 1995
3. Company D * - Please refer to the Special Note on page 46

AMSCO "IMPACT" REPORT

TABLE 3: SUMMARY OF FEES, MLF (LOANS) AND TRAINING EXPENSES (in US\$)

	1	2	3	4	5	6	7	8	9	10	11	TOTAL
	Company A	Company B	Company C	Company D	Company E	Company F	Company G	Company H	Company I	Company J	Company K	
1. Management Fees (US\$)	240,100	38,180	561,438	318,000	962,450	420,000	721,725	636,000	882,800	168,200	223,650	5,172,543
Receivable as at Nov.10, 95 (US\$)	50,000	40,000	nil	91,503	105,840	65,190	43,648	nil	255,780	58,800	12,180	722,941
2. MLF (Loan) (US\$)	190,000	nil	nil	148,880	443,509	215,200	175,492	237,415	nil	nil	nil	1,408,496
Receivable as at Nov.10, 95 (US\$)	190,000	nil	nil	nil	nil	nil	134,604	173,803	nil	nil	nil	498,407
3. MD expenses (as at	308,199	114,438	89,389	76,801	233,600	45,826	354,949	11,218	75,007	104,586	25,981	1,433,984
May 31, 1995) NFI	187,926	69,779	54,493	46,830	136,341	27,943	216,432	6,840	45,736	63,778	18,281	874,379
US\$ (Rate Nfi1.64 = \$1)												

Section 4. Conclusions

4.1 Conclusions

In the eleven cases under review the economic impact of the AMSCO intervention has been very positive and impressive:

- **Turnover** have more than doubled, on average, in local currencies (a 45% increase in US dollars - an average of US\$2 million per company);
- **Net profits** have achieved an average turn-round of US\$856,000 per company (from an average annual net loss of US\$478,200 to a net profit of US\$378,000 per company);
The cumulative increase in net profits during the period of AMSCO interventions totals US\$13.7 million (an average of US\$1.52 million per company);
- **Operating profit** have achieved an average turn-round of US\$1 million per company (from an annual marginal operating loss to an average operating profit of US\$1 million per company);
The cumulative increase in operating profits during the period of AMSCO interventions totals US\$18.13 million (an average of US\$2.015 million per company);
- **Balance Sheets** show improvements in current assets/liabilities' ratio from 1.04 to 1.36 : 1 .
Achieved on average a 50% increase in value of shareholder's equity in local currency;
- **Employment and Labour Efficiencies** The local currency value of production per employee has increased on average by 142%. In dollar terms these increases convert to US\$14,500 per employee per annum; 2,218 jobs have been protected, and 324 new jobs created. However, the improvements in labour efficiency have been achieved by the elimination of 948 jobs.
The average annual net profitability per employee has increased by US\$2,322, and the operating profit by US\$3,599, despite substantial devaluation.
- **Capital Efficiencies** have increased by an average of 127% in terms of increased turnover, and 130% in terms of net profit.
- **Export Earnings** have more than doubled, from an average of US\$928,400 per company to US\$2.22 million per year;

- **Import Substitution** The value of imports plus foreign currency earnings have increased pro-rata in line with the increase in gross revenue, increasing by 45% in US dollars;
- **Technology Transfer** on a substantial scale has been a hallmark of almost all the cases under review.

4.2 Value for Money

The financial performance statistics have been normalised to US dollars, and averages calculated for comparison with the average hard currency expenses involved in AMSCO management fees and MDF training for the selected cases.

In terms of value for money, analysis of the data available on the eleven selected clients show that clearly that:

- The AMSCO contract has, at an average cost of US\$497,000, been an extremely good "investment" for these clients, on average giving a three-fold return in the cumulative increase in net profits, and four-fold return in the cumulative increase in operating profits during the period of AMSCO intervention. This is in addition to fully recovering the client expenses of the AMSCO contract, and without consideration of the average subsidy of US\$115,000 technical assistance funding for expatriate management expenses procured with AMSCO assistance.
- The funding of management development through the MDF provides a massive financial leverage in the development of improved performance of the recipient companies. The direct impacts in net and operating profits show an average of ten-fold and fifteen-fold return on the MDF expenses during the period of AMSCO intervention. These improvements continue after the completion of the AMSCO contracts.

In addition to these direct benefits there are also the broader financial and economic features of stronger balance sheets, improve labour and capital efficiencies, and substantially greater value of export earnings and import substitution.

4.3 Financial Leverage

In addition to the direct financial benefits of AMSCO intervention, ten of the selected companies benefited directly through further funding from shareholders, lenders and/or donors as a result of the management credibility and stabilisation effected by the AMSCO intervention.

Section 5. Case Studies

Since inauguration in April 1989 to June 30, 1995 AMSCO has signed 52 management and training contracts involving 50 client enterprises in Africa (two clients signed extension contracts).

Fifteen of the AMSCO client contracts were terminated before completion of their full term. Eight other contracts were commenced in the first half of 1995, and were therefore not sufficiently advanced to justify study at this time. Of the remaining 27 clients, the following eleven were selected for detailed study:

- 5.1 Company A - Production of maize and wheat flour.
- 5.2 Company B - Production and distribution of dairy products and fruit juices.
- 5.3 Company C - Groundnut processing.
- 5.4 Company D - Production and distribution of biscuits, breakfast cereal.
- 5.5 Company E - Production and distribution of beer and soft drinks
- 5.6 Company F - Paint manufacture and distribution
- 5.7 Company G - Manufacture and distribution of inner tubes and tyres
- 5.8 Company H - Horticulture production of cashew and mangos
- 5.9 Company I - Plastic product manufacture
- 5.10 Company J - Typesetting and photocomposition
- 5.11 Company K - Hotel operation

To set the context of the AMSCO involvement each study provides a brief history of the enterprise prior to the intervention. The main content of each of the studies includes specific information on:

- the form, period and value of the AMSCO management contract (including the MDF contribution and any MDF loan);
- a summary of the AMSCO intervention, detailing the management and training activities of the AMSCO managers;
- details of the economic impact of the AMSCO intervention, under the five main headings of : turnover and profitability; balance sheet; labour and capital efficiency; export and/or import substitution; and technology transfer.

Each study concludes with a summary of the overall impact of the AMSCO intervention.

5.1 CASE STUDY NO.1

1. Name : Company "A" ("the Company")
2. Location : Southern Africa
3. Primary Products : Production of maize and wheat flour.
4. Secondary Products : Animal feed manufacture
5. Principal Shareholders : 100% by a state-owned holding company.
6. Size: (as at Aug.31, 1990)
 - No. of Employees : 1,047
 - Annual Sales : US\$18.7 million equivalent
 - Fixed Asset Value : US\$3.5 million equivalent
 - Net Loss : US\$(1.2 Million) equivalent

7. Summary

In November 1990 an AMSCO team took executive control of the Company, to improve its performance prior to privatisation. At that time the Company suffered 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 credit facilities by two local commercial banks.

The new managers benefited from the detail analysis, audit and business plan that AMSCO had undertaken prior to contract. As a result of this the impact of the AMSCO intervention was immediate and dramatic. However, within six months of taking over the Company the AMSCO managers were faced with a series of unanticipated difficulties, the greatest of which was a 50% drop in sales due to importation of flour at heavily discounted prices.

Having successfully petitioned the government to impose a surcharge on these imports the management continued to improve the technical and commercial performance of the Company. and to complete an intensive training programme for senior and middle managers.

At the end of the second year of AMSCO management a controlling interest in the Company was acquired by a large local business, at a price substantially greater than originally offered, and the AMSCO mandate was extended for a further year.

The success of the AMSCO intervention was testified by the new owners, who wrote to an international donor that:

"AMSCO...proceeded to improve operating and financial systems and controls and upgraded technical aspects. They improved product presentation and customer relations. AMSCO also arranged a considerable amount of in-house and external training at all levels.

The result was improved operations, products and profitability and a better commercial image.

Indeed we (the new majority shareholder) were sufficiently satisfied to formalise their share offer and to ask AMSCO to extend their contract for an extra year. Thus AMSCO has been good for Company A .."

A further measure of the AMSCO contribution is the fact that over the two year period prior to privatisation it earned performance bonuses totalling US\$82,600.

8. Brief History of the Company

Until 1978 the Company was reportedly run as a profitable operation. Thereafter, the Company experienced a dramatic decline, culminating in an accumulated loss of US\$1.35 million in 1983 and a negative shareholder's equity of US\$875,000. The primary reason for this decline was that the wheat mill was virtually idle because demand was being fulfilled by imports of South African flour, which were subsidised.

In 1984 the Company was restructured financially. Major creditors, converted outstanding payments to equity and long term debt (US\$2.1 million and US\$958,000 respectively).

Despite this substantial improvement in the balance sheet the financial position of the Company remained weak and the years of loss making operations had led to serious technical and managerial deterioration to the point that the Company could not satisfy the limited local market available. In 1988 the Company was selected for privatisation by the government, but with the history of steady losses and failure to keep up with local demand, no offers were received that came close to the government's estimate of the Company's worth.

9. AMSCO Management Contract

The initial Management and Training Agreement was for the two year period November 1990 to October 1992, subsequently extended for 12 months to October 1993. Total AMSCO management fees amounted to US\$240,100; and training expenses of Nfi 308,199 (US\$194,024). MLF participation of \$190,000, interest free (concessionary) was granted. AMSCO made a further concession of not charging the Company with the cost of the initial assessment, the technical audit, and the initial business plan. AMSCO lost money on this contract, despite the performance bonus payments of US\$82,600. In addition, as at June 30, 1995, the MLF loan was still unrecovered, and there was an outstanding management fee receivable of US\$50,000..

10. AMSCO Intervention

In late 1989 Deloittes, the accounting firm hired by the government to advise on privatisation, put AMSCO in contact with the government holding company.

After preliminary meetings in December 1989, AMSCO arranged for a joint diagnostic study of the Company to be conducted with SOMDIAA (an AMSCO shareholder with experience in grain milling operations in Africa) in January 1990. The conclusion of the study was that the Company's long term potential and key role in the local economy as the main producer of maize flour justified AMSCO involvement. A comprehensive technical audit of the Company was carried out by a SOMDIAA engineer in March/April 1990.

Following this, a business plan was prepared by AMSCO, presented to the government holding company in June 1990, and accepted by them after detailed discussion. The business plan included financial, training, and management components, substantial staff reductions, significant operational changes, and proposed a target of a 20 percent return on capital. The plan included a requirement of an additional funding of US\$2.2 million for machinery and stock. At that time the Commonwealth Development Corporation (CDC) had expressed an interest in the possibility of an equity participation in the company. In addition to the ministry officials in the government holding company, AMSCO also consulted with USAID, World Bank and UNDP representatives in the preparation of the business plan.

An AMSCO Management and Training Agreement was signed on September 10, 1990, and two AMSCO senior managers (General Manager/financial officer and Technical Manager) arrived in the country at the end of September 1990, to take executive control of the Company on November 1, 1990.

i) Management

The two AMSCO managers were selected with the assistance of a private sector AMSCO shareholder with experience in Africa. Immediately upon arrival 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 the first month of taking over the new management team became aware of serious errors in the balance sheet as at October 31, 1990, and that the cash resources of the Company at that date had been over-stated by US\$583,000.

The immediate efforts of management were aimed at cost reduction, through a freeze on recruitment, the elimination of overtime and casual labour, improved stock control and better sourcing of raw materials. A radical technical programme for improved mill efficiency was introduced, and a major marketing and public relations campaign was launched.

By December 1990, the detailed proposals of the AMSCO management team were incorporated into a revised business plan. The plan included:

- a Statement of Purpose and Company Objectives;
- a detailed market analysis;
- specific objectives, strategies, action plans and time allocations for seven key management areas;
- four year cash flow and financial forecasts to achieve the Company objective of a 20% return on capital.

An immediate problem was the supply of wheat to the Company. Supplies to augment the local crop were bought into the country under military escort. This route was unreliable, leading to frequent shut-down of mills due to lack of raw material.

Two local banks, holding debenture security on the assets of the Company, had refused to activate credit lines, due to their concern regarding the financial position of the company. Negotiations were reopened, and credit lines of US\$181,000 and US\$1.1 million were reactivated.

Overdue receivable from three major clients were pursued, and new credit terms and payment procedures were negotiated, bringing accounts into line.

A restructure of the marketing department, and co-ordination of distribution from the main production centres were introduced, to improve sales performance. Contact with major customers was

developed, to rebuild confidence in the improving performance of the company in terms of reliable delivery, quality and consistency of product. This included sample trials and extensive sample analysis on different types of flour from various sources.

Contact was also made with local potential sources of industrial by-product (such as molasses, spent yeast, fruit pulp, etc.) to substitute for the expensive imported raw materials (such as soya beans and fishmeal) used as stock for cattle feed manufacture.

Most importantly, the management determined that the impact of the immediate cost saving steps, plus the increased revenue being generated, would enable the Company to postpone the major capital improvement investments (totalling US\$3.23 million) for six months, at which time they could be financed out of profits. This, plus confirmation of the reactivation of the line of credit would have enabled the Company to complete the business plan rehabilitation programme without further medium or long-term outside financing.

At the end of January 1991, AMSCO withdrew the CEO from the company at the request of the Company. This situation appears to have arisen as a result of the very tough decisions required to turn the Company around, and the disagreements between the CEO and the Board of Directors arising from these decisions. The Technical Director took over as CEO, and his replacement was recruited by AMSCO.

By the end of March 1991, the impact of the immediate actions taken by management were reflected in the performance of the Company. In the first four months of AMSCO management, the value of sales and gross profit were 22% above the revised business plan, and operating profit was 72% above plan. After provision for AMSCO fees and stock write-off identified after take-over, the net income before taxes was 82% above plan. AMSCO earned a performance-related bonus of US\$36,000 for the period.

During the balance of 1991 the management faced a series of unanticipated problems, that caused a significant drop in performance below the business plan:

- improvements in the accounting system brought to light serious stock discrepancies, some going back two years. These led to write-offs and adjustments in excess of US\$290,000;
- a major contract with the World Food Programme (UNHCR) in April 1991 to mill 6,600 metric tonnes of imported maize for refugees was cancelled after only 10% performance, due to the failure of suppliers to deliver the maize.
- the imposition by the government of a 10% surtax on all sales of animal feed;

- the increase in the cost of landed wheat by more than 35%. This was mainly due to the closure of the normal delivery route, and the strengthening of the U.S. dollars;
- increases in electricity charges, insurance premiums and labour costs;
- sales of maize flour fell below forecast, due to continued imports from Holland and South Africa, at heavily subsidised prices.

Accounting control continued to be a problem during the period, and in November 1991 management placed an order for complete computerisation of the accounting and production record systems, due to be on line by April 1992.

On the basis of the March 31, 1991 accounts, a major local private company, acting on behalf of a joint venture company with a South Africa company made a bid in November 1991 of US\$2.3 million for 80% of the equity of the Company, as a going concern. The bid, which included acceptance of the liability for inter-company loans, was refused.

During this six month period of losses the Company received the spare parts and capital equipment ordered at the beginning of AMSCO intervention. The spare parts were installed, and resulted in further improvements in technical performance. However, the Board decided that, in the light of the financial restraints on the Company arising from the 1991/92 set backs, not all of the new equipment should be installed. This decision reflected the equivocal attitude of the Board to many of the policy issues and recommendations being presented by the AMSCO team at that time, caused by the immanence of privatisation.

Following the presentation by the AMSCO managers of documented evidence of subsidies of up to 47% on imported flour, the government imposed a surcharge on imported flour in April 1992.

Performance of the Company stabilised during 1992, and management efforts were concentrated on the establishment of financial and technical control systems, and the intensive management training programme introduced by AMSCO. From early 1992, the Company returned to profitability, and achieved the original target of a rate of return on capital invested of greater than 20% over the period of AMSCO management.

In November 1992, the government sold a controlling interest in the Company to a major local private company, for a considerably larger sum than previously offered. As part of that transaction the AMSCO contract was extended for a further twelve months, to October 31, 1993. Both of the AMSCO managers remained at the new company for the duration of the contract, and one of them stayed on as a senior manager with the local purchaser thereafter.

At the end of the AMSCO contract period the local investor organised the purchase of a further equity participation a major South African milling company, who took over responsibility for technical management of the Company, using the existing management team.

ii) Training

On the job training at the production units was initiated immediately following the take-over of executive responsibility by the AMSCO managers in November 1990.

In March 1991, the AMSCO Training Director visited the Company to assess the training needs of the local senior management team and formulated a full training programme, which commenced in May 1991. The critical area of employee discipline and morale was addressed in the preparation of a human resources programme. This was a particularly sensitive area, due to the fact that the government's intention eventually to privatise the enterprise was public knowledge.

Early in the training programme AMSCO assisted with the recruitment of a local Training Officer.

The training programme was based on an assessment of the individual need of each of the local managers, including the development of two potential successor general managers.

Twelve managers received training ranging from two-week courses and seminars to a twelve month MBA degree course in Europe. Training took place in five African countries (including South Africa) and four European countries.

As a result of intensive external and internal training the managers became aware of the interdependency of departments, and communications improved throughout the Company.

11. Summary of economic impact of AMSCO :
(refer to Table 4.1, page 30)

Following the acquisition of a controlling interest in the Company in November 1992, the Company ceased to send financial or other reports to AMSCO. Specific commentary is therefore limited to the available data for the first 22 months of the 36 month contract period.

i) Turnover and profitability

During AMSCO intervention the gross revenue of the Company more than doubled, mainly reflecting the increased sales made possible as a result of the additional capacity available with the improved plant operations.

The dramatic initial impact of the first six months of the AMSCO mandate turned a US\$625,000 annual operation loss to US\$1.16 million annual profit. This situation was reversed in the following twelve months, due to several serious external factors beyond the control of the company. However, having absorbed the impact of these factors, and obtained a government restraint on the subsidised imported flour, operating profits rose to an annual level of US\$926,000 in 1992/3.

ii) Balance Sheet

Due to the short term method of financing the raw material feed to the mills the current ratio of the Company has always been close to unity, and this had not improved during the AMSCO intervention. However, the long term liabilities were steadily reduced, and the value of fixed assets increased by 33%. This improved the ratio of fixed assets value to long term liability from 2.6:1 to 8.9:1.

More importantly, given the government objective of selling off the Company, the shareholders' equity increased by 20% in local currency.

iii) Labour and Capital Efficiency

Labour efficiency improve dramatically over the period. Capacity utilisation doubled, whilst the number of employees was reduced by 16%. In the initial twelve months of AMSCO management labour efficiency, in terms of gross sales in local currency per employee, doubled. With steady further improvements over the following eighteen months the labour efficiency improved a further 50%. giving an overall increase in labour productivity of 182%.

Profit per employee changed from an operating loss of US\$541 per employee to an operating profit of US\$902 per employee, giving a cumulative profit improvement of US\$3,963 per employee during the two year period of AMSCO intervention..

Capital efficiency ratios improved by 75% in terms of gross sales.

iv) Export and/or Import Substitution

The Company's products were sold locally, but some hard currency was earned through sales to the World Food Programme. No firm data on these earnings were available.

All of the value added by the Company was effective import substitution, but figures of raw material imports cost are not available to enable calculation of the net hard currency savings.

v) Technology Transfer

The entire technical programme of the AMSCO managers of the Company was the transfer of contemporary milling and control technology to a largely obsolescent plant and process. This was achieved through the technical expertise of the managers themselves and the specialist consultants brought in to advise. Through this the Company achieved increased volumes, improved process efficiencies and the reliable quality of product and delivery which were key to the rehabilitation, the recovery of financial health, improved employee morale and the eventual successful sale of the enterprise.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.1 : Company A

(Financial Performance Figures - expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION : NOVEMBER 1990 TO OCTOBER 1993				
	YE Mar.31.90	YE Mar.31.91	YE Mar.31.92	5 month end. Aug.31.92 (5 months)	Estimated Mar.31.93
1. <u>TURNOVER</u>	24.7	44.9	41.9	23.8 (5 months)	57
2. <u>NUMBER OF EMPLOYEES</u>	1,100	1,095	918	918	918 (est.)
3. <u>NET PROFIT/(LOSS)</u>	(3.1)	2.5	(2.9)	1.5 (5 months)	3.6
4. <u>OPERATING PROFIT/(LOSS)</u>	(1.5)	3.2	(0.83)	1.7 (5 months)	4.1
5. <u>ASSETS</u>					
i) Current	11.4	14.7	12.3	14.7	n.a.
ii) Fixed	7.9	8.4	10	10.5	n.a.
6. <u>LIABILITIES</u>					
i) Short Term	10.3	12.1	13.6	16.2	n.a.
ii) Medium and Long Term	3.0	2.5	3.1	1.8	n.a.
7. <u>SHAREHOLDERS EQUITY (DEFICIENCY)</u>	6.0	8.5	5.6	7.2	9.0 (estimated selling price)
8. <u>LABOUR EFFICIENCY RATIOS</u>					
i) Sales Value/Employee	0.022	0.041	0.046	0.03	0.062
ii) Operating Profit/Employee	(0.0013)	0.003	(0.001)	0.002	0.004
9. <u>CAPITAL EFFICIENCY RATIOS</u>					
i) Gross Sales/Fixed Asset Value	312%	534%	419%	227% (5 months)	545% (estimated)
ii) Net Profit/Fixed Asset Value	(45%)	2.8%	(29%)	14.3% (5 months)	34% (estimated)
10. <u>EXPORT EARNINGS</u>					
i) Percentage	nil	nil	nil	nil	n.a.
ii) US\$ Value	nil	nil	nil	nil	n.a.
11. <u>IMPORT SUBSTITUTION</u>					
i) Percentage	100%	100%	100%	100%	100%
ii) US\$ Value (million)	10.3	16.3	14.7	5.4 (5 months)	n.a.

Sources: AMSCO files and Client reports -

: Audited Financial Statement, YE Mar.31.90, 91,92

: Management Accounts for August 1992

in an otherwise completely undeveloped region of the country. Most importantly, the Company has demonstrated the successful transfer and adaptation of dairy farm technology to the West African environment and created a centre for training and propagation of this technology in West Africa.

8. Brief History of the Company:

Based on a test project by the local Agricultural Institute in mid'70s, involving the importation of dairy cows from France, a retired senior politician invited a Danish technical mission to visit him at the end of 1986 to evaluate the feasibility of establishing a local integrated dairy farm with milk and juice pasteurisation and packaging facilities.

The mission reported favourably on the proposal and this resulted in an offer of Danish participation in the project, and the formation in October 1987 of the Company, with an initial capital of US\$3.09 million, fully paid. In addition the Company obtain concessionary loans from three Nordic development agencies (IFU, Finnfund and Finnish Export Credit Ltd) totalling US\$5.1 million

The first phase of the project, which was initiated in mid-1988 and completed by late 1989, consisted of the delivery of 300 pregnant Jersey dairy heifers from Denmark, plus 3 bulls, and the construction of the milk and juice pasteurisation processing facilities. The cattle settled in well, fed on a diet of purchased industrial by-products, supplemented by a small quantity of forage grown on Company land. The processing plant operated well, and the Company successfully developed a local market for milk products and fruit juices (orange and hibiscus). The products were acknowledged for their high quality and hygiene.

The operation of the Company represented a totally new commercial development within the country, and involved a large transfer of technology: modern livestock husbandry and management; dairy processing and technology; and commercial corporate development and organisation. None of the technical skills required were available locally, and it was obvious that it would take several years of cooperation to successfully transfer this expertise to local managers. During the start-up phase of the project three expatriate managers (CEO, a farm manager and a dairy manager) were provided by a foreign technical partner, (an AMSCO shareholder), and paid from a technical assistance grant from DANIDA.

Despite the encouraging initial technical progress, the financial performance of the Company did not match the projections of the feasibility study. Lower than forecast production led to lower than budgeted revenue, and the cost of feed and other operating costs were substantially higher than forecast.

By the end of 1989 the Company had incurred cumulative losses of more than US\$1.45 million and suffered a further net loss of US\$1.6 million in 1990. By that time it was clear that the Company would not be able to service its debt burden, and that a major financial restructure and significant improvements in performance were necessary to enable the Company to continue trading.

9. AMSCO Management Contract

On December 16, 1990 AMSCO signed a conditional three years Management and Training Agreement with the Company. Certain of the conditions required by AMSCO were not fulfilled, and the Agreement was not implemented. In January 1992, the Company and AMSCO executed a revised two year agreement (a "Protocole de Collaboration"), under which AMSCO would provide training and other management services (but excluding the provision of expatriate executives). The total AMSCO management fee was US\$38,180 and a training budget of Nfl 180,000 was agreed (of which Nfl 114,438 (US\$70,000) was expensed). There was no MLF involvement.

10. AMSCO Intervention

In the latter part of 1989 AMSCO had participated in the preparation of a new business plan for the Company, prior to the execution of the initial Management and Training Agreement. At that time AMSCO proposed four pre-conditions for its participation in the Company:

- the replacement of the expatriate DGA;
- the remaining technical assistance funds to be incorporated into the AMSCO support budget;
- a further injection into the Company of US\$1.2 million equity capital, and
- the limitation of the payment of all fixed charges to not more than 80% of the gross revenue of the Company, leaving sufficient income to meet the variable operating expenses of the project. This latter condition implied that the capital of the Company should be restructured, to permanently reduce the debt burden.

The shareholders of the Company were unable to agree on a refinancing/financial restructure of the Company and it was therefore unable to comply with the AMSCO pre-conditions. This was partly due to the ambiguous legal status of the land "owned" by the project, and the impossibility of providing the institutional lenders with meaningful security.

Despite the lack of formal agreement, AMSCO maintained close contact with the project through 1991. A training consultant visited the Company in early 1991 and prepared a human resource training and development programme for the Company, specific to the needs of the new local

managers. AMSCO also advised on the job description and selection of these managers to replace the three Danish expatriate managers, who left the Company in mid-1991.

During this period of informal collaboration and support by AMSCO the two principal aims of the Company were to reduce the expenses of the farm through cheaper feed costs, and to increase the revenue stream, through better marketing, improved milk yields and growth in the size of the herd.

By the end of 1991, three of the four AMSCO conditions had been fulfilled. Negotiations on the fourth condition, the financial restructure of the Company, had reached agreement in principle with the institutional lenders, but the implementation was delayed by legal problems regarding title and security. However the lenders had accepted the de facto situation that the Company would not be able to service its debt for several years, and a compromise was reached to postpone interest payments on the existing debt for three years.

In January 1992, the financial position of the Company was improved by an equity subscription of US\$1.2 million, and the Company and AMSCO signed a "Protocole de Collaboration", under which AMSCO would provide a management training and development programme, and advisory support to the senior local management of the Company

i) Management

During 1992/3 the Company management, with guidance from AMSCO, concentrated on controlling the main variable elements of the business:

- With the successful acclimatisation of the Jersey herd to local sub-tropical conditions, the main objectives of the farm were to increase the milk yield and to reduce the cost of feed.

By the end of 1993, the yield per milk cow had risen to 4,115 litres per annum, double the figure achieved in 1989 (and comparable with yields achieved by commercial Jersey dairy herds in Denmark). This was achieved by better technical control of feed and the breeding cycle.

The feed stock initially used by the farm was a mixture of bought-in straw and industrial by-products (molasses, sugar cane, peanut waste, etc.), all of which were expensive and not ideal nutritionally.

In 1991 the farm raised a trial crop of 300 tons of sorghum, to use as silage for feed stock. This was successful, and 1,700 tons of silage was grown in 1992, reducing the need for bought-in feed. The unit cost of the sorghum silage feed was US\$0.11, compared with US\$0.36 for bought-in feed. The effect of this policy was to reduce the overall cost of feed in 1993 by 20%.

- The dairy facility did not present any serious problems, and had ample spare capacity to deal with a substantial increase in milk production, or other products (such as fruit juices).
- Commercially, the sales of the Company increased substantially as a result of the doubling of the size of the herd (to 1,000 animals) and the larger average milk yield. By the end of 1992, the turnover had increased to US\$1.9 million, and it was felt that it had stabilised, with a potential future increase of approximately 10% per annum from the existing facilities and product range.

In mid-1993, the Company requested AMSCO to undertake an audit of its commercial strategy. The resulting study, a joint effort of AMSCO and the Company, produced several specific proposals for the development of the Company:

- to further reduce the unit cost of feed stock, the Company should acquire land suitable for growing sufficient sorghum for its entire silage requirements (6,000 tons per year). This production could not be achieved on the existing farm location due to shortage of water. As a result of this recommendation, a trial crop of sorghum was raised on 30 hectares in the North of the country in late 1993.
- to maximise the return on male beef cattle (bullocks) consideration should be given to raising them on a feed lot, in the same location as the proposed new sorghum farm.
- the upgrading of the computer system and software to enable analysis of the existing data base to improve the genetic breeding quality of the herd.
- to improve the quality, design and range of sizes of fruit juice packaging.
- to examine the feasibility of entering the local yoghurt market.

The total investment involved in this development programme was estimated at US\$840,000, required over three years.

Because of the lack of formal agreement on its financial restructure the Company could not raise further external funds, and the only monies available for development were the operation surplus generated by normal trading. These amounted to US\$137,000, US\$20,550 and US\$96,000 (estimated) for 1992, 1993 and 1994 respectively.

ii) Training

The AMSCO training consultant visit to the Company in February 1991 covered a qualitative assessment of the human resources of the

Company, an evaluation of the training needs of the senior managers and the preparation of a three year training programme.

In February 1992 AMSCO produced a two year full training and development programme based on the 1991 assessment, for the three senior local managers and the five key middle managers of the Company. The plan provide for training courses for each individual (based on an up-dated assessment), and inter-active training to improve communications and team building.

The programme included seminars, group study, study trips, and short apprenticeships outside the Company. Within the Country, seminars were held at a local management institute and in the Company. For senior managers the crucial aim was to reinforce the existing competence and to develop knowledge of modern management techniques and technical methods.

For the five middle managers (accountant/finance; institutional sales; retail sales; maintenance; and assistant dairy manager) a similar range of training methods and tools was applied.

The total cost of the programme US\$153,100, of which AMSCO provided US\$114,438 from the MDF. More than two thirds of the training was conducted in Africa.

An independent professional review of the Company training programme in 1994 reported that it was outstandingly the best example of AMSCO fully achieving the training objectives identified at the beginning of its intervention.

11 Summary of Economic Impact of AMSCO
(refer to Table 4.2, page 38)

The financial status of the Company is still uncertain, with long term debts greater than its asset value (even before devaluation of the currency in 1994), modest operating profits inadequate to service its debts, and no progress on a sensible restructure of its capital. For the past five years the Company has effectively been operating on a cash management basis.

i) Turnover and Profitability

During the period of AMSCO intervention the annual gross revenue increased almost 50%. By the end of 1994 this had further increased by another 43%..

From 1992 onwards the Company has made a small operating profit.

ii) Balance Sheet

For the past five years, the Company has operated on a cash management basis, marginally solvent. This has not changed. The small operating profits have been re-invested in small capital improvements and a larger herd.

The fixed asset/ long term liability situation has not been resolved by the institutional shareholders/lenders, frustrating any opportunity for the Company to refinance and develop their expansion plans.

iii) Labour and Capital Efficiency

The labour efficiency has steadily increased over the period of AMSCO intervention, as the gross revenue and operating profitability increased with no increase in the workforce.

The revenue per employee more than doubled from 1990 to 1994.

Due to the absence of balance sheets it is not possible to calculate capital efficiency ratios, which would in any case be completely distorted by an unrealistic capital structure of the enterprise.

iv) Export and/or Import Substitution

The products of the Company are 100% direct import substitution. In local currency the value of this has almost doubled. However, due to currency devaluation, the dollar value of the import substitution has remained in the range of US\$1.3 million to US\$1.92 million.

v) Technology Transfer

The original "raison d'être" of the project concept was the transfer of the technology of dairy herd and process technology from northern Europe to sub-tropical Africa. Although the original transfer was achieved by the Danish partner, their mandate expired before the project was economically viable (leaving the project with an untenable debt structure).

The AMSCO intervention was deliberately pitched to concentrate on technical and operational training of the local managers, as an alternative to imposing specialist expatriate managers. The improvements in the technical performance of the project, achieving European standards of productivity, hygiene and cattle breeding/raising, are testimony to the effectiveness of this transfer and adaptation of technology.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.2: Company "B"
(Financial Performance Figures in million local currency units)

	PERIOD OF AMSCO INTERVENTION : DECEMBER 1990 TO DECEMBER 1993										estimated	
	YE Dec.31.90	YE Dec.31.91	YE Dec.31.92	YE Dec.31.93	3 mths end. Mar.31.94	6 mths end. June.30.94	9 mths end. Sept.30.94	YE Dec.31.94				
1. TURNOVER	331	480	530	486	150	339	522	896				
2. NUMBER OF EMPLOYEES	n.a.	75	69	70	n.a.	n.a.	n.a.	85				
3. NET PROFIT/(LOSS)	(449)	(257)	(150)	(176)	(28)	(62)	(121)	(estimated) (133)				
4. OPERATING PROFIT/(LOSS)	(208)	(14)	40	6	12	19	21	28				
5. ASSETS												
I) Current	n.a.	n.a.	n.a.	272	286	n.a.	266	n.a.				
II) Fixed	n.a.	n.a.	n.a.	1,311(est)	1,317(est)	n.a.	1,278(est)	1,470				
6. LIABILITIES												
I) Short Term	542	240	244	200	279	274	284	n.a.				
II) Long Term	1,877	1,491	1,505	1,798	1,778	1,778	1,778	1,778				
7. SHAREHOLDERS EQUITY (DEFICIENCY)	n.a.	(47)	(143)	(415)	(454)	(489)	(547)	(559)				
8. LABOUR EFFICIENCY RATIOS												
I) Sales Value/Employee	n.a.	6.1	7.7	6.9	(3 mths)	(6 mths)	(9 mths)	9.9				
II) Operating Profit/Employee	n.a.	(0.2)	0.57	0.09				0.4				
9. CAPITAL EFFICIENCY RATIOS												
I) Gross Sales/Fixed Asset Value	n.a.	n.a.	n.a.	33.9%				47.3%				
II) Operating Profit/Fixed Asset Value	n.a.	n.a.	n.a.									
10. EXPORT EARNINGS												
I) Percentage	nil	nil	nil	nil	nil	nil	nil	nil				
II) US\$ Value	nil	nil	nil	nil	nil	nil	nil	nil				
11. IMPORT SUBSTITUTION												
I) Percentage	100%	100%	100%	100%	100%	100%	100%	100%				
II) US\$ Value (million)	1.2	1.69	1.92	1.66	--	--	--	1.3				

SOURCE: AMSCO mbs and client reports

5.3 CASE STUDY NO.3 :

1. Name : Company "C" ("the Company")
2. Location : West Africa
3. Primary Products : Groundnut processing
4. Secondary Products : Cotton and rice processing
5. Principal Shareholders : State-owned (sold in July 1993 to for US\$2.1 million)
6. Size: (as at July 1991)
 - No. of Employees : 724
 - Annual Sales : US\$8.26 million equivalent
 - Fixed Asset Value : US\$19.5 million equivalent
(valued at replacement cost)
 - Annual Net Loss : US\$1.96 million equivalent
7. Summary

The effective and speedy rehabilitation and privatisation of this state-owned enterprise were of vital importance to the national government, as a key national organisation that the World Bank insisted be privatised before further tranches of structural adjustment funds would be released. It was a politically sensitive and urgent situation.

As a result of the effectiveness of the AMSCO intervention the management team were able to mobilise financial support for the enterprise from the Swiss government, the World Bank, USAID and the European Union. In direct support this amounted to more than US\$2 million.

Accepting this assignment represented a significant risk and potential benefit for AMSCO: a high profile project with international institutions and the first opportunity to demonstrate the contribution of AMSCO to the process of privatisation of state-owned enterprises in Africa.

Most importantly, the AMSCO team had maintained in operation a key enterprise vital to a major sector of the economy, during a period of intense

financial pressure. In fact, the team turned the slow-down in activity to advantage, using the time and available labour to complete plant rehabilitation, management restructure and training programmes.

Despite initial resistance from the local management, and the major problem created by the policy of the government of a contiguous country to subsidise groundnut purchase prices, the AMSCO team met the technical and commercial objectives identified in its initial business plan, and enabled the successful sale of the core assets for US\$2.0 million. This terminated the string of previous losses subsidized by the national government ranging from US\$1.5 to US\$6 million per annum. At the signing ceremony, the Minister of Finance paid tribute to AMSCO's contribution in achieving this satisfactory conclusion.

8. Brief History of the Company :

The enterprise was created over 30 years ago by the national oil seed marketing board. In March 1971, it assumed the additional role of rice marketing. Throughout the majority of its existence it had a national monopoly for the purchase, processing and sales/export of groundnuts and groundnut oil. It is thus of major importance to the economy, as groundnuts are the biggest agricultural crop, and decorticated groundnuts and crude groundnut oil the biggest export commodity. Groundnuts account for roughly half of all farmer crop income, and the Company had a pivotal role in the economic welfare of the country.

Financially, the Company was profitable until the mid 1970's. It was then nationalised and had shown losses nearly every year since then. Normally it had processed between 80,000 and 125,000 tonnes of groundnuts annually, but by 1991/2, this had been reduced to less than 10,000 tons, as a result of the price subsidy offered for groundnuts by the neighbouring government, which was higher than the purchase price set by the local government. With the liberalisation of national boundaries the farmers were selling to the highest bidder.

By 1991 the Company had been kept afloat for several years only by produce price support and special government grants.

9. AMSCO Management Contract

The initial Management and Training Contract for the period from October 1991 to July 1992 was subsequently extended to July 1993. Total AMSCO management fees amounted to US\$561,438, and training expenses of Nfl 89,369 (US\$54,493). There was no MLF participation.

10. AMSCO Intervention

The urgency of the need to restructure and rehabilitate the Company was increased with the discovery of a suspected fraud in the Company, and the suspension of the majority of the senior management. As a result AMSCO acted quickly and after a rapid assessment an AMSCO management team was in the field by late June 1991, a 10 month management agreement between AMSCO and the national government was signed in September 1991, and a formal take-over of the operation by an AMSCO management team in October 1991.

i) Management

The criteria adopted by AMSCO in preparing the business plan and project budget was to ensure that the processing efficiency of the Company was improved to make the enterprise attractive for privatisation.

Initially, a team of four AMSCO managers was introduced (CEO, Operations Director, Finance Director, and Up River Manager) Two members of the team were on secondment from Cargill. The main objectives of the team were:

- to effect the rehabilitation of the operating plant and river transports;
- to install soil erosion control;
- to improved the operating and labour efficiency of the Company; and
- to restore the financial integrity of the operation.

The AMSCO intervention immediately released Swiss technical assistance funds to cover the initial AMSCO management fees, and AMSCO introduced ECU 1.14 million EEC Stabex funds to cover the capital cost of the rehabilitation of the plant, equipment and river transport, and implementation of a plan to stop soil erosion.

The technical rehabilitation of the production facilities was a major programme, involving a plant that was largely based on pre-1930 technology and had not been maintained for the previous ten years. In addition the AMSCO team also had to deal with the major issue of finding finance for the 1991/92 crop, the negotiation with the government of the crop pricing to compete with the rising subsidy being offered by the neighbouring government, and funding the resulting operating losses.

By late November 1991, the management had produced a draft business plan, identifying specific targets in the technical rehabilitation, staffing and management reorganisation, control systems installation, purchase and marketing strategies, programmes for training key management personnel and financing strategy.

During the following six to eight months the AMSCO team had to deal with several major issues;

- Completion of the placing of all orders for the rehabilitation of the plant and river transport, and the completion of the major components of the rehabilitation and maintenance programme. This included a complete rebuild of the oil mill, rehabilitation of 2 tugs and 23 lighters, repair of wharves, conveyor repairs, refurbishment of the decortification plant, boilers and steam turbines, and 14 generators.
- Negotiation with the government of an increase of the price for the purchase of groundnuts to US\$166 per tonne. This was not sufficient to compete with the steady increase in the price offered by the neighbouring government, and as a result only 10,000 tons of the 80,000 tons of the local 1991/92 crop of groundnuts was purchased by the Company and local traders.
- Negotiation of Central Bank finance to pay off outstanding notes of US\$1.14 million due on previous year crop purchase (the funds having disappeared during the suspected fraud by the previous management), and to enable the purchase of the 1991/92 crop. These funds were raised partly by selling off redundant assets.
- Initiation of the management training programme.
- Reduction of the workforce from 724 to 351 employees.

As a result of the improvement achieved under AMSCO management USAID agreed to provide technical assistance funding for the preparation of the prospectus for the privatisation of the assets. This was completed by the end of September 1992. The Swiss government also agreed to continue to provide the technical assistance funding of the AMSCO management.

In anticipation of privatisation, a new company was formed to which the core assets of the existing Company were to be transferred prior to sale.

As part of the financial restructuring the IMF agreed that the government could cover the US\$664,000 of the Company operating losses and the US\$7.4 million accumulated debts.

In view of the delay in the privatisation programme the AMSCO contract was extended, and a revised set of performance targets for the 1992/3 season was established by the management team. These were formulated in a period of falling international prices for groundnut products (by 40%) and a further increase in the subsidised price offered by the neighbouring government.

Despite this, over the next months the following objectives were achieved:

The programme consisted of "in house" training workshops concentrating on team building, organisation and general management, and external training courses customised to meet the individual specific needs of eight key managers. These programmes went beyond the termination of the AMSCO management contract.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.3, page 45)

The Company case is not a standard AMSCO project, and fits in the special category of the rehabilitation of a badly managed technically run-down parastatal organisation, in preparation for privatisation.

During the AMSCO intervention the Company was run on a project basis, within cash restraints. Conventional management operating accounts for the period are not available, and there was no final balance sheet drawn for the Company.

The core physical production assets of the organisation were completely rehabilitated, with a massive immediate transfer of technology to improve the process and labour productivity. This both increased the overall availability of the plant from less than 30% to better than 85%, and achieved a 50% reduction in the workforce. Appropriate maintenance and control systems were installed, to enable these improvements to be sustained.

Drastic financial restructuring was undertaken, together with a substantial reduction in the labour force and a complete reorganisation and training of the local management. Labour efficiency was doubled.

The bottom line impact of AMSCO was that it eliminated the large scale government loss subsidies, generated a once-off capital benefit of \$2.16 million, and left an economically viable key national production unit in commercial operation.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.3 : Company "C"

(Financial Performance Figures expressed in thousand local currency units)

	PERIOD OF AMSCO INTERVENTION: OCTOBER 1991 to JUNE 1993		
	YE Nov.30.90	YE Nov.30.91	Assets transferred to NewCo as at July 31.92
1. <u>TURNOVER</u>	125.1	84.5	n.a.
2. <u>NUMBER OF EMPLOYEES</u>	725	724	351
3. <u>NET PROFIT/(LOSS)</u>	(4.5)	(18.4)	n.a.
4. <u>OPERATING PROFIT/(LOSS)</u>	(4.2)	(14)	n.a.
5. <u>ASSETS</u>			
i) Current	33.3	26.6	14.6
ii) Fixed (revalued at replacement cost)	^190.4	184.2	173.6
iii) Investment and loans	7.1	11.2	
6. <u>LIABILITIES</u>			
i) Short Term	10.9	20.6	nil
ii) Medium & Long Term	67.1	67.	nil
7. <u>SHAREHOLDERS EQUITY</u> <u>(DEFICIENCY)</u>	152.8	134.4	20 (sale price)
8. <u>LABOUR EFFICIENCY RATIOS</u>			
i) Sales Value/Employee			
ii) Operating Profit/Employee			
9. <u>CAPITAL EFFICIENCY RATIOS</u>			
i) Gross sales/ Fixed Assets Value		46%	
ii) Net Profit/Fixed Asset Value		(10)%	
10. <u>EXPORT EARNINGS</u>			
i) Percentage	100%	100%	100%
ii) US\$ Value ('000)		9,327	
11. <u>IMPORT SUBSTITUTION</u>			
i) Percentage	nil	nil	nil
ii) US\$ Value	nil	nil	nil

Sources: Draft Business Plan, November 1991 quoting Audited financial statements

Management monthly reports to AMSCO, November 1991 through August 1993

Draft Prospectus for sale of company

5.4 CASE STUDY NO.4 :

1. Name : Company "D" ("the Company")
2. Location : East Africa
3. Primary Products : Production of biscuits, breakfast cereals, sweets, pasta.
4. Secondary Products : Contract manufacturer for trade brand name products.
5. Principal Shareholders : 100% owned by a local family

Special Note:

The principals of Company D have requested that the authors of this report and AMSCO do not publish any specific information relating to Company D. This request has been respected by both parties. The reader should be aware, however that the data obtained from Company D have been included in the statistical and financial summaries presented in the conclusions of this report.

5.5 CASE STUDY NO.5 :

1. Name : Company "E" ("the Company")
2. Location : West Africa
3. Primary Products : Beer, orange coloured juice, cola and tonic water.
4. Secondary Products : Desalination production of water for internal consumption.
5. Principal Shareholders :

Government	40%
IFU (Denmark)	20%
Foreign Partner	20%
Foreign Partner	9%
Local Private Entrepreneurs	11%
6. Size (as at December 31, 1992)

· No. of Employees	: 121
· Annual Sales	: US\$7.05 million equivalent
· Fixed Asset Value	: US\$5.84 million equivalent
· Annual Net Profit before taxes)	: US\$0.95 million equivalent
7. Summary

The contract with the Company has been highly successful, and is a very good example of the "joint venture" form of AMSCO intervention. Under this arrangement AMSCO identifies a technical partner to take the responsibility for the management of the client, under sub-contract with AMSCO. Typically the technical partner is a major company in the same industrial sector as the client, with direct experience in the management of associate companies overseas. Frequently, as in this case, the technical partner is a shareholder of AMSCO.

The financial impact of AMSCO intervention has been substantial. In 1995, the Company forecasts an operating profit of more than US\$4 million, and a net profit of US\$1.16 million. This has resulted from sustained improvements in sales revenues, reduced operating expenses and increased labour and capital efficiencies.

In April 1995, the Company paid a dividend of US\$347,600. In June 1995 it had a cash balance of US\$1.65 million and has recently invested US\$250,000 in a local insurance company.

Local employees have taken all key management positions except that of CEO. Most importantly, the management and financial resources of the Company have been strengthened sufficiently to cope with the loss of its privileged tax status, and to face the prospect of increased competition from foreign products if and when the government reduces the protection from imported beers and colas.

To date AMSCO has earned performance bonuses of US\$21,094 and US\$53,182 for 1993 and 1994 respectively under this contract.

8. Brief History of the Company

The Company was formed in 1985 as a result of an initiative and feasibility study funded by CDI Brussels. The Company was a joint venture for the manufacture of beer and soft drinks between the government, IFU and a foreign brewing company. The foreign technical partner was responsible for the construction and operation of the brewery, under a management agreement.

Production commenced in 1988, and within two years the Company was profitable. Within four years of operation the Company was established as a successful manufacturer of beer and soft drinks, meeting international quality standards. The local market was protected by restrictions on the importation of beer and soft drinks for the first five years of operation. The Company achieved 85% to 90% of the revenue forecasts of original business plan. Despite these successes the Company had a working capital deficit by December 1992, when it became liable to start paying taxes under its tax holiday status. As a result the Company was finding it difficult to fund the extensive training programmes necessary to maintain and develop the local workforce and management team.

As the first industrial undertaking in the country, the workforce and management of the Company required extensive education and training to fulfil industrial posts, and to take over the management of the operations from the foreign technical partner. In 1992 the foreign technical partner was absorbed into its parent company, who took over responsibility for the management contract, which was due to terminate mid-February 1993. In reviewing the future prospects of the Company it was clear that future commercial survival would require a continuation of protection from foreign imports, an expansion of the business to provide a larger profit base, the ability to source raw materials on an internationally competitive basis, and a continuation of the intense training and management development of local employees.

At the request of the Company and one of its institutional shareholders AMSCO became involved, and recommended that the Company put the management contract out to international tender. In December 1992 tenders were sent to three multi-national brewing companies including the foreign technical partner. The lowest bidder in the competition was another foreign company which was also an AMSCO shareholder.

9. AMSCO Management Contract:

This is a Management and Training Agreement between AMSCO and the Company, backed up by a joint venture agreement between AMSCO and the new foreign technical partner for the provision of technical assistance. The contract provides for 2 managers and the training of 13 local senior and middle management for the period from February 1993 to February 1996. Total AMSCO management fees of US\$962,450 and training expenses of Nfl 365,000 (US\$222,560). MLF participation was US\$237,500, which has been fully repaid.

10. AMSCO Intervention

AMSCO negotiated a joint venture management agreement with the foreign technical partner, to back up an AMSCO Management and Training Agreement signed with the Company on January 11, 1993. The intervention started mid-February 1993 with AMSCO sending two managers deputed by the foreign technical partner: the CEO and the technical director.

i) Management

During the first year of the AMSCO contract the management had to deal with a serious tax problem inherited from the previous management. The Company had received foreign investment tax incentives for a period of five years in the form of a tax holiday. Under these privileges, the Company did not have any tax liability for the first four years and the first taxes due were at a rate of 50% for the year 1992, and at the full rate thereafter. No provision had been made for this liability, and this caused a serious cash problem at the end of 1992. The AMSCO management negotiated with the government and settled the back taxes, keeping this account current thereafter.

The new management also made substantial improvements in the efficiency of the operation in 1993, specifically:

- through the better sourcing of raw materials, and placing orders in combination with the foreign technical partner (which is twenty times the size of the Company), the Company achieved a 30% reduction in raw material costs;

- by changing the colour of its beer bottles from green to brown the Company reduced significantly the cost of its bottles.
- in October 1993 by introducing draft beer in kegs, to reduce the replacement cost of bottles, and enabling stocks to be maintained in smaller local markets. Again the kegs were purchased from Germany as part of the bulk orders by the foreign technical partner;
- by investing in an adequate supply of spare parts;
- by concentrating the annual maintenance shut-down into 15 days in February, and avoiding unscheduled stoppages due to shortage of bottles or the lack of spare parts, the management significantly improved the efficiency of use of both capital and labour.

The impact of these improvements came into full effect in 1994 and is reflected in the financial performance of the Company in that year and thereafter.

ii) Training

The foreign technical partner included a training commitment in their bid for the Company management contract, and with minor changes this became the basis for the AMSCO training programme. The programme started in May 1994.

Initially the programme concentrated on key managers with individual training, particularly on the technical and financial management side. Three persons were sent overseas on brew master courses of up to one year. The results have been that local employees can now fill the Technical Director and Finance Director posts.

The programme is now concentrating on a general upgrading of the quality of management, and team building. To date a potential successor managing director has not been identified, but the identification and development of a person for this post will probably be a component of the final portion of the programme.

11. Summary of economic impact of AMSCO
(Refer to Table 4.5, page 59)

i) Turnover and profitability

In the first 30 months of the AMSCO management contract the turnover of the Company has increased by 75%. This has been achieved through a steady expansion in the volume of sales, particularly in the beer product.

The audited accounts for 1992 (the year immediately prior to the AMSCO management) did not provide the tax liability for that year, which then had to be included in the 1993 accounts. Those results were adjusted to take into account this tax expenses.

Average operating margins have increased by 4% to 38%, leading to an annual overall estimated operating profit double the level at the beginning of the base period. Net profits increased by 125% over the same period, despite the imposition of corporate tax at standard rate. Net profit increased from 8.4% to 10.8% of turnover.

ii) Balance Sheet

At the beginning of the AMSCO intervention, the Company had a small working capital deficiency. By June 1995 the company was "cash rich", with US\$1.65 million in cash and a 1.5 : 1 ratio of current liabilities to current assets. As a result the company is seeking diversification opportunities, and has invested US\$241,050 in a local insurance company earlier this year.

The fixed assets of the Company have been amortised at an accelerated rate, and despite steady investment in capital improvements, the fixed assets of the Company are now carried on the books at 30% below that at the beginning of the AMSCO intervention.

As a result of the substantial improvement in performance the shareholders's equity has increased by 50%, to US\$4 million, in the period. This has lead the Company to propose that the government dispose of some of its residual shareholding, at a profit. A study of the value of these shares is now being initiated and the sale of the government participation is expected to take place in the near future. This full privatisation would accomplish another of the goals of the AMSCO intervention.

iii) Labour and Capital Efficiency

Despite the substantial increase in turnover the labour force has increased by only 5%, with labour efficiency rising by 60%. Labour profitability (in terms of profit per employee) has increased by 80%.

Capital efficiency, based on book values, has increased by 100% in terms of both gross revenue and net profitability.

iv) Export and/or Import Substitution

There is no significant export of products. All sales are effectively substitution for imported beer and soft drinks. The net balance of payment impact must take into account the fact that almost all of the

production inputs are imported. Data on the value of imported production inputs were not available.

It is relevant to note that the Company has been protected by legislation against foreign beer imports since its inception. Liberalisation of this protection has been under discussion for several years, and has recently been approved, but not enacted. Liberalisation would create competition from major foreign producers.

v) Technology Transfer

No major technology transfer has been involved during the AMSCO intervention, although technical support for the local management has continued at a high level. However, the AMSCO managers provided by the joint venture partner have challenged every aspect of the existing process and marketing methods, and introduced changes which collectively have made a significant improvement in the overall performance of the Company

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.5 : Company "E"

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION: FEBRUARY 1993 TO FEBRUARY 1996							Latest Data	Estimated
	YE	6 mths end	6 mths end	YE	6 mths end	6 mths end	YE	6 mths end	YE
	Dec.31.92	June 30.93	Dec.31.93	Dec.31.93	June 30.94	Dec.31.94	Dec.31.94	June 30.95	Dec.31.1995
1. <u>TURNOVER</u>	510.1	268.9	388.3	657.2	309.6	458	767.6	357.9	895
2. <u>NUMBER OF EMPLOYEES</u>	121	121	117	117	122	122	122	133	133
3. <u>NET PROFIT/(LOSS)</u>	43.0	20.8	20.8	41.6	24.9	58.2	83.1	38.7	96.6
4. <u>OPERATING PROFIT/(LOSS)</u>	174	98.7	126.3	225	102.1	169.8	271.9	137.6	344.
5. <u>ASSETS</u>									
i) Current	240.1		305.6	305.6		370.6	371.5	411.1	411.1
ii) Fixed	422.4		360.0	360.0	317.7	329.2	330.3	298.7	298.7
5. <u>LIABILITIES</u>									
i) Short	244.1		283.1	283.1	212.0	272.1	272.1	278.7	278.7
ii) Medium & Long Term	189.7		142.5	142.5		107.3	107.3	95.4	95.4
6. <u>SHAREHOLDERS EQUITY (DEFICIENCY)</u>	228.7		241.9	241.9	266.7	325	325	338.8	338.8
7. <u>LABOUR EFFICIENCY RATIOS</u>									
i) Sales Value/Employee	4.21	2.21	3.31	5.61	2.54	3.75	6.2	2.69	6.79
ii) Operating Profit/Employee	1.43	0.81	1.08	1.92	0.84	1.39	2.23	1.03	2.58
8. <u>CAPITAL EFFICIENCY RATIOS</u>									
i) Gross Sales/Fixed Asset Value	121%		70%	183%	97%	139%	233%	119%	300%
ii) Net Profit/Fixed Asset Value	16.34%		6%	11.5%	7.8%	17.7%	25.2%	12.9%	32%
9. <u>EXPORT EARNINGS</u>									
i) Percentage	0%	0%	0%	0%	0%	0%	0%	0%	0%
ii) US\$ Value	nil	nil	nil	nil	nil	nil	nil	nil	nil
10. <u>IMPORT SUBSTITUTION</u>									
i) Percentage	100%	100%	100%	100%	100%	100%	100%	100%	100%
ii) US\$ Value (million)	7.0			8.86			9.25		10.79

Sources: Audited accounts: Dec.31.1992,1993,1994

Client's management accounts, half yearly :1993, 1994, 1995

AMSCO and Client records

5.6 CASE STUDY N0.6 :

1. Name : Company "F" ("the Company")
2. Location : East Africa
3. Primary Products : Paint manufacture and distribution mainly to automotive and industrial customers.
4. Secondary Products : Decorative paints, and packaging ink and resin manufacture.
5. Principal Shareholders : 100% by local company
Owned by 4 local investors.
6. Size (as at December 31, 1992 audited financial statements)
 - No. of Employees : 124
 - Annual Sales : US\$4.5 million equivalent
 - Fixed Asset Value : US\$878,000 equivalent
 - Annual Net Profit : US\$230,000 equivalent
(before taxes)

7. Summary

The Company has responded exceptionally well during the AMSCO intervention. It is currently operating at a net profit level of US\$600,000 per annum, and operating profit of US\$800,000, each almost doubled the rate in 1992.

Dividend distributions in excess of US\$600,000 have been made. This, plus the strengthening of the entire management structure through the AMSCO human resources development programme has enabled the present Company's shareholders to make further Group acquisitions in the same sector in two neighbouring countries, plus the acquisition of two local companies - a food processing operation and a hardware and electrical supplies distributor for an artisan market.

The annual national economic contribution of the Company in terms of import substitution has doubled in the period, to US\$ 6 million per annum, and export earnings have risen from US\$44,000 to US\$250,000 per annum. 37 more jobs have been created to a total of 147, plus the additional employment in the four acquired associate companies.

from April 1993 to April 1996. The total AMSCO management fee, for the provision of a general manager was US\$420,000 plus a management training budget of Nfl 240,000, of which Nfl 45,826 has been expensed as at June 30, 1995. AMSCO arranged a loan of US\$215,200 from the management loan fund, and assisted in obtaining a technical assistance grant of Nfl 284,000 (US\$173,170) from FMO/IBTA, to contribute to the AMSCO budget for the expatriate manager.

10. AMSCO Intervention

AMSCO, jointly with the local Managing Director, identified and appointed a general manager who joined the Company in April 1993.

i) Management

In May 1993 the management produced a comprehensive business plan and five year financial projections for the Company. The plan included a detailed analysis and projections of the local market for the range of the Company's products, a technical audit of the production plant, and a full marketing plan for each product. The plan established specific annual targets for all key financial performance ratios. The organisational structure of the Company was critically examined, and individual manager appraisals made. Specific departmental strategic objectives were identified. The future marketing strategy was spelled out in great detail.

During the balance of 1993, the local economy was in recession, This, together with the increased smuggling of products into the country (including paint products) caused a reduction of 20 - 25% on the demand in the local paint market, and a serious credit squeeze on all businesses.

The marketing plan of the Company included the establishment of a national distribution of all products, and the introduction of a new range of economy paint. Accounts with 20 distributors in key towns were opened up as general stockists, and the management launched a search for a depot to develop the principal other regional market.

The poor national economic environment resulted in a 16.4% lower physical volume of sales, but increased value and larger margins enabled the Company to achieve an annual net profit of US\$1.75 million for 1993, to meet the original business plan target.

1994 was a period of growth and consolidation in the Company. Despite a 100% revaluation in the local currency against the US dollar, economic activity was still depressed, at 5% below the previous year. This led to increased price discounting by manufacturers in the paint industry.

Sales volume, revenue and net profit of the Company maintained their growth by 13 %, 12.5% and 50% respectively, again approximately on

the targets set out in the business plan, but with lower volume and higher margins.

During the year the management of the production and technical departments were combined, and the earlier problems solved by promotion from within the Company of junior managers that had been trained.

The result of earlier marketing decisions and programmes started to bring results, and the position of the Company improved in all main product lines. With colour cards, redesigned tin livery, and country-wide distribution, the management turned attention to the improvement of the sales management and sales force.

External expansion by the Group continued with the acquisition of small paint manufacturing companies in two contiguous countries. AMSCO was invited to assist in the management of one of these enterprises.

Growth has continued in 1995, with much improved margins. In the first half year sales volume, sales revenue and net profit were up 31%, 31% and 53% respectively on the same period of 1994 - well above business plan.

ii) Training

In 1993, production break-downs were experienced, and a lack of production management commitment identified. This latter problem became a major objective for the training programme.

During 1994/95 the continued growth of the Company has stretched the controls, and highlighted the urgency for the introduction of computerisation, which is now taking place, together with plans for upgrading the accounts staff through a training programme.

The owner and senior management of the Company have been extremely supportive and active in the AMSCO management training programmes. This has covered both successor manager development and a wide range of individual training programmes and team building workshops. The management have also participated in regional training seminars organised by AMSCO.

The impact of these programmes in the Company has been effective in the wider field of human resource development and organisational development, rather than the narrower field of "management training". This is reflected in the breakdown of communication barriers within the Company and "empowerment" of local managers to grow into senior

positions and work together as a team. An outstanding example of the effect of these programmes is the promotion earlier this year of the technical manager to the Board of Directors, as Technical and Production Director, the first African to be appointed to the Board in the history of the company.

11. Summary of Direct Economic Impact
(refer Table 4.6, page 66)

i) Turnover and profitability

The turnover of the Company has steadily improved during the first 26 months of AMSCO involvement and by June 1995 it was 264% above the 1992 level.

Over the same period operating profits and net profits have increased by 375%. This enabled the Company to make dividend distributions of US\$146,000 and US\$355,000 for the years 1993 and 1994, whilst doubling the shareholders' equity in the company and continuing to make capital investment in the plant.

ii) Balance Sheet

Whilst the working capital ratio of the Company has remained approximately the same at 1:1.5%, the ratio of fixed assets to long term debt has improved from 1:1.65 to 1: 3.8

iii) Labour and Capital Efficiency

Labour efficiency (in terms of annual turnover per employee) doubled, increasing from 1.48 million to 2.86 million in local currency per employee. Annual net profitability per employee has increased by 75% in local currency. This converts to US\$340 net profit per employee, and US\$1,435 operating profit per employee. Over the period the labour force increased by only 33% from 110 to 147 employees.

Similarly, the ratio of turnover to fixed asset value and net profit to fixed asset value has both doubled over the 26 month period.

iv) Export and/or Import Substitution

Over the past 30 months the level of annual exports of the Company has quadrupled, in terms of local currency, and is currently at the rate of US\$250,000 per year, accounting for 3% of the total revenue.

The net value of import substitution (calculated as the full value of imports substitute sales less the total cost of imported materials, etc) doubled from US\$3 million in 1992 to a rate of US\$6 million in 1995.

v) Technology Transfer

Marketing and administration are the principal areas of contribution to the improved performance of the Company during the AMSCO intervention. Although the Company has benefited from some technical improvements introduced through the AMSCO manager.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.6 : Company "F"
(Financial Performance Figures in million local currency units)

	PERIOD OF AMSCO INTERVENTION: APRIL 1993 TO APRIL 1996			
	YE Dec.31.92	YE Dec.31.93	YE Dec.31.94	Latest Data 6 mths end. June 95
1. <u>TURNOVER</u>	158.8	252	320	210
2. <u>NUMBER OF EMPLOYEES</u>	110	124 (May 1.93)	147	147
3. <u>NET PROFIT/(LOSS)</u>	8	12	16	15
4. <u>OPERATING PROFIT/(LOSS)</u>	11	19	26	21
5. <u>ASSETS</u>				
i) Current	106.4	130.5	147	247
ii) Fixed	31	34	37	38
6. <u>LIABILITIES</u>				
i) Short Term	63.4	95.7	121	162
ii) Medium & Long Term	18.7	11.8	7.	10
7. <u>SHAREHOLDERS EQUITY</u> <u>(DEFICIENCY)</u>	55.2	57	56	113
Dividends	4	10	16	
8. <u>LABOUR EFFICIENCY RATIOS</u>				
i) Sales value/ employee	1,444	2,032	2,176	2.857
ii) Operating Profit/Employee	0.101	0.477	0.177	0.272
9. <u>CAPITAL EFFICIENCY RATIOS</u>				
i)Gross Sales/Fixed Assets Value	514%	741%	864%	1105%
ii) Net Profit/Fixed Assets Value	26%	35%	43%	74%
10. <u>EXPORT EARNINGS</u>				
i) Percentage	0.9%	3%	2.7%	3%
ii) US Value ('000)	44	132	222	137
11. <u>IMPORT SUBSTITUTION</u>				
i) Percentage	67.5	66.4	66.0	73.4
ii) US Value (US\$ million)	2.95	2.45	4.68	2.87

Sources: Audited accounts for the year ended Dec,31.1992, 1993 and 1994. Auditors: Coopers & Lybrand

: Client's management accounts for 6 month period ended June 1995

: AMSCO files

: Client principal and senior management personnel

5.7 CASE STUDY 7:

1. Name : Company "G" ("the Company")
2. Location : West Africa
3. Primary Products : Inner tubes and tyres for bicycles and motor cycles
4. Secondary Products :
5. Principal Shareholders :

Local Investors	59.94%
Government	15.26%
Foreign Investor plus PROPARCO and FMO	24.80%
6. Size (as at Dec.31, 1990)
 - No. of Employees : 579
 - Annual Sales : US\$11.53 million equivalent
 - Fixed Asset Value : US\$4.27 million equivalent
 - Annual Net Loss : US\$480,000 equivalent

7. Summary

The intervention in the Company has been the longest and probably the toughest assignment that AMSCO has undertaken to date. Over the five year period from October 1990 the Company has encountered almost all the problems that can beset an African enterprise other than civil war: devaluation; smuggled goods; "dumping" of foreign imports; national labour strikes; termination of credit lines; power shortages; blocked foreign exchange transactions; etc...

The five years of AMSCO involvement in the Company coincided with the introduction by the World Bank of a Structural Adjustment Programme in the country, with all its attendant disruptive changes and difficulties for local industry. It is very unlikely that the Company would have survived these problems without the assistance of AMSCO.

Over the past five years the Company has been completely "overhauled", achieving major improvements in every department. It has survived major crisis, including major capital restructure, extremely fierce foreign price competition and illegal imports.

It has emerged a profitable, more efficient and better managed enterprise, with a senior executive management team of local employees that have developed in experience and training with AMSCO.

During this period AMSCO has provided strong senior executive managers, and has been a vehicle for substantial technical assistance to the Company in specialist areas. It has also provided successful management development programmes for senior executives (both PDG and the successor DGA) and helped to build an indigenous executive management team for the Company.

Although the Company still faces serious problems, such as foreign competition, it is much better equipped to deal with them than it was five years ago. Survival of the Company has saved 200 jobs. In addition, substantial savings in foreign currency through import substitutions continue to be made.

Repayment by the Company of the MLF loan is continuing, following a rescheduling earlier this year. As at June 30, 1995, this outstanding obligation was US\$134,604.

Under the terms of the management contract AMSCO has earned a performance bonus of US\$5,930 from the Company for the period from October 1990 to December 1992.

8. Brief History of the Company

Formed in February 1974, the Company is the largest private enterprise in the country. The Company sells motorcycle and bicycle inner tubes and tyres. In its initial years it had a local monopoly of manufacture of these products. Relatively small volume export sales were made in three or four neighbouring countries.

After many years of successful operations, the Company suffered a series of losses, recovering to make a small profit in 1988 and 1989. However, by that time the fabric of the Company had deteriorated seriously, with inefficient production processes, poorly controlled purchasing, non-existent marketing, and weak financial and accounting functions and controls. Senior management were inadequately trained. From June 1989 the Company has some technical assistance from FMO - a production expert.

In May 1990, the project was referred to AMSCO by FMO and PROPARCO, with a request from the Company shareholders to intervene.

9. AMSCO Management Contract

AMSCO has had two Management and Training Agreements with the Company: the first for the period October 1990 to December 1992; the

second from June 1993 to June 1995. The AMSCO management fees for these contracts were US\$316,365 and \$405,360 respectively; and the training budgets Nfl 277,227 and Nfl 87,773 respectively. MLF participation was US\$175,492 in the second contract only.

10. AMSCO Intervention

Following the request from the the Company shareholders AMSCO acted immediately, under a temporary contract, to permit corrective action to be undertaken in advance of the execution of a formal agreement. In July/August AMSCO undertook a diagnostic mission, resulting in a proposed programme of remedial measures, including the appointment of a DGA and the installation of an intensive training programme. In October 1990 a 26 month Management and Training Agreement between AMSCO and the Company was signed, and a general manager, recruited by AMSCO, took up his position in November 1990. AMSCO assisted the Company in obtaining a technical assistance grant of Nfl 32,500 towards the cost of the AMSCO intervention.

i) Management

During 1991 and 1992 the Company continued to lose market share, and sales volume fell steadily. This was mainly due to the competition of imports from the Far East, which were priced at less than 50% of the production costs of the Company, and permitted to enter the country under the economic liberalisation programme.

The Company was short of cash, and on several occasions production was stopped due to lack of funds to buy raw materials. This resulted in further loss of sales due to unavailability of stock. The overdraft facility of the Company was cut by 50%, causing further difficulties in meeting its payroll. A 48 hours national labour strike also affected the operation marginally.

These circumstances restricted the scope of the general manager to improve the Company, and forced him to work only on matters that did not require cash. However progress was made in some important areas of operations:

- improvement in the technical quality of the products and reduction of the production reject rate. Improved inspection and safety standards.
- finding alternative and cheaper sources for raw materials and their transportation - achieving a 30% reduction in the cost of raw rubber (previously most purchases had been made through a Company run by the Belgian shareholder);
- improvement in the product distribution system;
- substantial reduction of the number of employees (from 579 to 349), through the introduction of more efficient working practices;
- updating of the accounts and accounts analysis system, to provide more immediate control of the operations.

In November 1992, towards the end of the first contract period, the DGA was removed by AMSCO at the request of the Company. The principal reason for this request was the breakdown in the relationship between the Executive Chairman (PDG) of the Company and the DGA.

At that time there were still many outstanding difficulties facing the Company:

- the training and development of the successor to the general manager was not yet completed;
- electricity supply and electricity costs were erratic, causing production interruptions and uncertainties in product costs;
- although the Company had purchased the hardware, the computerisation of the accounts department had not yet commenced;
- the marketing and sales strategy had not yet been clearly analysed and defined for the various products. An unacceptable level of bad debts had not been dealt with effectively.

At the end of the first contract AMSCO commissioned an independent consultant assessment of its achievements. The report recommended that, in addition to the provision of a DGA, experts should be sent to support the Company on three important aspects of operations:

- the marketing policy and re-organisation of the marketing department;
- the production aspects;
- computerisation.

In early 1993, the Company requested a renewal/extension of the AMSCO Agreement, and a new two year contract was agreed, running from June 1993 to June 1995. A former technical director of one of the Company's clients was recruited by AMSCO as DGA, and started a two year contract in July 1993. AMSCO assisted the Company in obtaining a technical assistance grant of Nfl 330,000 towards the expenses of the AMSCO second contract. AMSCO also arranged an MLF loan to cover the cost of management support for one year.

The accounts for the year indicate that the Company was technically bankrupt with a shareholders' deficiency of US\$1.1 million. By law the Company had to correct this situation within a limited time or else cease trading.

The appointment of the replacement DGA manager released the PDG to deal with the serious external problems still faced by the Company:

- negotiation with the government of a further rescheduling of back taxes;
- negotiation of a rescheduling of debts to foreign lenders (principally FMO, and PROPARCO);
- negotiation of a reduction of import duty rates on raw materials.

During 1993/94 a series of policies were initiated by the DGA to further improve the performance of the Company:

- a concentrated campaign to reduce the fraudulent importation of competitive products. This included bringing pressure on the government to maintain and apply barriers to illegal imports, and assisting those efforts by employing agents to work with the government. The illegal imports included smuggled goods from the Far East and the Company's export products "diverted" back to the country of origin.
- detailed analysis of the market for the products of the Company, to provide a basis for the planning of production and maintaining minimum stocks of raw material and of finished goods.
- a marketing campaign to demonstrate the better quality of the Company products.
- further cost reductions through better purchasing from new suppliers, negotiation of lower insurance premiums, higher productivity (the work force was reduced by a further 133, to 200), improved technical and cost controls and reduced overhead expenses.

To ease the financial pressure CFD agreed an interest-free loan of FF750,000 to the Company, to meet the cost of expert intervention within the AMSCO contract. This covered the expenses of experts on marketing, production quality control, and computerisation.

At the end of the second AMSCO contract, the turnover of the Company was at a record high rate in local currency, (twice the figure for 1993), and 20% over budget. The operating and net profits for the first six months of 1995 were higher than for any previous twelve month period in the history of the Company.

ii) Training

The initial training programme, which commenced in January 1991, involved customised programmes for eight senior members of the Company management, including the PDG (amounting to 28 man-months of formal training, of which approximately two thirds were undertaken in African training institutions). In addition a Company wide "quality circle" system, and a voluntary literacy programme for workers were initiated. The impact of these programmes was to bring an element of training culture to the Company, and to initiate the process of "team building".

The search for a suitable DGA local candidate took longer than anticipated, and the person finally selected required substantial technical

and other formal training prior to taking up the position. This absorbed a substantial portion of the MDF budget allocated to the Company.

The general training programme was continued in the six month period between the AMSCO contracts. In the second period the training programme concentrated more on team building development, broad internal training to upgrade the management across the board, and more short-term specific training assignments for individual executives.

After extensive training abroad the successor DGA returned to the Company at the end of 1994, and after a further six months on-the-job training with the AMSCO manager, took over as DGA in June 1995.

The PDG of the Company is a strong supporter of the AMSCO training programmes has personally participated in direct training and regional seminars, and has indicated that he wishes the training programme to continue beyond the end of the second management contract.

11. Summary of Direct Economic Impact of AMSCO Intervention
(Refer to Table 4.7, page 75)

i) Turnover and profitability

During the first two years of AMSCO management the gross turnover of the Company dropped by 34%, but over the following two year period the turnover recovered by 57% to a level 32% above the initial figure.

Net profit over the same four year period varied widely, from an approximate break-even point at the beginning, down to a loss of US\$1.5 million in 1993, and then up to a net profit of US\$36,000 in 1994, and US\$48,000 for the first 7 month period of 1995. This wide fluctuation was due in part to massive bad debts' write-off provision in the 1992 - 1993 accounts.

These write-offs were made on the advice of the two independent accounting advisors who reported that the earlier period accounts had overstated the assets of the Company, specifically trade debtors and stock values.

ii) Balance Sheet

The fixed assets of the Company have remained relatively static during the period. However, the Company revalued these assets in 1994 to take account of the local currency devaluation in 1994.

At the commencement of the first contract the Company successfully negotiated a reduction and rescheduling of the overdue tax and duties' debt to the Government, reducing overall liabilities by approximately

improvement, product quality, safety, and cheaper sources of raw materials. These transfers were made through the experience of the AMSCO general manager and the many specialist technical consultant advisors sent by AMSCO to advise the Company.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.7 : Company "G"

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION:					Latest Data 7 mths end July 31.95
	1st Contract: Oct. 1990 to Dec.1992 ; 2nd Contract June 1993 to July 1996					
	YE Dec.31.90	YE Dec.31.91	YE Dec.31.92	YE Dec.31.93	YE Dec. 31.94	
1. <u>TURNOVER</u>	2,700	2,404	2,026	1,595	2,092	1,804
2. <u>NUMBER OF EMPLOYEES</u>	519	405	349	333	200	200
3. <u>NET PROFIT/(LOSS)</u>	(132)	7	(303)	(428)	19.4	23.2
4. <u>OPERATING PROFIT/(LOSS)</u>	(202) (estimated)	83	11	(464)	31.2	86.8
5. <u>ASSETS</u>						
i) Current	2,284	2,088	1,866	1,034	1,432	2,267
ii) Fixed	1,274	1,214	1,081	938	1,798	1,758
6. <u>LIABILITIES</u>						
i) Short Term	1,857	1,531	1,741	1,320	1,117	2,114
ii) Medium & Long Term	1,010	1,073	811	984	1,228	971
7. <u>SHAREHOLDERS EQUITY</u> <u>(DEFICIENCY)</u>	691	698	395	(331)	885	940
8. <u>LABOUR EFFICIENCY RATIOS</u>						
i) Sales Value/Employee	5	6	6	5	10	13 (est)
ii) Operating Profit/Employee		0.205	0.031	(1.393)	.156	.625 (est)
9. <u>CAPITAL EFFICIENCY RATIOS</u>						
i) Gross Sales/Fixed Asset Value	230%	214%	209%	182%	116.3%	148% (est)
ii) Net Profit/Fixed Asset Value	(11%)	0.6%	(31%)	48.7%	1.08%	1.9% (est)
10. <u>EXPORT EARNINGS</u>						
i) Percentage of turnover	17%	24%	18%	29.7%	22.5%	22.5%
ii) US\$ Value	US\$1,669,000	US\$2,115,000	US\$1,325,475	US\$1,622,800	US\$878,000	US\$842,816 (7 mths)
11. <u>IMPORT SUBSTITUTION</u>						
i) Percentage	83%	76%	82%	70.3%	77.5%	77.5%
ii) US\$ Value (million)	8.15	6.7	6.02	3.84	3.02	2.90 (7 mths)

Sources: AMSCO files and client reports

: Discussion with Client principal

: Supplementary information from management

Note : Devaluation Feb.1994

5.8 CASE STUDY NO. 8 :

1. Name : Company "H" ("the Company")
2. Location : West Africa
3. Primary Products : Horticultural production of cashew, mango and citrus fruit.
4. Secondary Products : Maize and cassava as intercroops within the young orchards.
5. Principal Shareholders :

Foreign Partner	53%
Eurofinanciera	26%
IFC	17%
Private local investors	4%
6. Size (as at March 31, 1995)
 - No. of Employees : 60
 - Annual Sales : Not applicable, start up project.
 - Fixed Asset Value : US\$1.8 million
 - Annual Net Profit : Not applicable, start up project.

7. Summary

The first objective of the ASMCO intervention , to act as a catalyst to bring the major finance to the project, was achieved in early 1995, when the International Finance Corporation (IFC) and the Banco de Fomento made commitments to provide a total of US\$75,000 equity and loans of US\$ 1.25 million to the project.

The second objective, which is to complete the implementation of the project, is now 60% completed and is within the original plan budget and time targets. Sixty jobs have been created.

Work on the third objective, to establish a well managed and profitable farm operation with indigenous managers, is programmed for 1996/97.

With the completion of the entire Company programme AMSCO will have assisted in the creation of an agro-business project from a "green field" start. The effectiveness of the AMSCO support for the project sponsor has already

generated indirect benefits to AMSCO in the form of references to additional projects in Angola, Mozambique and Guiné-Bissau.

8. Brief History of the Company :

The project is a low capital cost - low technology scheme, initiated in 1992 by a foreign company with more than a century of experience in agribusiness production and trade in Africa. The local government granted the Company a 50 year lease of 1,500 hectares of scrub land for cultivation. The project is for the production of cashew and mango for export and other crops for local consumption. Full production is programmed for year eight of the project.

In April 1993, AMSCO was approached by the foreign technical partner (an AMSCO shareholder) to provide management and training services to the Company during the start-up period of the project. AMSCO agreed to take the risk of a "green field" agriculture project because of the reputation and experience of the foreign company in Africa, who within the past few years had undertaken successful agricultural projects in Sao Tome, Angola and Guinea Bissau.

One of the main purposes of the AMSCO intervention was to provide resources to assist the project through its start-up phase, to enable it to demonstrate to potential long-term investors the credibility of the concept.

9. AMSCO Management Contract

A Management and Training Agreement was signed on May 24, 1993 between AMSCO and the Company, for the provision of a general manager. This agreement was backed by a joint venture agreement between AMSCO and the foreign technical partner for the provision of technical assistance. The contract between AMSCO and the Company provides for one general manager and the training of senior managers at the time the project achieves commercial operation. The period of the initial Agreement was from August 1993 to July 1996, which was subsequently extended to October 1997. The total AMSCO fees are US\$635,000, and a training budget of Nfl 135,000 (US\$75,000). AMSCO also arranged a loan to the Company of US\$237,415 from the Management Loan Fund.

10. AMSCO Intervention

The AMSCO intervention started in August 1993 with the appointment of a general manager, deputed by the foreign technical partner. An administrative and financial controller was seconded to the project by a local bank. At the same time the technical partner produced a detailed technical and financial feasibility study/business plan, which was reviewed very positively by a Portuguese commercial bank. The Company also signed a cooperation

agreement with the National Research Institute of the U.K. to provide technical assistance and expert personnel to the project.

AMSCO assisted the Company to obtain an interest free loan of Nfl 133,500 and a grant of Nfl 200,000 from FMO/IBTA, as a contribution to the AMSCO budget for the general manager over the three year period November 1 1994 through to November 1, 1997. To accomodate this the agreement between AMSCO and the Company was extended to November 1, 1997.

The FMO technical assistance funds, together with the loan from the MLF covered the total cost of the general manager, and enabled the Company to redirect resources to speed up the start-up phase of the project. This expedited the discussions with major institutional investors, resulting in the Company obtaining commitments from AEF/IFC for a loan of US\$750,000 and an equity subscription of US\$75,000 (15% of the capital of the Company), and a commitment from Eurofinanciera (a subsidiary of Banco de Fomento e Exterior, Portugal) for a loan of US\$500,000.

i) Management

During 1994, the technical programme of the general manager was to clear the bush and construct the farm infrastructure, particularly farm access roads, buildings and fences.

By mid-1995 the project was well into implementation. All items were in line with or ahead of business plan:

- the acquisition of machinery, agricultural implements and other equipment was completed, all within budget. In fact more equipment than planned was acquired, at no extra cost, as a result of good purchases and favourable prices;
- the plan of acquisition of vehicles and tools was totally fulfilled, within budget, and with a larger capacity vehicle included;
- the programme for house building was exceeded: instead of the three housing quarters planned to be constructed in this period, 20 quarters (10 for single employees and 10 for married ones) have been completed;
- The 1995 plan for plantation of cashews was 650 hectares. The entire area was cleared before the rainy season and by September 120,000 specimen are available in the nursery and 250 hectares planted. This is in line with the plan;
- 60 persons have been employed and trained as farm workers.

In terms of the overall implementation of the project, some 60% of the planned amount of the investment in the project has been expensed, reflecting the degree of completion of the project. This is also in line with the plan.

ii) Training

A training programme has been prepared by AMSCO. However, at present the Company is in a "project" mode, recruiting local employees and training them as farm labourers. The training of indigenous employees to take managerial responsibilities in the Company will start in 1996.

11. Summary of Economic Impact of AMSCO

(refer to Table 4.8, page 80)

It will not be possible to measure the full impact of the intervention until the project implementation stage is largely completed and the farm is in commercial operation. This situation will begin to develop in 1996, and will be in full operation by the end of 1997.

However, in the first two years of AMSCO involvement the project has developed from a concept without financial backing to a fully funded 60% implemented reality, which has been achieved within the original plan in both expenditure and time table. This has been achieved through the application of the substantial relevant technical experience of the foreign technical partner.

Sixty jobs have been created and housing provided, in an area of the country which is completely underdeveloped, and where the population is at a subsistence level.

The Company has now commenced to generate limited revenue, through the production of inter-crops for the local market during the period in which the mango, cashew and citrus trees are maturing.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.8 : Company "H"

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION : AUGUST 1993 TO OCTOBER 1997					
	YE DEC. 31. 93		YE DEC. 31. 94		Latest Data - (End of June 95)	
	ACTUAL	BUSINESS PLAN	ACTUAL	BUSINESS PLAN	ACTUAL	BUSINESS PLAN
1. <u>TURNOVER</u>	nil	nil	nil			55
2. <u>NUMBER OF EMPLOYEES</u>	10	nil	40		60	
3. <u>NET PROFIT/(LOSS)</u>	(166)	nil	n.a.			
4. <u>OPERATING PROFIT/(LOSS)</u>		nil	(176)			(571)
5. <u>ASSETS</u>						
i) Current	32	nil	4,806	88		
ii) Fixed	7	nil	5,762	7,963		10,482
6. <u>LIABILITIES</u>						
i) Short Term	9	nil	112	468		
ii) Medium & Long Term	145	nil	3,850	7,080		11,070
7. <u>SHAREHOLDERS EQUITY</u> <u>(DEFICIENCY)</u>	(116)	nil	6,606	503		
8. <u>LABOUR EFFICIENCY RATIOS</u>						
i) Sales Value/Employee	nil	nil	nil	nil	nil	nil
ii) Operating Profit/ Employee	nil	nil	nil	nil	nil	nil
9. <u>CAPITAL EFFICIENCY RATIOS</u>						
i) Gross Sales/Fixed Asset Value	nil	nil	nil	nil	nil	nil
ii) Net Profit/Fixed Asset Value	nil	nil	nil	nil	nil	nil
10. <u>EXPORT EARNINGS</u>						
i) Percentage	nil	nil	nil	nil	nil	nil
ii) US\$ Value	nil	nil	nil	nil	nil	nil
iii) Rate PG = US\$1	5,000		13,569		16,748	
11. <u>IMPORT SUBSTITUTION</u>						
i) Percentage	nil	nil	nil	nil	nil	nil
ii) US\$ Value	nil	nil	nil	nil	nil	nil

Sources: AMSCO files and client reports

: Audited Financial Statements for the year ended Dec.31, 1994 Auditors: Price, Waterhouse

5.9 CASE STUDY NO.9 :

1. Name : Company "I" ("the Company")
2. Location : West Africa.
3. Primary Products : Plastic products: pipes, screens and casings for tubewells, injection and blow moulded household articles, injection moulded industrial products (buckets for paint industry, etc.) and film products (i.e. shopping bags).
4. Secondary Products : Product range complemented by imported trade articles like fittings, pumps and valves.
5. Principal Shareholders : The shareholders since the privatisation in 1988/89 are:

Group Shell	37.5%
Foreign Partner	9.8%
Foreign Partner	4.2%
Foreign Partner	9.8%
IFU	21.6%
FMO	17.1%
6. Size (as at December 31, 1993)

· No. of Employees	: 80
· Annual Sales	: US\$ 2.9 million equivalent
· Fixed Asset Value	: US\$ 3.6 million equivalent
· Annual Net <u>Loss</u>	: US\$ 1.9 equivalent

7. Summary

The Company was a successful African regional Company, with good quality supportive shareholders, driven to insolvency and near-bankruptcy by a short period of severe local political and economic instability. The role of AMSCO in the recovery process has been to provide a supportive framework (in the form of MDF monies for training and supplementary technical assistance management funding from a donor) to enable the existing technical partner/ shareholder of the Company to provide the management support and training required to rehabilitate the Company.

This support has been provided through a joint venture agreement between AMSCO and the foreign technical partner, under which AMSCO has played a relatively passive role. Differences in interpretation of the relative roles has led to some friction and misunderstanding between the parties.

At the half-way stage of the AMSCO contract, the Company is on the way to regaining its market volume (in old FCFA value), and has returned to profitability for the first time since 1992. In August 1994 the Company replaced the AMSCO appointed general manager with a local senior manager, who continues to benefit from strong technical management support from the foreign technical partner. The devaluation of the FCFA in 1994 led to the doubling of the Company's foreign debts, raw material and spare part costs, putting financial pressure on the Company and reducing margins. The recovery of the Company has been assisted by the improvement in the general economic environment in West Africa resulting from the FCFA devaluation. However the main credit must go to the impact of the new management team.

The two major areas still remaining to be improved are the financial (debt) structure of the Company, and the management development programme (to supplement the effective intensive training programme already in place).

8. Brief History of the Company

Formed in 1980 as a state enterprise, with the financial assistance of IFU and a credit line from the Swiss government, the Company was partly privatised in 1985/6. It was fully privatised in 1988 with participation by IFU, FMO, two foreign technical partners.

At the time of privatisation, the Company entered three commercial contracts with two of its foreign shareholders:

- a management and technical assistance contract;
- a service contract to act as purchasing agent of raw materials, spare parts and equipment, for a commission ranging from 2.5% to 5% of FOB value. This range was increased to 10% of FOB value in a renewal of the agreement in 1993;
- an agreement for commission on sales.

In 1990 the Company was granted a three year tax exemption, and exemption from import duty and tax for raw materials and consumables (three years), and spare parts (five year commencing in 1992).

Between 1986 and 1992, the Company was technically upgraded in order to be capable to participate in international tenders, in direct competition with

European products. The cost of this technical assistance from its one of its industrial shareholder was paid for by the Company. By 1992, exports to West African markets, principally tubewells and pipe systems, represented 65% of the turnover of the Company. Most of the export business was realised in close cooperation with the foreign industrial partners of the Company.

From mid-1992 to the late 1993, the Company experienced very serious problems as a result of the political and social instability in the country: general strikes; closed borders; disappearing local market; and no banking services. As a consequence, the turnover of the Company fell from US\$4.8 million in 1992 to US\$3 million in 1993. The Company's cumulated losses wiped out its shareholders' equity by the first semester of 1993, entering a serious cash crisis and bankruptcy.

The Company lost its legal status as a result of the shareholder's deficiency. This was overcome technically at the end of 1993 by the revaluation of fixed assets, anticipating the devaluation of the FCFA. However, this did not correct the basic financial problems created by the destabilising political events in the country, and the resulting loss of revenues, profitability and cash flow.

The net losses of 1993 were increased by the write-off of bad debts and amortisation postponed from 1992. This "clean up" of the balance sheet was to make way for the revaluation of fixed assets.

As a result of the sustained financial pressure on its management, the Company experienced a deterioration of the standards and technical systems previously installed, to the point where it could not achieve the ISO 8000 standards required for international tendering. The Board of the Company determined that to correct this situation it was vital for the Company to have the benefit of experienced expatriate management for a period of not less than three years. However the Company did not have the financial resources to pay for such technical assistance.

In June 1993, AMSCO was invited by one of the foreign partners to assist in the rehabilitation management of the Company.

9. AMSCO Management Contract

A three year Management and Training Agreement between AMSCO and the Company was signed in December 1993. This was backed up by a joint venture agreement between AMSCO and one of the foreign partners for the provision of technical assistance and training services to the Company. The contracts provided for two expatriate managers (a general manager and a technical manager) and the training of three local managers. Total AMSCO management fees amount to US\$ 882,800, and a training budget of FF1.6 million (US\$183,000). No MLF participation was involved.

10. AMSCO Intervention

The AMSCO intervention commenced on February 1, 1994 with the appointment of the two expatriate managers (a general manager and a technical director).

AMSCO assisted the Company to obtain an interest-free technical assistance loan of Nfi 500,000 (US\$304,900) from FMO/IBTA to cover up to 50% of the budget for the AMSCO expatriate managers.

i) Management

The immediate priority of the new management team was to recover from the damage caused to the commercial reputation and the physical capability of the Company. To achieve this it was essential for the Company to effect a financial restructure, including new funds, and the rehabilitation of the manufacturing assets and technical workforce.

As part of the immediate refinancing of the Company, the management produced within one month of arrival a "loan profile", being a background document in support of a loan application to Caisse des Etats de l'Afrique Occidentale (CEDEAO), a regional financial institution. This loan was to be used to provide working capital for the Company and to provide funds for additional investment in machinery and equipment, and to partly retire some of the existing long term debt. The application was unsuccessful.

During 1994 the Company negotiated a rescheduling of its debt with the government, obtaining a three year moratorium on repayment to March 31, 1998. Negotiations are continuing with the objective of obtaining a total write off of the US\$765,000 debt to the government.

In October 1994 the Company also signed with the local development bank an agreement for the four year rescheduling of a US\$168,000 equivalent loan obligation.

In November 1994, the management produced a comprehensive business plan and a ten year financial forecasts for the overall rehabilitation of the Company. The plan included specific proposals in the areas of refinancing and financial restructure, personnel, maintenance and technical upgrading, and market studies of the local and export markets in the West African region.

With the assistance of one of the foreign technical partner, management identified building, machinery and equipment to be maintained and upgraded. The management prepared three investment budgets classified in accordance to the minimum, most urgent and priority of needs. The

first capital budget for 1995 identified the minimum priority of investment for 1995. The second and third budgets target the replacement and upgrading of the building, machinery and equipment.

ii) Training

The training programme at the Company was conducted primarily by one of the foreign technical partner, under terms of the joint venture agreement.

Management undertook an assessment of the human resources and the training needs of the Company and a reorganisation aimed to better work relations and communication between employees. Management also prepared a job description and responsibilities for each employee. The initial target areas for training were:

- technical and production;
- maintenance of equipment;
- management and accounting

New personnel were recruited in each of these areas, and specific training programmes developed.

A technical team from one of the foreign technical partner visited the Company in April 1995 to work with local technical employees in the evaluation of the extrusion plant and ancillary equipment. Other visits by technical experts in production and manufacturing protocols were organised with the purpose of ensuring that the Company will be able to meet the more stringent ISO 9000 Standards coming into operation in 1996 for international contracts.

The deputy general manager, a local employee, was given eight months specific training plus on-the-job experience, and took over when the expatriate general manager left in August 1994, and was confirmed as general manager in June 1995.

The initial concentration on "technical on-the-job" training has had the desired results of regaining high technical standards and the higher productivity essential for the survival of the Company as an international competitor.

Subject to the review of the AMSCO training director, the future management development programme will concentrate on general management training and team building.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.9, page 88)

i) Turnover and profitability

A modest recovery of the turnover of the Company had started in the second half of 1993, and has accelerated since the AMSCO intervention in February '94. By the end of 1994 the turnover in local currency has recovered to the 1992 level, and the first half of 1995 indicates a further improved performance for the full year at almost double the 1992 turnover, and equivalent to the 1992 turnover in US dollar value.

The two year period of substantial losses has been broken. In the first half of 1995 the Company has made an operating profit of 6.1 % and a net profit of 0.56% compared with 3.1% and 0.38% respectively in 1992. Although improved, these are still relatively low levels of profitability. The declared management target is a net profit of 1.36%

ii) Balance Sheet

Through negotiated loan terms the short term liabilities of the Company have been reduced, but still marginally exceed current assets. Substantial further work is needed on the remaining unstructured debts. As a result of the revaluation of capital assets, the fixed assets are now three-fold long term liabilities. The same revaluation also contributed towards the 50% restoration of the shareholders' equity.

iii) Labour and Capital Efficiency

As a result of the recent reduction of the overall workforce (notwithstanding record manufacturing volume), labour productivity, in terms of turnover in local currency, has more than doubled since 1992. Annual net profits have increased by US\$1,221 per employee, operating profits by US\$886 per employee.

Numeric comparison between 1992 and 1995 accounts of the capital efficiency ratios has been made invalid due to the revaluation of the capital assets. However, the substantial increase in turnover and profitability generated from the same physical assets indicate similar gains in capital efficiency to those identified for labour.

iv) Export and/or Import Substitution

The entire output of the Company is either for local household and industrial application or for export to the West Africa region (principally Benin, Niger, Ghana and Burkina Faso), and therefore qualifies as import substitution or export. The export amounted to 75%, 67%, 65% of turnover for the years 1992, '93, and '94 respectively. In the first six

months of 1995 turnover amounted to US\$2.39 million, of which 75% were in export earnings. Export Earnings for 1995 are estimated to be US\$3.6 million.

v) Technology Transfer

Originally the Company was set up with extensive technology transfer from its foreign technical shareholder. In the rehabilitation of the manufacturing processes and technical standards of the Company one of the foreign technical partner has continued to contribute heavily, principally through visiting teams of foreign experts and the training of local staff. This project is a good demonstration of comprehensive technology transfer.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.9 : Company "I"

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION: FEBRUARY 1994 TO JANUARY 1997					Latest Data
	YE	YE	6 mths end.	6 mths end.	YE	6 mths end
	Dec.31.92	Dec.31.93	June 30.94	Dec.31.94	Dec.31.94	June 30.95
1. <u>TURNOVER</u>	1,328	874	613	805	1,418	1,165
2. <u>NUMBER OF EMPLOYEES</u>	121	80	102	103	103	95
3. <u>NET PROFIT/(LOSS)</u>	5.1	(552.8)	(153.9)	(130.9)	(233)	6.6
4. <u>OPERATING PROFIT/(LOSS)</u>	40.9	(340)	(49.6)	(258.4)	(308)	71.0
5. <u>ASSETS</u>						
i) Current	954.6	877		1,332	1,332	1,397
ii) Fixed	641.6	1,042		1,551	1,551	1,543
6. <u>LIABILITIES</u>						
i) Short Term	927.9	1,399		1,949	1,949	1,935
ii) Medium & Long Term	388.7	249.5		555.7	556	556
7. <u>SHAREHOLDERS EQUITY/</u> <u>(DEFICIENCY)</u>	279.6	270.5	281.	378.1	378	449
8. <u>LABOUR EFFICIENCY RATIOS</u>						
i) Sales Value/Employee	10.975	10.621			13.767	28.516/est yr
ii) Operating Profit/ Employee	.338	(4.250)			(2.990)	1.737/est yr
9. <u>CAPITAL EFFICIENCY RATIOS</u>						
i) Gross Sales/Fixed Asset Value	207%	81%			132%	175% est/yr
ii) Net Profit/Fixed Asset Value	.8%	(53%)			0.5%	1% est/yr
10. <u>EXPORT EARNINGS</u>						
i) Percentage	75%	67%			65%	75%
ii) US\$ Value (million)	3.6	2.0			1.7	1.8
11. <u>IMPORT SUBSTITUTION</u>						
i) Percentage	25%	33%			35%	25%
ii) US\$ Value (million)	1.2	1.0			0.9	0.6

Sources: Audited Accounts -Year Ended Dec.31, 1993 and 1994

: AMSCO files and client's reports

: IFU files

5.10 CASE STUDY NO. 10 :

1. Name : Company "J" ("the Company")
2. Location : Southern Africa
3. Primary Products : Typesetting, photocomposition of printing works for overseas customers ("pre-press"), in English and French.
4. Secondary Products :-
5. Principal Shareholders: Local Company owned by local shareholders
6. Size (as at June 1994)
 - No of Employees : 53
 - Annual Sales : US\$212,333 equivalent
 - Fixed Asset Value : US\$75,280 equivalent
 - Annual Net Profit : US\$8,695 equivalent

7. Summary

At the halfway stage of the management contract it is premature to draw any final conclusions on the impact of the AMSCO intervention on the Company. However, it is already clear that the intensive training programme has had a significant effect on the underlying competitiveness and profitability of the Company and its capacity to survive in the international I.T. market.

AMSCO intervention has also enabled the Company group to obtain other financial support:

- an FMO interest free loan of Nfl 125,000 to meet 50% of the cost of the technical manager;
- a loan for capital investment in an associated company in a neighbouring country;
- the conversion of excess overdraft facility into a medium term loan;
- the increase of the overdraft facility to provide further working capital for the increased volume of business;
- an additional loan from the local development bank to finance further acquisition of new equipment; and
- a FF 300,000 term loan from PROPARCO to finance capital expenditure in the associated operation.

The stabilisation and strengthening of the management team has enabled the Company to develop into more sophisticated pre-press activities, such as

colour processing. The Company is presently forming a joint venture, with four French companies in the high-technology end of the business, to give it access to a wider and more technically sophisticated pre-press market.

The operating loss of US\$44,500 sustained in the first six months of 1995, due to the breakdown of the film processor, should not be allowed to mask the improvement in the basic technical resources and competitive capacity of the Company.

Within the past year the Company has transferred 52 jobs to a neighbouring country and upgraded the skills in a reduced local workforce. It is an outstanding example of an enterprise in Africa successfully competing internationally in one of the most rapidly developing high-tech international markets.

8. Brief History of the Company

The Company was started in January 1989, promoted within the local export zone. Its founder shareholders included the main printing companies of the country, their intention being to jointly develop the export market. After a series of failures the Company was taken over by the current owners in September 1990. One of the new owners had relevant experience in an editing company in Paris. With a set up of 45 Apple and Macintosh computers, the Company was at that time able to process manuscript text for French and U.K. publishers.

To take advantage of the extraordinary pace of technological change which is revolutionising the pre-press and printing industries, it is vital that the Company develop into the more sophisticated typesetting services of mathematics, scientific text, and children's book, using modular system software. This requires higher skills of desk top publishing ("DTP") staff.

The problem faced by the Company was that if it remained primarily at the simple stage of pre-press electronic technology, DTP, which is labour intensive, it would fairly rapidly become uncompetitive, due to lower labour costs in Asia, North Africa and elsewhere. To maintain its position the Company has to develop towards the technically sophisticated end of the market. Initially this would involve producing graphs and special layouts, moving to colour processing, and eventually to full integration with information technology.

The solution proposed by the Company was to upgrade the skills of its workforce, through training and management organisation, and to locate (and if necessary relocate) its lower skill operations to lower labour cost markets. However, this inevitably would involve intensive training by "industrialised world" technicians, at "industrialised world" costs, to train people whose typography products could only be charged out (invoiced) at

"emerging world" rates. The Company did not have the resources to undertake such a programme.

On the recommendation of the local export development association the Company contacted AMSCO in September 1993.

9. AMSCO Management Contract

On December 8, 1993, AMSCO and the Company signed a Technical Management and Training Agreement for the period May 1994 to May 1996. The total AMSCO management fee was FF 800,000 (US\$168,000), and a training budget of Nfl 125,000 (US\$76,220) (of which the Company would meet 25%). There was no participation in MLF. AMSCO also assisted in obtaining a technical assistance grant of Nfl 125,000 (US\$76,220.) from FMO/IBTA to meet up to 50% of the budget for the expatriate technical manager.

10. AMSCO Intervention

The solution agreed with AMSCO was to provide the Company with a technical manager, specialist in the more complex aspects of electronic pre-press production. The manager's responsibilities would be to manage production and the development/training of the local workforce, both technically and in the management of production assignments. The technical manager was recruited by the Company from one of its customers in Paris.

i) Management

The technical manager took up his position in the Company in June 1994. In August 1994 the Company initiated its programme to move the text keying operation to an associate company in a neighbouring low labour cost country. By January 1995, the transfer of 50 personal computers ("Apple MacIntosh") was completed and this satellite operation is now responsible for all text key-in operations. All formatting, administration and commercial operations remained in the home country. The manager of the satellite operation was previously the head of the keying department in headquarters.

To meet the increased volume of business and guarantee continuity of service the satellite operation is now being expanded to 70 work stations, and the installation of a stand-by generator. This development is being funded by a loan of FF 300,000 from PROPARCO, the private sector arm of the Caisse Française de Développement. The economics of the satellite operation were substantially improved by a 50% devaluation of the local currency in July 1994.

In October 1994, the Company set up an office in Paris, to strengthen the marketing efforts and provide a better and more efficient service to

customers. Contacts were established with major publishers in Germany and the U.K., as sources of future business.

In January 1995 the Company commenced the re-engineering of its control production process to build a corporate structure that could flexibly respond to developments in the pre-press business environment, which is changing very rapidly. In addition to the transfer of the data capture operation to a satellite this programme involved the re-organisation and enlargement of the page-setting department to cope with the additional volume, and the transfer of this operation to a location where ISDN telecommunication facilities were available. This system allows the transfer of data at high speed and relatively low cost per minute.

In February 1995 the technical manager was terminated by AMSCO at the request of the Company. The reasons for this were that the requirements of the Company had changed, requiring a higher technical expertise in the business. In addition, although hard working and technically capable, the manager was not able to plan or prioritise his work, and had not integrated well into the Company team. It was acknowledged by the Company that part of the problem was the lack of care on their part in the introduction of the new manager to the Company.

The replacement technical manager was recruited and selected jointly by AMSCO and the Company, and took up her duties on July 1, 1995. Her background was technical, with substantial experience in DTP. Within the first month of joining the Company she had produced a report outlining the on-going management development and training programme.

With the technical management support the Company is now preparing to move into colour processing in order to broaden its customer base, and to provide a more comprehensive, higher added-value service.

ii) Training

A thorough training programme for selected staff was designed jointly by AMSCO and the Company, and commenced in December 1994. Intensive courses on commonly used software (such as Quark, Xpress, Illustrator and Photoshop) were given, and the programme included training in more general areas such as typography and the environment and peripherals of the computer hardware.

The object of the training programme was to build up the theoretical and practical knowledge of the staff in head office on the software and computers used by the Company, to improve utilisation. The programme was popular with the staff and the result was a marked improvement in efficiency.

To further upgrade the staff, and to involve them in the planning and design of the layout of work projects a "bureau d'étude" was formed, to organise the preparation of production prior to being passed on for execution. Each member of the staff will, on a rotational basis, be a member of the bureau, which will consist of two staff members under the supervision of the technical manager. This is proving to be a very good development tool for the entire layout staff.

The presence of the technical manager also released the workshop production manager to undertake a five week training course in France, to work with clients and potential clients to get an understanding of their requirements.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.10, page 95)

i) Turnover and profitability

In the first twelve months of AMSCO intervention the turnover of the Company has increased by 22% over the previous twelve month period. This was achieved despite fierce competition from lower labour rate international operators. Sales were also affected adversely by a breakdown of the film processor in early 1995.

The "outage" of the film processor was the result of the failure of the local agent to provide an adequate maintenance and repair service. This led to the Company turning away business involving the film processor, and sub-contracting to a (high cost) European Company work of US\$36,000 value in order to fulfil commitments already accepted. This has contributed to an exceptional loss of US\$44,500 in the first half of 1995.

ii) Balance Sheet

As a result of AMSCO intervention the Company has been able to raise loan capital to make a substantial increase (almost 150%) in its fixed asset base.

The liquidity of the Company has also improved, from a current asset/current liability ratio of 1:1.06 to 1:1.96. The value of the shareholders' equity has also increased by 42.7% to US\$97,000.

iii) Labour and Capital Efficiency

Profitability ratios of both labour and capital have been adversely affected by the equipment breakdown during the past six months.

Labour productivity in terms of turnover per employee has increased over the twelve month period, by 20%, but both net and operating profits per annum per employee have dropped, marginally. The benefits of the heavy investment made by the Company over the

past several months have not yet had time to influence capital productivity.

iv) Export and/or Import Substitution

The output of the Company is entirely for export. Despite the serious "once-off" problem of the film processor, foreign earnings have increased by 22% over the previous twelve months, to US\$462,763.

v) Technology Transfer

The origin of the Company is the concept of the wholesale transfer of DTP technology to the low labour cost environment of southern Africa. To maintain its market position in this rapidly developing technology it is essential for the Company to continue this technology transfer. The AMSCO intervention, in the form of providing a technical manager, is a vital contribution to this process.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE 4.10 : Company "J"

(Financial Performance Figures - expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION : MAY 1994 TO MAY 1996				Latest Data
	6 mths end.	YE	6 mths end.	YE	6 mths end.
	Dec.31.93	Dec.31.93	June 30,94	Dec.31.94	June 30,95
1. <u>TURNOVER</u>	2.533	5.934	4.231	8.094	4,277
2. <u>NUMBER OF EMPLOYEES</u>	52	52	52	53	64
3. <u>NET PROFIT/(LOSS)</u>	.103		.246	.217	(.979)
4. <u>OPERATING PROFIT/(LOSS)</u>	.103		.312	.301	(.776)
5. <u>ASSETS</u>					
i) Current	2.745	2.745	3.090	4.459	4.694
ii) Fixed	2.149	2.149	1.438	2.884	3.462
6. <u>LIABILITIES</u>					
i) Short Term	2.596	2.596	2.141	3.502	2.397
ii) Medium & Long Term	.950	.950	1.123	2,356	4.050
7. <u>SHAREHOLDERS EQUITY</u> <u>(DEFICIENCY)</u>	1.348	1.348	1.197	1.485	1.708
8. <u>LABOUR EFFICIENCY RATIOS</u>					
i) Sales Value/Employee	.048	.114	.081	.152	.67
ii) Operating Profit/ Employee	.002	.001	.006	.006	(.012)
9. <u>CAPITAL EFFICIENCY RATIOS</u>					
i) Gross Sales/Fixed Asset Value	118%	276%	294%	281%	123%
ii) Net Profit/Fixed Asset Value	4.8%	4.8%	17%	8%	28%
10. <u>EXPORT EARNINGS</u>					
i) Percentage	100%	100%	100%	100%	100%
ii) US\$ Value					
11. <u>IMPORT SUBSTITUTION</u> <u>(US\$ VALUE)</u>	nil	nil	nil	nil	nil

Sources: Client's management accounts for the 6 month period ended Dec.31,93, June 94, Dec.94 and June 95

: Audited Financial Statements for the year ended December 31, 1994

: AMSCO files

: Discussions with Client Principal

5.11 CASE STUDY NO. 11:

1. Name : Company "K" ("the Company")
2. Location : West Africa
3. Primary Products : Hotel (74 rooms)
4. Secondary Products : -
5. Principal Shareholder : Local investment Company 100%
6. Size (as at March 1994)
 - No. of Employees : 89 employees
 - Annual Sales : Not applicable - Start Up
 - Investment Value : US\$3.35 million equivalent
 - Annual Net Profit : Not applicable - Start Up

7. Summary

The full economic impact of the AMSCO intervention in the Company will not be clear until the full two year contract period is completed. However, the basic groundwork for the future success of the project has been completed, and the results of the first seven months of full operation are significantly better than the targets of the original business plan. They are also better than the more ambitious revised budget formulated in February, just prior to opening. Average occupancy rates are 33% higher and gross revenue and operating profitability 50% higher than the revised business plan. The achievement of the high standards of efficiency and performance are in large part due to the competence of the AMSCO manager and the comprehensive pre-start up and on-going training programme provided to the hotel management and staff, under the AMSCO contract.

8. Brief History of the Company

The hotel was constructed in 1952, in a neo-colonial style. It was nationalised in the early 1980's and was operated by the government for the next ten years, unprofitably. In 1993 the decision was made to privatise, through the sale of the assets. In anticipation of the sale the government closed the hotel and laid-off all of the employees.

Prior to the announcement of privatisation the principal had considered the possibility of building an hotel in the capital city, and APDF had collaborated in the preparation of a feasibility study.

The public tender for the hotel took place in December 1993 and the principal was assisted by APDF in the preparation of his bid. APDF prepared a full feasibility study for the rehabilitation of the hotel, based on the earlier study, approached the African Enterprise Fund for rehabilitation finance, and AEF referred the Company to AMSCO. The government accepted the bid by the principal through the Company, in March 1994.

The feasibility study indicated a requirement of FF10.75 million for the rehabilitation of the Hotel to a "three star" international standard. Commitments were secured for a FF 5 million loan from AEF, and a similar loan amount from local banks.

The total investment involved was FF 16.75 millions.

9. AMSCO Management Contract

An AMSCO Management and Training contract for the period September 1994 to September 1996 was signed on September 8th, 1994. It provided for total AMSCO management fees of US\$223,650 (for a general manager), and a training budget of Nfl 90,000 (US\$58,878), of which the Company would contribute 25%.

10. AMSCO Intervention

Management and Training

From an extensive list of candidates prepared by a French consultant AMSCO short-listed two, which were presented to the owners with a specific recommendation. The owner accepted the recommendation and the general manager took up his post in September 1994.

AMSCO provided a consultant to work with the general manager in the preparation of a recruitment and training programme for both the specialist managers (front desk, head chef, personnel, etc...) and the general staff of the hotel.

The managers were recruited in November 1994 and AMSCO retained a consultant to assist the hotel manager in the initial training over a two month period.

In January the remainder of the staff were recruited (82 persons), and a two month training programme was undertaken by each of the departmental managers. The cost of this, and the early induction training of the managers was met 75% by MDF.

The programme of physical rehabilitation of the interior of the hotel, which had commenced in May 1994, was completed on schedule by the end of February 1995, and the hotel was opened on a "staff-in-training" basis on March 1. The official opening of the hotel took place at the end of March.

The total cost of the rehabilitation was 10% over the original budget due to changes in specifications (to improve the final product) being introduced by the owners during the construction programme. The final cost of rehabilitation was FF 11.75 million. The additional funds were provided by the owners.

The performance of the hotel since opening has been substantially above the business plan forecasts. The estimated turnover as at December 31, 1995 is FF 8.30 million compared with a Business Plan projections of FF 6.04 million.

11. Summary of Economic Impact of AMSCO
(refer to Table 4.11, page 100)

i) Turnover and profitability

As at September 30, 1995, the turnover for the first 7 months of operation was FF 5.79 m - vs - budget FF 4.04 m (43% over budget).

The gross margin during the same period was FF 4.28 m - vs - budget FF 2.36 m (81% over budget). The operating profit was FF 2.89 m - vs - budget FF 1.47m (97% over budget).

ii) Balance Sheet

No specific balance sheet information is available. The Company is currently in the process of preparing the accounts for the first seven months of operation (to September 30, 1995).

iii) Labour and Capital Efficiency

Labour efficiency, in terms of gross revenue per employee, is 60% higher than forecast in the business plan, and 50% higher in terms of operating profitability per employee (which is US\$3,469 per employee) than business plan for the first seven months of operation.

Capital efficiency ratios cannot be calculated without reliable balance sheet figures, but despite a capital investment cost overrun of 10%, it can be reasonably estimated that the capital efficiency will be 40% greater than revised business plan, in terms of turnover and net profitability.

iv) Export and/or Import Substitution

A high proportion of the guests at the Hotel are visitors to the country. Data from the guests register indicates that 85% were foreign, of which

54% were from Europe and North America. This suggest that foreign earnings in the first seven months of operation were US\$960,000 and it will be of the order of US\$1.445 million at December 31, 1995

v) Technology Transfer

The principal of Company has no previous experience in hotel management, and this was a major reason for seeking AMSCO intervention. The appointment of the AMSCO manager, an experienced hotelier, provided the transfer of the technical know-how necessary to establish a first class hotel operation.

SUMMARY OF FINANCIAL PERFORMANCE DURING PERIOD OF AMSCO INTERVENTION

TABLE A.11: Company "K"

	PRE-INVESTMENT		POST-INVESTMENT		PERIOD OF AMSCO INTERVENTION: SEPTEMBER 1994 TO SEPTEMBER 1996		7 month period ending													
	YE	Dec 31 94	YE	Dec 31 94	Mar 31 95	Apr 30 95	May 31 95	June 30 95	July 31 95	Aug 31 95	Sept 30 95	Sept 30 95								
	Actual	Budget	Actual	Budget	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual								
1. TURNOVER Occupancy rate		52	52.5	55%	68.2	73.8	98.8	70.5	45.8	81.3	80.1	47.3	77.4	57.4	403.8	77.5%	80%	55.3%		
2. NUMBER OF EMPLOYEES	89		89								84			80						
3. NET PROFIT/(LOSS)	126		126																	
4. OPERATING PROFIT/(LOSS)			26	16	33.6	27.3	49	27	13.8	45.3	15.2	15.2	47.2	20.3	147					
5. ASSETS i) Current ii) Fixed	627 408		918 1,503																	
6. LIABILITIES i) Short Term ii) Medium & Long Term	385 206		626 1,111																	
7. SHAREHOLDERS EQUITY [DEFICIENCY]	456		808																	
8. LABOUR EFFICIENCY RATIOS i) Sales Value/Employee ii) Profit/Employee (calculated on monthly basis)																				
9. CAPITAL EFFICIENCY RATIOS i) Gross Sales/Fixed Asset ii) Net Profit/Fixed Asset Value (calculated on monthly basis)																				
10. EXPORT EARNINGS i) Percentage ii) US\$ Value ('000)																		85%	960	
11. IMPORT SUBSTITUTION i) Percentage ii) US\$ Value																			nil	nil

Sources: AMSCO files and Client reports
 1. APD Project Document, March 1994
 2. Budget Forecast, February 1995
 3. Discussions with Client Principal

Annex 1 Financial Leverage Benefits of AMSCO Intervention

AMSCO intervention in an enterprise provides the management credibility and stability to encourage financial participation of investors, donors, and/or commercial banks in the recovery and/or growth process of the enterprise.

This secondary but important aspect of the positive impact of AMSCO on its clients is well illustrated in ten of the eleven selected cases (refer to Table 5, page 102):

- four of the companies received a total of US\$1.56 million additional equity subscriptions, an average of US\$ 388,950 per company;
- four of the companies obtained a total of US\$10.2 million additional loan funds, an average of US\$2.6 million per companies;
- seven of the companies received a total of US\$4.8 million grants or soft loans - technical assistance, an average (over ten companies) of US\$680,000 per company

The additional funding (in the form of equity, loans and grants) "leveraged" as a result of the confidence in the management of the company arising from the AMSCO intervention amounted to an average of US\$ 1.65 million per company .

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TABLE 5: ADDITIONAL FUNDING OF CLIENTS OBTAINED DURING AMSCO INTERVENTION PERIOD (US\$)

Clients	EQUITY	COMMERCIAL LOAN	GRANT / SOFT LOAN	SUB-TOTAL	DETAILS:	SOURCES
Company A (privatised)	nil	US\$1,087,000 US\$ 190,000	nil	US\$1,277,000	Credit lines	Commercial Bank MLF
Company B	US\$1,100,000	nil	nil	US\$1,100,000	Equity subscription	Principals
Company C (privatised)	nil	nil US\$6,284,000	US\$100,000 (estimate) US\$1,468,300 US\$50,000 (estimated) US\$100,000 (estimated) US\$664,500	US\$8,666,800	TA for Management Expenses Stabex Grant for Plant TA for Management Expenses TA for Prospectus Preparation Debt Forgiveness Crop Finance	Swiss Govt. EC Swiss Govt. USAID Government/IMF approved Commercial Bank
Company D	nil	nil	US\$42,700 US\$122,000	US\$164,700	TA for Business Plan Preparation TA for Management Expenses	FMO FMO
Company E	nil	nil	nil		n.a.	n.a.
Company F	nil	nil	US\$173,200	US\$173,200	TA for Management Expenses	FMO
Company G	nil	nil	US\$19,900 US\$131,580 US\$201,200 US\$1,100,000	US\$1,452,680	TA for Management Expenses TA for Expert Intervention TA for Management Expenses 75% Discount on Current Liabilities, Medium & Long Term Loans & Equity	FMO CFD FMO Financial Institutions
Company H	US\$75,000	US\$1,250,000 US\$1,250,000	US\$122,000 US\$81,400	US\$2,778,400	Equity Loan TA for Management Expenses Soft Loans for Management Expenses Loan	IFC Banco de Formento FMO FMO Banco de Formento
Company I	nil		US\$304,900	US\$304,900	Soft Loans for Management	FMO
Company J		US\$27,900 US\$55,800 US\$16,750 US\$52,630 US\$55,800	US\$76,200	US\$285,080	Soft Loans for Management Loan for capital equipment Conversion of overdraft to long term loan Loan Term Loan for equipment Equity	FMO Commercial Bank Commercial Bank Development Bank PROPARCO Principals
Company K	US\$325,000	nil	nil	US\$325,000	Additional Equity	Principals
TOTAL	US\$1,555,800	US\$10,214,080	US\$4,757,880	US\$16,527,760	---	---

NORMAN INTERNATIONAL
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AMSCo Impact Study, 1998

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Annexes:

- A. Schedule of Clients, AMSCO, 1989 – 1998, with extensive key data
- B. Eleven Summary Case Studies Relating to the Sustainability of AMSCO Impact
- C. Specific Examples of Failure of AMSCO Intervention

Section 1. Executive Summary

i) Purpose and Method

- 1.1 The purpose of the study is to evaluate and where possible to quantify the impact of AMSCO intervention on the financial and human resource development of its client enterprises.
- 1.2 The study commences with a review of the entire AMSCO portfolio of clients, its geographic and sectoral distribution, and the sources and application of donor funding made available to clients from the UNDP / ATMS project and other sources. The overhead and headquarters staff expenses per client are examined, as well as the quality of the management services offered by AMSCO.
- 1.3 Case studies have been prepared for all those clients where information was made available, a total of 90 studies. Since inauguration in April 1989 AMSCO has entered management services contracts with 126 companies, of which 31 have been signed after December 31, 1996, making 95 clients suitable for the study of the impact of AMSCO intervention.

ii) Scope of the Study

- 1.4 Each of the case studies includes a brief history of the company and specific details of the form of the training and management development programmes introduced to the client. Where available the studies quantify the changes in key financial and technical performance variables of the client during the period of AMSCO intervention.
- 1.5 Based on the information contained in the case studies five separate analysis are presented:
- The regional differences in client performance during AMSCO interventions;
 - The financial performance of 37 clients during successful AMSCO interventions;
 - The "sustainability" of AMSCO impact in the post-contract performance of the companies reported in the 1995 AMSCO Impact Study: Eleven Selected Cases;
 - The reasons for the failure of AMSCO interventions in 25 companies;
 - The volume, cost and range of the training and management development programmes provided by AMSCO to its client companies over the period 1989-1997.

iii) AMSCO Portfolio

- 1.6 The outstanding impression from the review of the AMSCO portfolio over the nine year period since inauguration is of a dynamic development, constantly adjusting to meet the changes in conditions in the market place and the resources available. The rate of growth of the portfolio over the past four years has been remarkable, demonstrating a flexibility to meet changing conditions.

This has enabled the company to build up a substantial volume of “work in progress”. The reduction of unit costs during the same period is a major step towards AMSCO reaching financial break even.

1.7 The review of the development of the AMSCO portfolio raises three concerns for the future:

- That donors provide sufficient funds for management support to enable AMSCO to maintain a high percentage of SME’s in its future portfolio;
- That donors provide sufficient funds to the MDF to ensure that AMSCO can meet its contractual obligations to provide a proportion of the costs of training and management development programmes;
- That the “hidden costs” of the very large recent increase in the portfolio, in terms of a reduction of the ability of AMSCO to deliver high quality management services to its clients be fully addressed.

iv) **Regional Comparison**

1.8 Financial data were made available for only three AMSCO clients in East Africa. These are insufficient to be treated as representative.

1.9 The differences in the performance of the AMSCO portfolio of clients in West and Southern Africa were analysed, and found to be principally due to two factors:

- The macro-economic environments in which the clients were operating; and
- The different financial structure and market orientation of the individual clients in each region.

1.10 Many of the AMSCO clients in West Africa, particularly those in the FCFA zone, suffered the general economic downturn experienced by the region in the early 1990’s. For some clients this was compounded by currency devaluation and exposure to increased foreign competition. The capitalisation of many of the clients was weak, and their products aimed only at a local market.

1.11 The strength of the Southern Africa portfolio lies in the large export-oriented clients in Mauritius and Madagascar, a very successful financial service enterprise in Zimbabwe and an export zone management company in Namibia. The basis for success was pro-active government support, combined with focused market targets, strong balance sheets and senior management awareness of the vital importance of a well trained workforce.

v) **Financial Impact**

1.12 The analysis indicates that AMSCO has been a cost-effective vehicle, in term of cost / benefit results on donor-provided funds.

1.13 The benefit to clients is also demonstrated. The average net profit improvement of US\$568,000 in 22 months represent a 240% return on the net cost to the clients of the AMSCO management teams (after donor funding

provision). Clients would benefit further from the improved condition of the management of the companies after the AMSCO intervention.

1.14 Without donor funding support the analysis is significantly different. Typically, the costs of the AMSCO managers are substantially more than the increased company earnings they will achieve during the first year of intervention. This short term additional cash requirement is beyond the resources of many companies, particularly SME's. It is for this reason that donors should restore a reasonable level of funding to assist smaller companies to meet the immediate costs of AMSCO management teams.

1.15 In view of the increased demand for AMSCO services, and the demonstrable financial benefit to its clients, AMSCO should require performance-related bonus provisions in its contracts. This would enable AMSCO to provide financial incentives to all field managers, and a contribution to both the MDF and the AMSCO "bottom line".

vi) **"Sustainability"**

1.16 The 1995 report AMSCO Impact Study: Eleven Selected Cases examined the financial impact of the intervention of AMSCO in eleven selected clients. These companies were revisited to determine how they had fared since the completion of the AMSCO intervention

1.17 The individual case studies describe the factors which affected the development of each of the eleven companies since the end of the AMSCO contract. All except one have developed financially and commercially. In addition, training continues to be an important function.

1.18 Financial data are available for seven of these companies. Overall performance has continued to improve steadily since the end of the AMSCO interventions. Average turnover has increased by US\$1.4 million (22%); operating and net profits by US\$159,000 and US\$31,000 respectively; shareholders equity has increased by 12%; and liquidity ratios by 28%. Exports have doubled in value, in US dollars. In local currency these improvements are even greater.

1.19 These achievements are particularly credible in view of the fact that several of the companies faced increasing competition from foreign imports as a result of trade liberalisation policies, as well as adverse local economic conditions. All of the companies were in financial and / or managerial distress at the time of the commencement of the AMSCO intervention, and their ongoing success must in part be due to the improvements introduced during that intervention. This review indicates that the impact of AMSCO on its clients is sustainable.

vii) **AMSCO "Failures"**

1.20 It is recommended that to reduce the incidence of failure of its contracts AMSCO should:

- improve the quality and thoroughness of pre-contract client diagnosis and pre-contract negotiations with clients;

- establish an effective post-contract monitoring and support mechanism; and
- broaden the base of its manager recruiting efforts in Africa and the Far East to help to reduce the high cost of management.

1.21 It is recognised that these recommendations would involve additional staff, and would be most effectively implemented on a regional basis, through offices in Africa.

viii) **Training and Management Development**

1.22 In 1994 AMSCO made a significant change in its approach to the form of management development and training programmes appropriate for its clients. The new policy, aimed at creating a broadly-based "training culture" within client enterprises, involved development of new types of training event and trainer.

1.23 This development is still underway. Analysis indicates that progress has been achieved in extending the range of courses to the specific requirements of clients, increasing substantially the number of trainees and reducing significantly the unit costs of training events. AMSCO has also organised a series of regional and international workshops, seminars and conferences that provide valuable development and networking opportunities to its clients. This fulfils an important objective of the original project proposal.

1.24 In addition to meeting client training requirements more closely and reducing the unit costs of training events, AMSCO has achieved a control of the overhead expenses incurred in the administration of the MDF.

ix) **Summary and Conclusions**

1.25 **Management Services**

- AMSCO has had a positive impact on the financial performance of a high proportion of its clients (approximately two thirds of the 90 clients studied);
- AMSCO has grown almost exponentially in recent years, with no increase of the human resources available to supervise the portfolio. This has led to a deterioration in some of the services of the company, in particular pre-contract diagnosis and client monitoring.
- Since early 1997, the lack of funding to assist client companies to meet the expenses of AMSCO field managers has limited the possibility of smaller companies using AMSCO services.
- The lack of information in AMSCO headquarters on the condition and performance of many AMSCO clients, including some current interventions, indicates inadequate contact and monitoring by the AMSCO operations department.
- The "failure" rate of AMSCO interventions, although within the limits of the original project proposal, could be reduced by more effective pre-contract diagnosis and post-contract monitoring.

provision). Clients would benefit further from the improved condition of the management of the companies after the AMSCO intervention.

1.14 Without donor funding support the analysis is significantly different. Typically, the costs of the AMSCO managers are substantially more than the increased company earnings they will achieve during the first year of intervention. This short term additional cash requirement is beyond the resources of many companies, particularly SME's. It is for this reason that donors should restore a reasonable level of funding to assist smaller companies to meet the immediate costs of AMSCO management teams.

1.15 In view of the increased demand for AMSCO services, and the demonstrable financial benefit to its clients, AMSCO should require performance-related bonus provisions in its contracts. This would enable AMSCO to provide financial incentives to all field managers, and a contribution to both the MDF and the AMSCO "bottom line".

vi) **"Sustainability"**

1.16 The 1995 report AMSCO Impact Study: Eleven Selected Cases examined the financial impact of the intervention of AMSCO in eleven selected clients. These companies were revisited to determine how they had fared since the completion of the AMSCO intervention

1.17 The individual case studies describe the factors which affected the development of each of the eleven companies since the end of the AMSCO contract. All except one have developed financially and commercially. In addition, training continues to be an important function.

1.18 Financial data are available for seven of these companies. Overall performance has continued to improve steadily since the end of the AMSCO interventions. Average turnover has increased by US\$1.4 million (22%); operating and net profits by US\$159,000 and US\$31,000 respectively; shareholders equity has increased by 12%; and liquidity ratios by 28%. Exports have doubled in value, in US dollars. In local currency these improvements are even greater.

1.19 These achievements are particularly credible in view of the fact that several of the companies faced increasing competition from foreign imports as a result of trade liberalisation policies, as well as adverse local economic conditions. All of the companies were in financial and / or managerial distress at the time of the commencement of the AMSCO intervention, and their ongoing success must in part be due to the improvements introduced during that intervention. This review indicates that the impact of AMSCO on its clients is sustainable.

vii) **AMSCO "Failures"**

1.20 It is recommended that to reduce the incidence of failure of its contracts AMSCO should:

- improve the quality and thoroughness of pre-contract client diagnosis and pre-contract negotiations with clients;

- establish an effective post-contract monitoring and support mechanism; and
- broaden the base of its manager recruiting efforts in Africa and the Far East to help to reduce the high cost of management.

1.21 It is recognised that these recommendations would involve additional staff, and would be most effectively implemented on a regional basis, through offices in Africa.

viii) **Training and Management Development**

1.22 In 1994 AMSCO made a significant change in its approach to the form of management development and training programmes appropriate for its clients. The new policy, aimed at creating a broadly-based "training culture" within client enterprises, involved development of new types of training event and trainer.

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- Since early 1997, the lack of funding to assist client companies to meet the expenses of AMSCO field managers has limited the possibility of smaller companies using AMSCO services.
- The lack of information in AMSCO headquarters on the condition and performance of many AMSCO clients, including some current interventions, indicates inadequate contact and monitoring by the AMSCO operations department.
- The "failure" rate of AMSCO interventions, although within the limits of the original project proposal, could be reduced by more effective pre-contract diagnosis and post-contract monitoring.

- The programme overload, concentration of effort on acquiring new clients, and the physical remoteness of the AMSCO operating staff in Amsterdam are inhibitions to effective contact and communication with clients and field managers.
- Since 1995 few of the AMSCO management services contracts contained provisions for a performance-related bonus, despite the increasing demand for AMSCO services.

1.26

Training and Management Development Services

- The management development function of AMSCO has been successfully re-oriented, and is now offering a wide range of in-house and external training courses, workshops, seminars and conferences.
- Unit costs of the training and management development events provided through AMSCO have been very substantially reduced, and AMSCO administration expenses are now at an acceptable level.
- The lack of integration between the AMSCO operations and development departments is damaging the efficiency of client monitoring and the benefit of shared information and experience.
- AMSCO has built up considerable forward contractual commitments for the supply of management services to the 63 clients now under active contract. Currently there are not sufficient guaranteed donor contributions to the MDF to meet all of the AMSCO obligations to training and management development costs required under these contracts.

x)

Recommendations

1.27

The main recommendations of the study are:

- For AMSCO to continue to provide financial support for the costs of management services to SME clients, and to contribute financially to the management development programmes of all clients it is essential to obtain commitments from donors sufficient to cover fully all forward contractual obligations of AMSCO.
- AMSCO should require the inclusion of performance-related bonus provisions in its contracts. Earnings from such provisions would enable the company to provide financial incentives to field managers, and to contribute to the MDF and the AMSCO "bottom line".
- To help reduce the incidence of AMSCO failures resulting from inadequate pre-contract assessment it is recommended that AMSCO:
 - i) prepare target profiles for potential clients to fit the current marketing policy of the company, as agreed by the Board;
 - ii) prepare a standard outline form of diagnosis, covering all of the essential issues and covenants to be covered in the initial assessment of a prospective client;
 - iii) strengthen the existing procedures for "peer group" review of proposals to proceed to negotiation of a management service agreement, and for the subsequent review of the agreements to be presented to senior management for approval.

- To help reduce the incidence of AMSCO failure resulting from inadequate monitoring and support of the clients and field managers during the course of the intervention it is recommended that AMSCO:
 - i) ensure that all field managers comply with the requirement in their employment contracts to produce within 90 days of taking up the field appointment a business plan or technical performance schedule (as appropriate), for discussion and agreement with AMSCO and the client Board ;
 - ii) include in every client agreement and field manager employment contract a provision for the submission to AMSCO of regular summary reports on the financial and technical performance of the client, combining comparison with business plan and details of any exceptional matters arising;
 - iii) install and maintain a system for recording and analysing the critical financial and technical performance of clients, for regular management monitoring reports.

- To improve its efficiency, it is recommended that AMSCO:
 - i) restructure the management of AMSCO (as proposed in the 1997 Strategic Plan) to integrate more closely the three main departments (operations, management development, and finance / administration);
 - ii) establish, where cost effective, regional offices in Africa, staffed sufficiently to be responsible for direct contact with prospective clients, active clients and field managers, and to be the front-line contact point with regional stakeholders in the ATMS / AMSCO project (i.e. UNDP, government, donor representatives, local banks, training institutes, etc.);
 - iii) organise in-house training for both operations and development department staff in report-writing, financial analysis, contract negotiation, and communication skills;
 - iv) strengthen the concept that the responsibility of every staff member is to improve the AMSCO overall “process” of assisting clients to achieve international standards of performance and competition. Staff must understand that “success” is a successful client, not a contract signed or a training programme completed. Group consultation at critical stages of a client relationship should be the norm, and staff rotation between departments should be considered.

Section 2. Introduction

i) Purpose of the Study

2.1 The purpose of the study is to evaluate and where possible to quantify the impact of AMSCO intervention on both the financial well-being and the human resource development of its client enterprises, across its entire portfolio of clients.

ii) Definitions

2.2 The primary criteria used to measure the financial impact on individual clients are changes in their financial and operational performance during and (where available) after the period of AMSCO intervention.

2.3 The main parameters used to evaluate the financial impact of the AMSCO intervention are:

- Turnover;
- Number of employees;
- Net profit;
- Operating profit;
- Assets;
- Liabilities;
- Shareholders' equity;
- Labour efficiency ratios;
on turnover;
on operating profits;
- Capital efficiency ratios;
on turnover;
on net profits;
- Liquidity ratios;
on current assets/liabilities;
on total assets/liabilities;
- Export earnings;
- Import substitution; and
- Technology transfer.

2.4 Data on some of these functions were not available (or necessary relevant) for some client enterprises. However, sufficient adequate data were available to enable a clear analysis to be made of the financial impact of the AMSCO intervention across the portfolio.

2.5 The impact of AMSCO intervention on the human resource development culture of the client enterprises is measured by the number and range of staff / employee training courses and management development programmes in which the managers and staff of clients participated.

- 2.6 The “sustainability” of the AMSCO impact after the termination of AMSCO intervention is evaluated by follow-up studies of the eleven selected companies included in the 1995 report “AMSCO Impact Study: Eleven Selected Cases”. These follow-up studies apply the same criteria as those used for the study.
- iii) **Case Studies**
- 2.7 The primary analysis of each enterprise in the AMSCO portfolio is presented in the form of a case study. The main sources of data for these studies were the annual reports, financial statements, management accounts, operating reports, and training programmes of the relevant companies. These data have been supplemented extensively from business plans, training evaluation reports, technical assessments and correspondence, plus direct discussions with client companies’ executives and principals. Annex D, containing copies of all of the case studies (and which therefore contains sensitive confidential information on individual companies), is held by AMSCO and available for review on request.
- 2.8 To provide the context in which each intervention took place, the case studies also provide a brief history of each company and a fairly detailed summary of the management and training intervention that has been provided to each of the clients.
- 2.9 95 clients qualified for this study (contracts entered prior to January 1, 1997). Each of these has been “graded”, the grade being based on the financial and technical performance of the company during the period of AMSCO intervention, the depth and success of the training programme, and anecdotal information available in management reports and independent evaluations of the company. The grades range from “A” – very successful; “B” successful; “C” – adequate; “D” less than adequate; to “E” failure

Table I: AMSCO Portfolio, 1989 – 1998
Graded by Performance

Client Category	Number of Clients
Total AMSCO (contracts, 1989-1998)	126
Post 31.12.1996 contracts (not qualified for study)	31
Clients qualified for study	95
“Adequate”, “Successful” and “Very Successful” Interventions	66
“Inadequate” and “Failed” Interventions	29

- 2.10 Sufficient information was available to prepare 90 detailed case studies.
From these studies four specific analyses are developed:
- the regional differences in client performance during AMSCO interventions;
 - the financial performance of 37 clients during successful AMSCO interventions;
 - the “sustainability” of AMSCO impact on the post-contract performance of the Companies reported in the 1995 AMSCO Impact Study: Eleven Selected Cases;
 - the reasons for the failure of AMSCO intervention in 25 companies;
 - the volume, cost and range of the training and management development programmes provided by AMSCO to its client companies over the period 1989-1997.

iv) **Conversion and Aggregation**

- 2.11 In order to provide comparison between the changes in the performance of individual enterprises, and to calculate the weighted average impact of AMSCO over the whole portfolio, the financial data have been converted to US dollar values (using the exchange rate applicable in each of the relevant years).
- 2.12 The on-going financial impact of AMSCO intervention is also identified from the actual estimated performance of each company in its current financial year. These figures have also been converted to US dollars and presented individually and also in aggregate form.

Section 3. The AMSCO Client Portfolio: 1989 – 1998

i) Introduction

- 3.1 The full portfolio of AMSCO management service clients is set out in Annex 1, which includes specific information on: client size, sector, turnover and number of employees at the beginning of AMSCO intervention; the dates of AMSCO intervention, the number of AMSCO managers seconded; and the amount of donor financial support provided to individual clients.

Between April 30, 1989 and March 31, 1998, AMSCO has signed a total of 126 management service contracts with enterprises in sub-Saharan Africa. 33 of these contracts had been completed to full (or extended) term, 62 are on-going, 2 have been postponed and 29 have been prematurely terminated.

ii) Sectoral Distribution

- 3.2 The range of activities of AMSCO clients covers an extremely wide sectoral spread: Table 2 below indicates the main commercial / industrial areas in which AMSCO has been involved:

Table 2 : Sectoral Distribution of AMSCO Clients, 1989 - 1998

Sector	No. of AMSCO Clients	Total Employees	Annual Turnover (US\$'000)	Total AMSCO Managers
Manufacturing	31	6,204	157,963	58
Financial Services	19	2,619	112,912	28
Food Processing	14	2,870	59,955	25
Textile	12	11,734	131,613	42
Agriculture	11	1,245	15,108	19
Hotel Services	7	938	6,801	7
Transport	5	413	16,959	11
Automobile Services	4	388	14,879	6
Computers	3	173	2,779	3
Construction	3	1,548	16,203	3
Timber	3	3,200	53,346	33
Mining	2	770	13,400	7
Retail Services	2	497	5,673	4
Telecommunications	2	104	1,962	2
Consultancy	1	45	4,000	2
Engineering	1	220	4,204	1
Fishery	1	2,000	33,069	1
Heavy Engineering	1	53	1,800	2
Marketing Services	1	8	?	1
Music	1	20	1,100	1
Offshore Development	1	16	1,000	1
Tourism	1	158	nil	1
TOTAL	126	35,223	654,726	258

AMSCO has built up specialist experience and capability in several key business development areas, especially: financial services; hotel services; manufacturing; textile; and food processing.

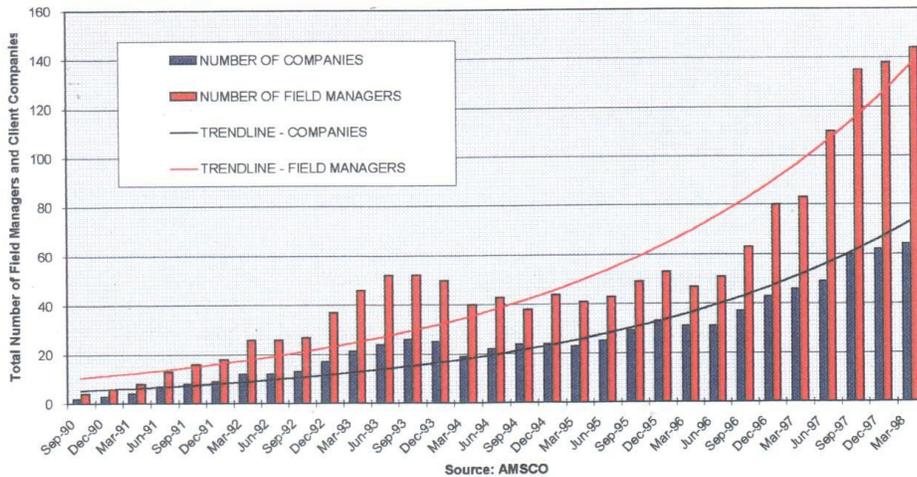
ii) **Geographic Distribution**

3.3 AMSCO has been operating over the past nine years throughout sub-Saharan Africa: 50% of its client were in West Africa; 32% in Southern Africa; and 18% in East Africa. AMSCO has operated in a total of 27 countries. Concentrations of clients have developed in Ghana, Ivory Coast, Kenya, Mali, Mauritius, Senegal, Tanzania, Uganda and Zimbabwe.

iv) **Growth of Portfolio**

3.4 The AMSCO portfolio of client enterprises under contract has steadily increased over the years, as Chart 1 illustrates. In April 1994, (the fifth anniversary of the inauguration of the AMSCO/ATMS project) the company had 20 clients under contract. This number has risen at an increasing rate to reach 60 clients under contract by the end of 1997. At March 31, 1998, there were 64 clients under contract. Alongside this increase in the volume the number of field managers seconded to clients also increased, from 40 in April 1994 to 144 in March 1998. The growth in the number of managers is also shown in Chart 1.

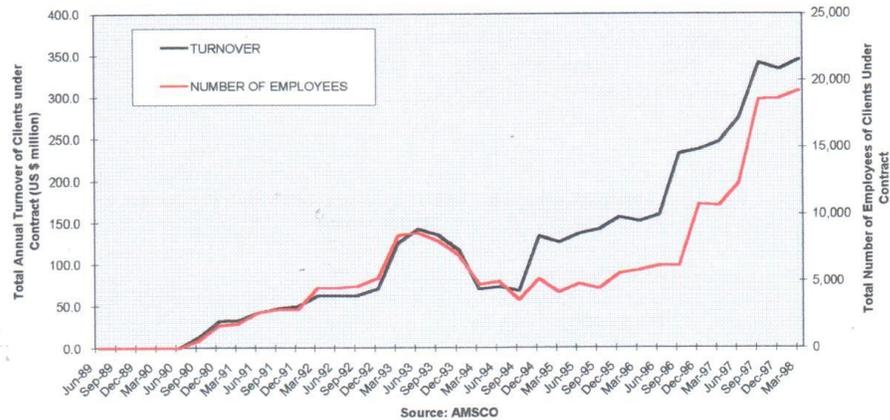
Chart No. 1 : AMSCO Client Portfolio, 1989-1998 - Number of Clients under Contract and Number of Field Managers



3.5

The growth of the portfolio had the obvious effect of increasing the influence of AMSCO. Chart 2 shows the total annual turnover and number of employees of ASMCO clients under contract at any one time. By March 1998 these amounted to US\$350 million and more than 19,000 employees. These numbers are based on individual company statistics at the beginning of each AMSCO contract and therefore probably understate the actual numbers applying during the contract period. Over time the average annual turnover of individual clients under contract has varied between US\$3 million to US\$6 million per client (with an overall average of US\$5 million per client), and the average number of employees has varied from 150 to 300 per client (with an overall average of 250).

Chart No. 2 : AMSCO Client Portfolio, 1989-1998 - Total Annual Turnover of Clients Under Contract (US \$ million) and Total Number of Employees of Clients Under Contract (based on figures at the commencement of each AMSCO contract)



v)

Size Distribution of Clients

3.5

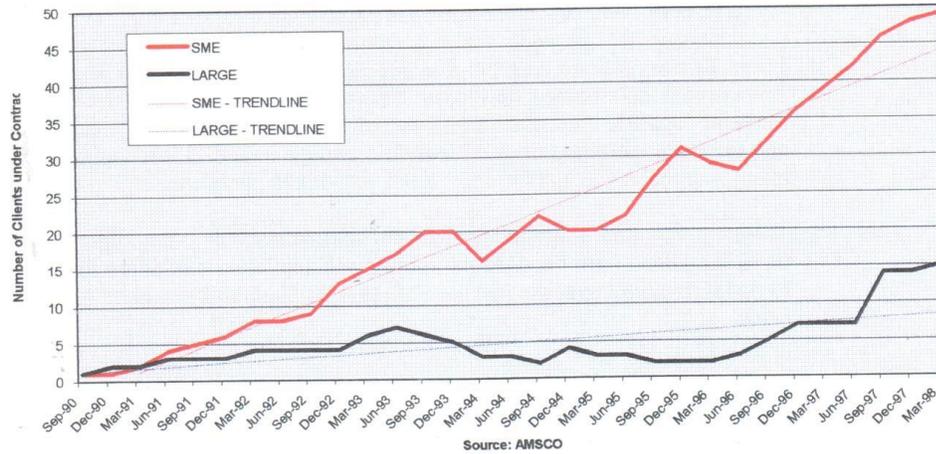
Each of the AMSCO clients has been categorised by size between SME (small and medium-sized enterprises) and Large, with a further split in SME between Small and Medium. Definitions applied in this categorisation are:

- Small: Annual turnover of US\$5 million or less and 100 employees or less
- Medium: Annual turnover between US\$5 and US\$10 million having between 100 and 500 employees
- Large: Annual turnover of more than US\$10 million with more than 500 employees

The categorisation of individual clients by size is based on client performance at the beginning of the AMSCO contract.

3.7 Annex I shows the category of each AMSCO client by size. 78% of the total number of clients were SME's (99 clients), and 60% of these were "Small" companies. Chart 3, which plots the distribution of AMSCO clients under contract year by year, shows that the balance between SME's and large clients has been fairly steady over the years.

Chart No. 3 : AMSCO Client Portfolio, 1989-1998 - Number of Clients under Contract, by Size (SME / Large)



vi) **Donor Financial Support for AMSCO Clients**

3.8 Over the nine years of AMSCO operations the three principal sources of donor financial support for AMSCO clients have been the ATMS Management Development Fund ("MDF"), the ATMS Management Loan Fund ("MLF"), and FMO / IBTA funding. MDF is exclusively used for the support of client training and management development programmes. The

MLF and FMO / IBTA loans and grants have been available to assist clients in meeting the costs of AMSCO seconded field managers. The financial support of these funds has been augmented by ad hoc grants from other donor sources for individual clients for specific purposes.

- 3.9 The following table shows total funds allocated to AMSCO clients up to March 31, 1998 from the three main sources of donor funds:

Table 3: Principal Sources of Donor Funding for AMSCO Clients, 1989-1998

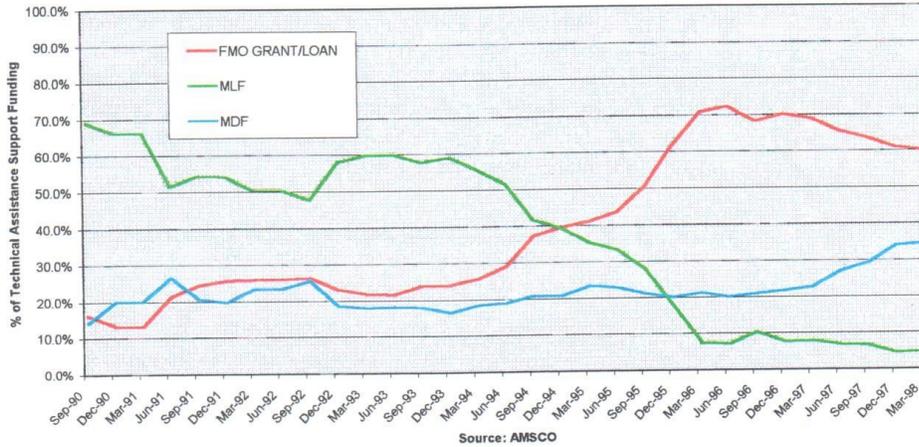
Source:	NLG million	US\$ million
MDF	11.35	7.05
MLF	---	8.60
FMO/IBTA		
• Grant	14.25	
• Loan	<u>8.29</u>	
Sub-total FMO/IBTA	22.54 *	14.00
TOTAL (US\$ million)		29.65

(* note: NLG converted to US\$ at 1.61)

These figures indicate that the average financial support for training and management development has been US\$60,000 per client, and the direct financial support for the expenses of seconded AMSCO managers approximately US\$180,000 per client. The average total of donor support per client over the period 1989 to 1998 was US\$240,000 per client.

- 3.10 These global and average figures do not reflect the very significant underlying downward trends in the sources and applications of donor funding to AMSCO clients over the past several years, as illustrated in Charts 4 and 5 below.

Chart No. 4 : AMSCO Client Portfolio, 1989-1998 - Sources of Technical Assistance Funding Support for Clients under Contract by Source (%)



- Type of Donor Funding

Chart 4 illustrates the high reliance placed on the MLF during the first five years of the AMSCO project until its use was discontinued in 1994. It also clearly shows the increasing role played by FMO / IBTA funds from 1991 through to early 1997, when this budget allocation was terminated. The benefits of each of these funds have continued after their termination, as the allocations to individual clients were spread over the periods of the AMSCO contract.

Since early 1997 there have been no sources of funds to assist new AMSCO clients to meet the expenses of seconded managers. This has drastically reduced the AMSCO ability to help SME's, and as a result AMSCO marketing is now increasingly concentrated on larger companies, and on clients involving joint venture partners, both of which are able to afford the full cost of AMSCO services.

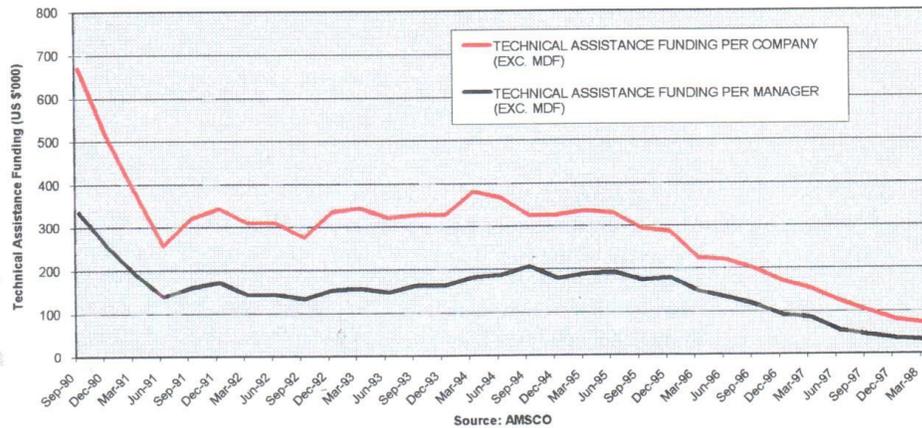
- Application of Donor Funding

Initially the use by AMSCO of donor funding to clients was generous. The average funding provided to the eleven clients reported in the 1995 AMSCO Impact Study, excluding MDF, was just under US\$500,000 per client. Support in the range of US\$400,000 to US\$450,000 per client was typical of the period up to mid-1995. At that time AMSCO came under the twin pressures of the increasing difficulty of raising further

funds and the increasing demand for funds arising from a growing portfolio.

The consequence of these pressures was for AMSCO progressively to reduce the funding support offered to clients. Commitments to clients for financial support to assist in meeting the expenses of the AMSCO management teams were stopped completely in March 1997, when the allocation from the FMO / IBTA budget was terminated. Earlier IBTA commitments continue to be disbursed, but the drastic reduction on the donor support for current AMSCO clients is shown in Chart 5, falling from US\$300,000 per client in June 1995 to US\$75,000 in March 1998.

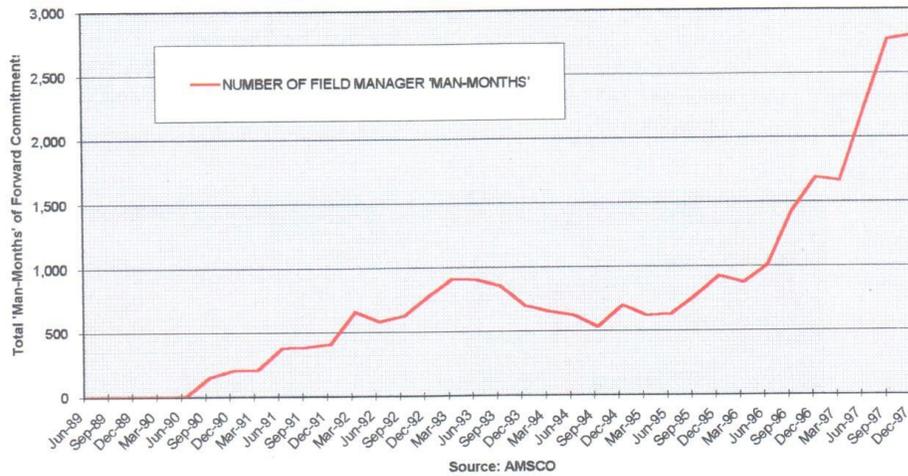
Chart No. 5 : Average Technical Assistance Funding Support (excluding MDF) per Field Manager and per AMSCO Client under Contract, 1989-1998 (US \$'000)



vii) **Forward Commitments – “Work in Progress”**

3.11 As a result of the steady growth in the number of clients and field managers, AMSCO has over the past four years built up substantial forward commitments, in terms of the total manager-months to be supplied to clients in the future. At the end of 1994 these amounted to 500 “manager months” (i.e. the equivalent of providing two managers to ten clients for approximately two years). By the end of December 1997 the corresponding figures was 2,500 “manager months” (the equivalent of providing two managers to 50 clients for two years). Figure 6 illustrates the rapid growth of this “work in progress” over the past few years.

Chart No. 6 : AMSCO Client Portfolio, 1989-1998 - Field Manager Forward Contractual Commitments, "Work in Progress" (in 'Man-Months')



3.12 The substantial commitments for AMSCO management services provide assurance of business in the immediate future, and reflect the higher profile and good reputation that has now been established in the market place. It also provides a platform for AMSCO management to consolidate, improve the efficiency of the organisation and the overall quality of its services. To donors it should indicate the increased efficiency of the ATMS / AMSCO project as a delivery vehicle of funding for the development of the private sector in Africa, and particularly to SME's .

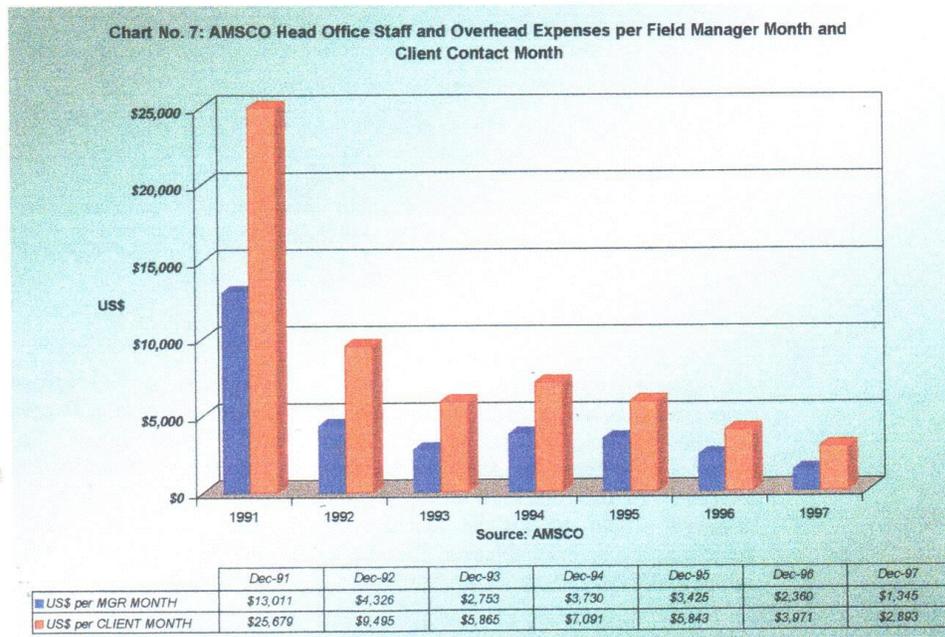
viii) **AMSCO Overhead Expenses 1989-1998**

3.13 Over the period 1991 to 1998 the total staff levels at AMSCO headquarters have remained level in the range of 12 to 16 persons, excluding the staff of the development department. The total of direct costs and overhead expenses, also excluding those associated with the MDF, have increased only 10% during the same period, to US\$3.94 million in 1997 (these figures exclude any provision for doubtful debtors or write-offs).

3.14 The overhead expenses of the headquarters have remained relatively unchanged, in marked contrast to the increased volume of business undertaken by the Company. This is illustrated by Chart 1 (page 11), which

shows that the number of clients and managers under contract has tripled over the four years, and is now eight-fold the volume of 1991.

- 3.15 The increased “productivity” of the AMSCO headquarters, measured in terms of staff and overhead expenses per “client contract month” signed up, and in terms of the headquarters expenses per “manager month” contracted out, is shown in Chart 7. This indicates that by December 1997 the average expenses incurred in “servicing” each “manager month” of the field managers was US\$1,345, and US\$2,893 per client month, a ten-fold reduction of the figures for 1991.



- 3.16 As a later section of this study will indicate, this increase in the apparent efficiency of the headquarters operation in costs per unit of service to clients has had adverse effects on the delivery and quality of some of those services.

viii) **Summary**

- 3.17 The outstanding impression from the review of the AMSCO portfolio over the nine-year period since inauguration is that of a dynamic development,

constantly adjusting to meet the frequent changes in conditions in the market place and the resources available.

- 3.18 The rate of growth of the portfolio over the past four years has been remarkable, demonstrating a flexibility to meet changed conditions rapidly. This has enabled the company to build up a substantial volume of “work in progress” for the future.
- 3.19 The reduction of unit costs achieved during the same period is also a significant financial achievement and a major step towards AMSCO achieving financial break even.
- 3.20 The review of the development of the AMSCO portfolio raises three concerns for the future:
- that donors provide sufficient technical assistance funds for management subsidies to enable AMSCO to maintain a high percentage of SME clients in its future portfolio;
 - that donors provide sufficient technical assistance funds to the MDF to ensure that AMSCO can meet its contractual obligations to provide part of the expenses of the training and management development programmes;
 - that the “hidden costs” of the very rapid increase in the portfolio, in terms of reduction in the ability of AMSCO to deliver high quality management services to its client be fully addressed.

Section 4. Regional Comparisons of Performance of AMSCO Clients

4.1 In the course of the research it has become evident that there are substantial difference in the performance of AMSCO clients in each of the three main Sub-Saharan regions. These are therefore analysed to ascertain to what extent these regional differences are due to AMSCO performance or to structural differences between the regions.

i) Volume of AMSCO business

4.2 The most obvious difference between the regions is the volume of business, in terms of numbers of AMSCO clients and the aggregate turnover of those clients. There are also significant differences in the timing of the intervention by AMSCO in enterprises in each region and the relative ratios of success and failure of those interventions

Table 4. Number of clients, by region and "success" status

Client Category	West Africa	East Africa	Southern Africa	Total
Total AMSCO (contracts 1989-1998)	63 (50%)	23 (18%)	40 (32%)	126 (100%)
Post 31.12.96 contracts (insufficient time for "impact")	20 (65%)	5 (16%)	6 (19%)	31 (100%)
Clients qualified for study	43	18	34	95
Sample of 37 clients from 64 "Successful" clients (refer Section 5)	17 (46%)	3 (8%)	17 (46%)	37 (100%)
"Failures" (refer Section 7)	18 (62%)	6 (21%)	5 (17%)	29 (100%)
Clients not included in the study	8 (28%)	9 (31%)	12 (41%)	29 (100%)

The analysis of the data of the 37 "successful" clients in the sample by region throws up significant differences in the average performance in key financial indicators.

iii) Financial Performance of Clients

4.3 Financial data were made available only for three AMSCO clients in East Africa, reducing the sample to 25% of the AMSCO portfolio in the region. These are insufficient to be treated as representative.

4.4 The client samples used in this study from West and Southern Africa are large and comparable: each contains 17 clients, and each has similar general characteristics (such as aggregate turnover and number of employees). However there is a very substantial difference in the financial performance of the clients, during the periods of AMSCO intervention. This is summarised in Table 5.

TABLE 5: Changes of Critical Performance Indicators during Periods of AMSCO Intervention, by Region, (US\$'000)

Region	West Africa (17 clients)				East Africa (3 clients)				Southern Africa (17 clients)			
	Aggregate totals during AMSCO Intervention start (US\$'000)	Aggregate totals during AMSCO Intervention end (US\$'000)	Average change per client (US\$'000)	%	Aggregate totals during AMSCO Intervention start (US\$'000)	Aggregate totals during AMSCO Intervention end (US\$'000)	Average change per client (US\$'000)	%	Aggregate totals during AMSCO Intervention start (US\$'000)	Aggregate totals during AMSCO Intervention end (US\$'000)	Average change per client (US\$'000)	%
1. Turnover	75,660	75,241	-25	-0.6%	8,700	20,266	+652	+133.3%	74,023	105,915	+1,876	+43.1%
2. Number of Employees	3,302	2,852	-24	-12.4%	514	463	-3	-9.9%	5,932	7,321	+82	+23.4%
3. Net Profit (Loss)	(8,511)	1,540	+591	N/A	(20)	(428)	-24	N/A	(67)	10,705	+635	N/A
4. Operating Profit (Loss)	715	3,740	+178	+422.9%	525	4,109	+211	+682.3%	4,344	13,231	+523	+204.6%
5. Assets												
i) Current	73,493	53,997	-1,147	-26.5%	5,073	9,054	+234	+78.5%	44,058	143,487	+5,849	+255.7%
ii) Fixed	56,570	53,247	-1,956	-5.9%	12,783	11,866	-54	-7.2%	34,810	47,914	+771	+37.6%
6. Liabilities												
i) Short term	64,579	49,048	-914	-24.0%	4,200	9,407	+306	+124.0%	40,865	130,006	+5,244	+218.1%
ii) Medium and Long term	49,131	41,192	-467	-16.2%	2,532	9,150	+389	+261.3%	20,133	13,425	-365	-33.3%
7. Shareholders Equity (Deficiency)	16,353	17,004	+38	+4.0%	11,125	2,363	-515	-78.8%	17,870	47,970	+1,771	+168.4%
8. Labour Efficiency Ratios												
i) Sales Value / Employee	409	522	+7	+27.6%	78	140	+4	+80.9%	215	635	+25	+195.9%
ii) Operating Profit (Loss) / Employee	52	75	+1	+42.7%	6	24	+1	+302.4%	21	311	+17	+1373.6%
9. Capital Efficiency Ratios												
i) Gross Sales / Fixed Asset Value	47.39	53.96	+0.39	+13.9%	5.73	12.90	+0.42	+125.1%	43.43	56.94	+0.80	+31.1%
ii) Net Profit (Loss) / Fixed Asset Value	-24.41	0.49	+1.46	N/A	0.23	0.48	+0.01	+108.3%	1.09	7.40	+0.37	+881.0%
10. Liquidity Ratios												
i) Current Assets / Current Liabilities	21.70	17.91	-0.22	-17.5%	3.20	9.65	+0.38	+201.7%	237.95	47.50	-11.20	-80.0%
ii) Total Assets / Total Liabilities	22.37	22.42	+0.00	+0.2%	7.81	4.11	-0.22	-47.4%	215.80	43.30	-10.15	-79.9%
11. Export Earnings												
i) Percentage	2.59	2.75	+0.01	+6.3%	0.16	0.03	-0.01	-81.3%	7.32	8.75	+0.08	+19.5%
ii) Value	26,969	21,432	-326	-20.5%	663	227	-26	-65.7%	53,536	80,918	+1,805	+59.9%
12. Import Substitution												
i) Percentage	4.01	3.60	-0.02	-10.3%	1.61	0.73	-0.05	-54.3%	4.61	6.86	+0.13	+48.8%
ii) Value	30,971	25,044	-349	-19.1%	6,497	5,953	-55	-14.4%	48,771	70,879	+1,300	+45.3%

Source: AMSCO Impact Study 1998 - Case Studies

4.4 Review of the figures in Table 5 highlights the following performance in the two regions.

- Turnover:

The average client increase in turnover in Southern Africa during the period of AMSCO intervention was nearly US\$2 million per client, compared to US\$119,000 in West Africa, reflecting the much smaller size of client in West Africa.

- Profitability:

The increase in profitability in the West Africa clients was marginally higher during those periods (US\$664,000) and US\$635,000). However, average operating profits in the Southern Africa sample were nearly double those of West Africa clients, and the total net profitability of the Southern Africa clients at the end of the AMSCO intervention (US\$10.7 million) was three-fold that of the West Africa sample.

- Balance Sheets:

The balance sheets of the Southern Africa clients, measured in terms of shareholders' equity, were very substantially stronger than those in West Africa. This differential remained at the end of the AMSCO intervention, but the percentage rate of increase in the shareholders' equity in West Africa clients was more than double that of clients in the other region.

- Efficiency Ratios:

Improvements in the labour efficiency ratios, in terms of sales values and operating profits per employee, were significantly better for the Southern Africa clients. This is despite the fact that the average number of employees increased in the clients in that region by more than 23%, compared with a reduction of more than 12% in West Africa clients.

On average the liquidity ratios deteriorated in both regions, but much more seriously in the Southern Africa portfolio.

- Export and Import Substitution:

Many of the AMSCO Southern Africa clients were specifically directed to export markets, particularly those in Mauritius and Madagascar. As a result the "export base" of the clients in that region amounts to more than 70% of their turnover, compared to only 5% in West Africa. Export earnings as a proportion of turnover increased, on average, during the periods of AMSCO intervention, for both regions.

The import substitution contribution of client in West Africa decreased in both value and percentage, whereas the Southern Africa clients increased import substitution substantially.

4.5 A more stark comparison of the difference in regional performance is show in Table 6, which shows the AMSCO portfolio with each of the 90 clients rated into one of five categories of AMSCO performance:

- Very successful "A";
- Successful "B";
- Adequate "C";
- Less than adequate "D"; and
- Failure "E".

The figures show that the AMSCO intervention in almost 50% of its clients in West Africa is judged to be inadequate or failure, compared with 15% in Southern Africa. It is also significant that each size category (small, medium or large) has approximately the same proportion of "failures" (33%).

Table 6: AMSCO Portfolio, 1989 – 1998, by size, region and quality of AMSCO performance

Region			PERFORMANCE CLASSIFICATION				
			A/B	C	D/E	Total	%
1. <u>West Africa</u>	Small		8	3	9	20	22.2%
	Medium		7	-	8	15	16.7%
	Large		6	-	2	8	8.9%
							0.0%
		Sub-total		21	3	19	43	47.8%
2. <u>East Africa</u>	Small		4	2	2	8	8.9%
	Medium		3		3	6	6.7%
	Large				1	1	1.1%
				-			0.0%
		Sub-total		7	2	6	15	16.7%
3. <u>Southern Africa</u>	Small		7	3	2	12	13.3%
	Medium		9	2	1	12	13.3%
	Large		5	1	2	8	8.9%
				-	-		0.0%
		Sub-total		21	6	5	32	35.6%
4. <u>Totals</u>	Small		19	8	13	40	44.4%
	Medium		19	2	12	33	36.7%
	Large		11	1	5	17	18.9%
		TOTAL		49	11	30	90	100%
		%	54.4%	12.2%	33.3%		100.0%

Notes:

- The classification is drawn from the 90 case studies in Annex D.

iii) **Summary**

- 4.6 The differences in performance of the AMSCO portfolio of clients in West and Southern Africa are principally due to two factors:
- The macro-economic environments in which the clients were operating; and
 - The different financial structure and market orientation of the individual clients in each region.
- 4.7 Many of the AMSCO clients in West Africa, particularly those in the FCFA zone, suffered through the general economic downturn experienced by the region in the early 1990's. For some clients this was compounded by the immediate impact of devaluation, and the exposure to increased foreign competition as a result of trade liberalisation. The capitalisation of many of the clients was weak, and their products aimed at a local market, rather than a regional or international one.
- 4.8 The strength of the Southern Africa portfolio lies in the large export-oriented clients in Mauritius and Madagascar, a very successful financial service enterprise in Zimbabwe and an export zone management company in Namibia. The basis for the success of these clients is pro-active government support for investment in state-of-the-art technology, combined with focused market targets, strong balance sheets and senior management awareness of the vital importance of a well-trained workforce.

Section 5. Financial Impact Achieved During AMSCO Intervention

i) Basis of Analysis

5.1 Prior to January 1, 1997 AMSCO had signed management service agreements with 95 companies. 64 of these interventions are graded as successful. Full financial information was available for 37 of these companies, which form the basis for this analysis of financial changes achieved in enterprises during the periods of AMSCO intervention. These include all eleven enterprises covered in the 1995 AMSCO Impact Study: Eleven Selected Cases.

5.2 The sample excludes:

- 31 AMSCO clients with management service contracts commencing after December 31, 1996;
- 29 AMSCO clients contracts categorised as “failures”, which are dealt with in Section 6 of this report;
- 29 clients excluded due to the lack of sufficient available financial data.

This last group includes five clients in Nigeria for which no data are available, and four interrelated contracts in West Africa involving a single financial services joint venture partner providing a training service only.

5.3 The primary analysis of each enterprise in the sample of 37 clients is presented in the form of a case study. The main sources of data for these studies were the annual financial statements of the relevant companies. These data were supplemented from business plans, technical assessments, plus direct discussions with client companies’ executives and principals.

5.4 To enable the data in the individual case studies to be aggregated, the financial figures have been converted to U.S. dollars. Conversion into U.S. dollars gives a considerable conservative bias to the aggregate figures, as the local currencies of many of the clients under review have been devalued during the periods of AMSCO intervention, some by more than 50%.

5.5 The effect of devaluation is to reduce the dollar value of the improvements, relative to the U.S. dollar “base line” performance established at the beginning of the AMSCO intervention. In addition, the medium and long-term liabilities of some of the clients were in hard currency loans.

ii) Aggregate and Average Performance Changes During AMSCO Intervention

5.6 Tables 7 and 8 present a summary of the financial data for the 37 AMSCO clients converted into US dollars. Changes in critical financial performance indicators during the period of AMSCO involvement are presented as totals (Table 7) and averages (Table 8) for the 37 clients companies.

Table 7: Aggregate of changes of critical financial performance indicators during the period of AMSCO intervention (37 clients)

AMSCO Clients	Aggregate totals during AMSCO intervention		Total aggregate change during AMSCO intervention	
	start (US\$'000)	end (US\$'000)	(US\$'000)	%
	20 Dec 1994	2 Nov 1996	684	
1. Turnover	158,383	201,452	+ 43,069	+ 27.2%
2. Number of Employees	9,748	10,676	+ 928	+ 9.5%
3. Net Profit (Loss)	(8,619)	11,817	+ 20,435	N/A
4. Operating Profit (Loss)	5,585	21,080	+ 15,495	+ 277.5%
5. Assets				
i) Current	122,625	206,538	+ 83,913	+ 68.4%
ii) Fixed	104,164	113,027	+ 8,863	+ 8.5%
6. Liabilities				
i) Short term	109,644	188,461	+ 78,817	+ 71.9%
ii) Medium and Long term	71,797	63,766	- 8,031	- 11.2%
7. Shareholders Equity (Deficiency)	45,348	67,337	+ 21,989	+ 48.5%
8. Labour Efficiency Ratios				
i) Sales Value / Employee	702	1,298	+ 596	+ 84.9%
ii) Operating Profit (Loss) / Employee	79	410	+ 330	+ 416.6%
9. Capital Efficiency Ratios				
i) Gross Sales / Fixed Asset Value	96.55	123.81	+ 27.26	+ 28.2%
ii) Net Profit (Loss) / Fixed Asset Value	- 23.09	8.38	+ 31.46	N/A
10. Liquidity Ratios				
i) Current Assets / Current Liabilities	262.85	75.07	- 187.78	- 71.4%
ii) Total Assets / Total Liabilities	245.98	69.83	- 176.15	- 71.6%
11. Export Earnings				
i) Percentage	10.07	11.53	+ 1.46	+ 14.5%
ii) Value	81,268	102,578	+ 21,309	+ 26.2%
12. Import Substitution				
i) Percentage	10.23	11.19	+ 0.97	+ 9.4%
ii) Value	86,239	101,486	+ 15,246	+ 17.7%

Table 8: Average changes per client of critical financial performance indicators during the period of AMSCO intervention (37 clients)

AMSCO Clients	Average client performance during AMSCO intervention		Average change per client during AMSCO intervention	
	start (US\$'000)	end (US\$'000)	(US\$'000)	%
1. Turnover	4,281	5,445	+ 1,164	+ 27.2%
2. Number of Employees	279	305	+ 27	+ 9.5%
3. Net Profit (Loss)	(239)	328	+ 568	N/A
4. Operating Profit (Loss)	151	570	+ 419	+ 277.5%
5. Assets				
i) Current	3,406	5,582	+ 2,176	+ 63.9%
ii) Fixed	2,893	3,140	+ 246	+ 8.5%
6. Liabilities				
i) Short term	2,963	5,094	+ 2,130	+ 71.9%
ii) Medium and Long term	1,940	1,723	- 217	- 11.2%
7. Shareholders Equity (Deficiency)	1,226	1,820	+ 594	+ 48.5%
8. Labour Efficiency Ratios				
i) Sales Value / Employee	20	37	+ 17	+ 84.9%
ii) Operating Profit (Loss) / Employee	2	12	+ 9	+ 416.6%
9. Capital Efficiency Ratios				
i) Gross Sales / Fixed Asset Value	2.76	3.44	+ 0.68	+ 24.7%
ii) Net Profit (Loss) / Fixed Asset Value	- 0.68	0.24	+ 0.92	N/A
10. Liquidity Ratios				
i) Current Assets / Current Liabilities	7.30	2.03	- 5.27	- 72.2%
ii) Total Assets / Total Liabilities	6.83	1.94	- 4.89	- 71.6%
11. Export Earnings				
i) Percentage	0.67	0.77	+ 0.10	+ 14.5%
ii) Value	3,694	4,663	+ 969	+ 26.2%
12. Import Substitution				
i) Percentage	0.79	0.86	+ 0.07	+ 9.4%
ii) Value	4,107	4,613	+ 506	+ 12.3%

- Turnover:

The "base line" turnover of the 37 clients was US\$158.4 million (average US\$4.3 million per client). Over the periods of intervention the total cumulative increase in these revenues was US\$43.1 million (27.2%), an average of US\$1.16 million per client over an average intervention period of 22 months. The average increase in turnover in local currency was almost 100%.

- Profitability

An aggregate net loss of US\$8.62 million by the 37 client companies at the beginning of the AMSCO interventions was transformed into an aggregate net profit of US\$11.82 million, an average increase of US\$568,000 per client. Average operating profits improved by US\$419,000 per client.

- Balance Sheets:

The large changes in local currency values experienced by almost all of the companies have seriously affected many balance sheets, particularly those clients with hard currency liabilities.

The effect of this type of difficulty is reflected in the deterioration in the average liquidity ratio of the 37 clients during the period of AMSCO intervention. Despite this adverse trend in a key financial indicator, the balance sheets of the majority of the clients were strengthened, with shareholders equity increasing 48.5% by a total of US\$22 million (US\$594,000 on average). In local currencies shareholders' equity has more than doubled, on average, during the period of AMSCO intervention.

- Labour Efficiency

The aggregate value of sales per employee of the 37 clients increased by 85% in US dollar terms during the period of AMSCO intervention (an average increase of US\$17,000 per employee). This impressive improvement in labour productivity was achieved with an overall increase of only 9.5% in the workforce of the 37 clients. In local currency terms, the labour productivity increase was even more impressive.

Operating profits per employee increased by more than 400%, to an average of US\$9,000 per employee.

- Export / Foreign Currency Earnings

The export value "base line" for all 37 companies, converted at the exchange rates at the time of the commencement of the AMSCO interventions, totaled US\$81.3 million. During these interventions the total foreign currency earnings of those companies increased by 26%, to US\$102.6 million (an average increase of US\$969,000 per company).

The "conversion" of these figures to US dollars obscures the fact that since a portion of the exports were inter-regional, the local currency value of exports increased by an even greater percentage.

- Import Substitution
All of the companies made some contribution to import substitution. However reliable specific statistics on the gross and net import substitution for most clients was impossible to obtain.
- Technology Transfer
The transfer of technology has played an important role in at least 29 of the sample of 37 clients. In 17 companies technology transfer has been at the core of the AMSCO impact.

iii) **Donor Financial Support**

5.7 In the evaluation of the impact of AMSCO it is relevant to compare the financial benefit to the AMSCO clients with the costs, expressed in terms of donor funds provided through the MDF, the MLF and FMO / IBTA .

5.8 Table 9 shows the donor financial support provided to the 37 clients in the sample:

Table 9 : Donor Financial Support to 37 Clients

	Total (US\$ million)	Per client (US\$)
MLF	1,647	44,512
IBTA grant	2,861	77,320
IBTA loan	2,192	59,241
Sub-total	6,700	181,073
MDF	2,293	61,978
Total	8,993	243,743

iv) **“Value for Money”**

5.9 The improvement in the financial performance of the 37 clients shown in Tables 7 and 8 amounts to an increase of US\$43.1 million in total turnover, and an increase of US\$20.4 million in total net profits, an average of US\$568,000 per client. These improvements were those achieved during the period of AMSCO intervention. Performance benefits after the completion of a successful AMSCO intervention are examined in Section 6.

(It is relevant to note that the increases in profitability were net after provisions by the clients for the expenses involved for the AMSCO management teams and client contributions to the training and management development programme).

5.10 Comparison of donor funds involved in the provision of AMSCO management services, on the one hand with the results of these interventions on the financial performance of the 37 clients under review, on the other indicates that these services have been good value for money. The analysis indicates that on average cost / benefit ratio of 3:1 was achieved in an average

intervention period of 22 months (based on the average cost of the AMSCO management teams during the period of intervention). 30 of the clients were SME's.

5.11 The results were achieved with clients that enjoyed substantial financial donor fund support for the costs of the AMSCO management – US\$180,000 per client, on average. (33 of the 37 clients benefited from MLF and / or FMO / IBTA funding). Since early 1997 neither of these sources have been available, and AMSCO is now operating with no funds to assist clients in meeting the expenses of the AMSCO management teams.

v) **AMSCO Performance Bonus**

5.12 From the information available it appears that only 15% of the AMSCO management service contracts contain provision for a bonus payment to AMSCO based on performance of the client during AMSCO intervention. Almost all of the contracts with bonus provision commenced before 1995. Only 8 of the clients in the sample of 37 successful interventions were contractually committed to pay AMSCO a performance bonus.

vi) **Conclusions**

5.13 The analysis indicates that even prior to the recent dramatic increase in the volume of clients "signed up", AMSCO has been a cost-effective vehicle, in terms of the cost / benefit results on donor-provided funds. This is particularly important in the main target sector of SME's.

5.14 The benefit to clients is also demonstrated. The average net profit improvement of US\$568,000 in 22 months represent a 240% return on the net cost to the clients of the AMSCO management teams (after donor funding provision). The client should benefit further from the improved condition of the company after AMSCO intervention.

5.15 Without donor funding support the analysis is significantly different. With the same average improvement in financial performance, the expenses of the AMSCO managers during the first year of intervention is substantially more than the increased company earnings they can be expected to achieve. This short-term additional cash requirement is beyond the resources of many companies, particularly SME's. It is for this reason that it is vital for donors to restore a reasonable level of funding to assist smaller companies to meet the immediate costs of AMSCO management teams.

5.16 In view of the increased demand for AMSCO services, and the demonstrable financial benefit to its clients, the company should require performance-related bonus provisions in its contracts. This would enable the company to provide financial incentives to field managers, and a contribution to both the MDF and the AMSCO "bottom line".

Section 6. "Sustainability" Of AMSCO Impact

i) Introduction

- 6.1 The analysis of the changes in the financial performance of the sample of 37 clients presented in Section 5 refers only to the impact of AMSCO during the period of AMSCO intervention. It is relevant to examine whether companies in which the AMSCO intervention has been completed continued to enjoy the benefits of improved levels of performance achieved during the AMSCO intervention. In brief – is the AMSCO impact sustainable ?
- 6.2 The 1995 report AMSCO Impact Study: Eleven Selected Cases examined the financial impact of the intervention of AMSCO on eleven selected clients. In May 1998 these companies, all of which were no longer active AMSCO clients, were revisited to determine how they had fared since the completion of the AMSCO intervention.
- 6.3 On average, the contracts had terminated three years ago. The average length of the AMSCO intervention in these 11 clients was 36 months, slightly longer than the average over the whole portfolio. This is due to the fact that two of the clients had exceptionally long contracts.

ii) Case Studies

- 6.4 Case Studies have been prepared for each of the eleven companies, updating the ones presented in the 1995 Impact Study. Summaries of these up-dated studies, together with the financial data available for seven of the companies, are shown in Annex B.

iii) Financial Performance

- 6.5 In order to be able to aggregate the financial data they have been converted into US dollars. The currencies of the countries involved have been devalued by an average of 17% against the US dollars in the periods since the end of the AMSCO interventions and December 1997. The conversion and aggregation in dollars thus creates a distortion to the figures, reducing the financial improvement figures by the percentage of the currency devaluation.
- 6.6 In two of the eleven companies the AMSCO intervention was completed too recently (1997) to provide any meaningful indication of the long-term sustainability of the AMSCO impact. Financial figures were not available for another of the companies, and a fourth company was in bankruptcy. Current financial performance figures (financial year 1997) were available for seven of the companies, and these are shown in Annex B, summarised in Table 10, and are the basis for the following analysis:

Table 10: Average changes per client of critical financial performance indicators after the conclusion of AMSCO intervention (7 clients)

AMSCO Clients	Average client performance during AMSCO intervention		Average change per client during AMSCO intervention	
	start US\$'000	end US\$'000	US\$'000	%
1. Turnover	6,431	7,840	+ 1,409	+ 21.9%
2. Number of Employees	277	215	- 61	- 22.1%
3. Net Profit (Loss)	(125)	(93)	+ 31	N/A
4. Operating Profit (Loss)	1,156	1,315	+ 159	+ 13.8%
5. Assets				
i) Current	3,159	4,140	+ 981	+ 31.1%
ii) Fixed	6,533	4,424	- 2,109	- 32.3%
6. Liabilities				
i) Short term	2,776	4,544	+ 1,769	+ 63.7%
ii) Medium and Long term	3,291	2,055	- 1,237	- 37.6%
7. Shareholders Equity (Deficiency)	2,692	3,019	+ 327	+ 12.1%
8. Labour Efficiency Ratios				
i) Sales Value / Employee	35	36	+ 1	+ 2.6%
ii) Operating Profit (Loss) / Employee	9	8	- 2	- 17.8%
9. Capital Efficiency Ratios				
i) Gross Sales / Fixed Asset Value	2.94	2.09	- 0.84	- 28.7%
ii) Net Profit (Loss) / Fixed Asset Value	0.14	0.11	- 0.03	- 22.5%
10. Liquidity Ratios				
i) Current Assets / Current Liabilities	1.17	1.49	+ 0.33	+ 28.2%
ii) Total Assets / Total Liabilities	1.60	1.49	- 0.11	- 6.9%
11. Export Earnings				
i) Percentage	0.52	0.61	+ 0.09	+ 16.3%
ii) Value	1,960	4,047	+ 2,087	+ 106.5%
12. Import Substitution				
i) Percentage	0.88	0.93	+ 0.05	+ 5.3%
ii) Value	3,216	2,535	- 680	- 21.2%

- **Turnover**
The turnover of the seven clients has increased on average by US\$1.4 million (22%) since the completion of the AMSCO contracts. This is double the average increase in turnover during the AMSCO interventions.
- **Profitability**
Average net and operating profitabilities have continued to improve, but at a much slower rate than during the AMSCO interventions.

- Turnover
The turnover of the seven clients has increased on average by US\$1.4 million (22%) since the completion of the AMSCO contracts. This is double the average increase in turnover during the AMSCO interventions.
- Profitability
Average net and operating profitabilities have continued to improve, but at a much slower rate than during the AMSCO interventions.
- Balance Sheet
Shareholders' equity has increased by an average of 12% since the AMSCO intervention, compared to an average reduction of 20% during the intervention periods.
- Efficiencies
Average labour and capital efficiencies have deteriorated, but the average liquidity ratios have improved by 28%, correcting a deterioration averaging 24% during the AMSCO interventions
- Exports
Export earnings have on average doubled in value since AMSCO interventions.

iv)

Summary

- 6.7 The individual case studies describe the factors which have affected the development of each of the eleven companies since the end of the AMSCO contract. With one exception all of the companies have survived financially and commercially. In addition, training continues to be an important function in all of them.
- 6.8 Overall the financial performance of these seven companies in US dollars has continued to improve steadily since the end of the AMSCO interventions. In local currency these improvements are even greater.
- 6.9 These achievements are particularly credible in view of the fact that several of the companies involved faced increasing competition from foreign imports, as a result of trade liberalisation policies and adverse local economic conditions. Since all of these companies were in financial and / or managerial distress at the time of the commencement of the AMSCO intervention their ongoing success must in large part be due to the improvements introduced during that intervention. This review indicates that the impact of AMSCO on its clients is sustainable.

Section 7. AMSCO "Failures"

i) Definitions and Method

7.1 In this study an AMSCO intervention in a client enterprise was categorised as "D" ("less than adequate") or "E" ("failure") in any of the following events:

- Either AMSCO or the client unilaterally terminated the AMSCO management services agreement prematurely;
- The client enterprise ceased to trade during the period of the AMSCO contract; or
- The AMSCO contract went to full term, but at termination the general commercial / financial condition of the client enterprise had not improved during the period of the AMSCO contract.

Of the 126 AMSCO clients to date, 29 of them fall within one of these categories (refer to Table 1, page 8).

7.2 Case studies have been prepared for 25 of these interventions, for the purpose of identifying the main causes of the failures. The studies have been based on AMSCO records and on direct contact with the clients by independent consultants.

ii) Principal causes of failure

7.3 In a high proportion of these cases the seeds of the failure of an AMSCO intervention were sown before the AMSCO managers had actually taken up their appointment with the client. The greatest number of the causes of failure of AMSCO intervention occurred during the initial process of identifying, negotiating and establishing the contractual arrangements with the client.

7.4 The three main stages of the pre-intervention process are, briefly:

- The AMSCO diagnosis / appraisal of the suitability, situation and requirements of a potential client;
- The negotiation of the specific management service agreement with the client; including the preparation of the terms of reference, specification and profile of the AMSCO field manager(s) involved in the contract; and
- The selection of the field manager(s).

In more than 75% of the cases, the eventual failure of AMSCO interventions were caused by faults that occurred in one or more of these three stages of the pre-intervention process.

7.5 The studies also revealed two post-contract factors that also contributed to the failure of AMSCO interventions:

- The failure of an involved third party (i.e. partner, investor, contractor, government, etc.) to perform in accordance with undertakings given at the time of the AMSCO contractual commitment; and
- Failure of AMSCO to monitor adequately the performance of the client enterprise and of the AMSCO field manager(s) against established and agreed standards (such as business plans and training plans).

iii) **Specific Cases**

7.6 Annex C contains typical examples from 17 clients in which inadequate or incomplete attention by AMSCO contributed significantly to the eventual failure of the 29 interventions. These details were obtained directly from sponsors and senior executives of the clients involved.

- **Inadequate initial diagnosis**

In at least 15 of the failed contracts the initial AMSCO diagnosis was inadequate. It is probable that with more thorough initial assessment many of these enterprises would not have met the requirements for AMSCO intervention. A recurring fault was the reliance by AMSCO on the appraisal or assessment made by third parties involved with the prospective client company. In several cases these third parties were AMSCO institutional and private sector shareholders. From the failure of some of these AMSCO interventions it is clear that AMSCO must undertake its own thorough independent diagnosis before entering contractual commitment with any client.

Prior to 1996, there appears to have been no standard questionnaire or set of criteria developed by AMSCO to guide staff in the selection of prospective clients and the preparation of the initial diagnosis. There were no set requirements for the documentation of the diagnosis, or set procedures for thorough internal review of proposals. Despite a tightening of standards, the quality of initial review still varies widely. Diagnosis documentation by AMSCO ranges from comprehensive to rudimentary.

- **Differences between the client and AMSCO**

The negotiations of the management service agreement and the selection of the field manager(s) are the second stage in the preparation for a successful intervention. In at least 14 of the failed contracts there were major differences of interpretation by the client and AMSCO on the role of the AMSCO manager. These probably occurred as a result of insufficient pre-contract discussion of the specific intention of the parties in the contract. As a result problems emerged at an early stage of collaboration. In many cases the lack of adequate monitoring and contact with the client allowed these problems to develop into major contractual disputes, and eventual premature termination (see below).

- Inadequate consultation with clients on the selection of field manager(s)

At least four of the contracts failed because the clients were not consulted in the selection of the AMSCO manager and subsequently found them to be incompetent and / or untrustworthy. In other cases, AMSCO accepted the managers recommended or appointed by the clients, despite misgivings regarding their suitability for the jobs.

It is obviously vital that in every case both parties must be totally satisfied that the candidates selected are suitable to fulfil the terms of reference, responsibilities and profile previously agreed. It is also essential to be assured that the personality of the manager fits well into the company structure and local context of the client.

- Failure of third parties or clients to honour commitments

Many AMSCO clients lack the funds for their expansion plans, or working capital to meet the expenses of an AMSCO manager. In these cases the assured provision of the necessary funding is an essential component for a successful AMSCO intervention.

Identifying and confirming the reliability of sources of necessary funding is a crucial part of the initial diagnosis of the prospective client, and its suitability for AMSCO assistance. Unfortunately, even with thorough checks, there have been several cases in which firm commitments given by third parties have not been honoured, or performance has been delayed to the point where it has compromised the financial position of the client. In some cases, the AMSCO diagnosis has presumed third party financial support, and contractual commitment has been made without verification of the commitment.

- Inadequate monitoring and support

The case studies revealed extensive criticism by the clients of the lack or poor quality of the monitoring and support provided by AMSCO headquarter staff to the clients and the field manager(s). These criticisms included the absence of critical reviews of technical and financial performance compared with business plan targets, and the lack of constructive feed-back. A general view was that some of the failures could possibly have been avoided had AMSCO paid closer attention to the performance of managers and clients, and followed up problems quickly and effectively. Many examples are quoted.

AMSCO appears not to apply any established procedures or standards for the regular monitoring of client and manager performance, or for maintaining regular contact. The standards of reporting by managers to AMSCO vary from comprehensive to non-existent. In several cases AMSCO received no financial or production / technical information from clients whatsoever. Broadly speaking AMSCO has failed to provide any organised constructive monitoring service of its management service contracts.

iv) **Conclusions**

7.7 The 25 case studies of the “failures” provide a clear indication of the immediately obvious causes for the failure in performance of approximately 25% of the AMSCO portfolio of clients. To these causes must be added the possibility that some of the clients involved in this group pursued the relationship with AMSCO to obtain the short-term benefits of technical assistance grants and soft loans, and other immediate benefits of an AMSCO contract, with no real intention of a longer-term relationship with AMSCO.

7.8 The case studies clearly establish two areas for improvements:

- Improvement in the quality and thoroughness of pre-contract client diagnosis and client negotiations are a vital factor in reducing the potential failures of AMSCO intervention; and
- The establishment of an effective post-contract monitoring and support mechanism is an essential part of the complete AMSCO management service, which could also contribute significantly to the reduction of the failure rate.

v) **Recommendations**

7.9 To reduce the incidence of the failure of AMSCO contracts in the future the following recommendation are presented:

- AMSCO should improve the criteria, procedures and detailed checklists for each critical stage in the process of identifying, negotiation and establishing contractual arrangements with clients. Adequate checklists would provide assurance that all vital issues have been covered and documented. Established procedures would help to guarantee a proposal has been vetted thoroughly within AMSCO prior to a contractual commitment.

To reduce the incidence of inadequate diagnosis and review, and consequential failures, these selection and negotiating procedures must be improved. Less reliance should be placed on the assessment of prospective clients by involved third parties, especially if these are AMSCO shareholders.

- It is standard AMSCO practice to require that a business plan is prepared either before or immediately following the commencement of an intervention. However, there are no standing arrangements for receiving, reviewing and responding to regular reports from clients comparing actual performance against business plan forecasts. At present “monitoring” of clients and field managers by AMSCO in the main appears to be limited to responding to crisis calls, which often come too late for any corrective remedy to be taken.

To reduce the incidence of failure, and to provide a full "management service" to clients it is necessary for AMSCO to establish a meaningful "monitoring" process and a system for regular and frequent contact with the clients and AMSCO field management teams.

- To reduce the high cost of management AMSCO should expand its manager recruitment efforts, with more concentration on Africa and the Far East professional labour markets.

7.10 These recommendations would, of necessity, involve additional staff, and would probably be most effectively operated on a regional basis, through offices in Africa.

Section 8. AMSCO Training and Management Development Programmes

i) Introduction

8.1 The Management Development Fund (MDF) was established as part of the UNDP / ATMS project to assist in meeting up to 75% of the cost of the management development programmes to be organised by AMSCO for local successor managers. The MDF was and continues to be entirely grant-funded. Training and management development are an intrinsic and vital part of AMSCO management services.

8.2 AMSCO does not undertake any of the training courses, but designs and plans the training and development programme for each client, organises regional seminars and conferences on general management and specialist subjects, and hires training contractors and consultants to present specific training events. AMSCO also commissions evaluations by independent consultants of the effectiveness and value of specific programmes.

8.3 However, the concept of the most effective programme to deliver this service has been changed by experience. The original idea of concentrating on the development of successor managers has been broadened to the aim of establishing a general "training culture" within the AMSCO clients.

ii) Availability of Funds and Costs of Delivery

8.4 The costs of administration of the AMSCO training and management development programmes were exceptionally high during the first five years (1989 – 1993), amounting to US\$2.15 million. As a result of these expenses, and the high cost of the customised development programmes for "successor" managers, the MDF was over-committed by 1995, and AMSCO was entering contracts containing training obligations beyond the guaranteed financial resources available. In early 1996 all training programmes had to be stopped or expenditure substantially curtailed.

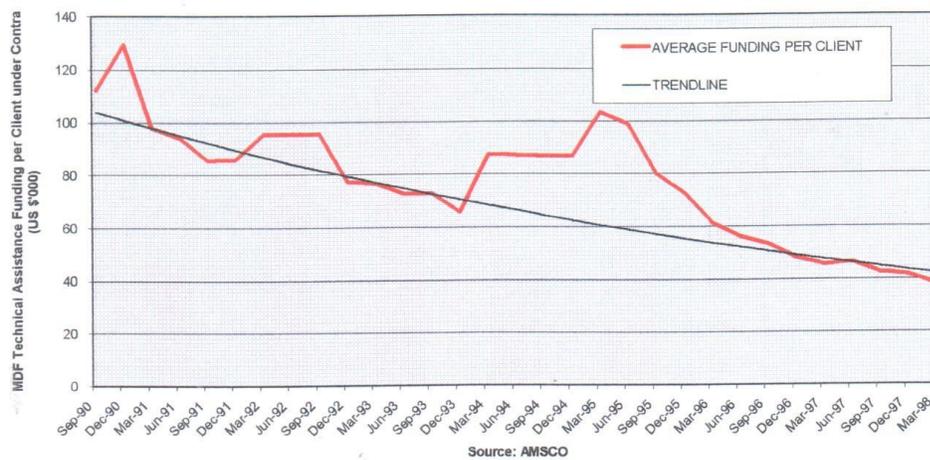
8.5 Additional donor funding of the MDF became available later in 1996, and the company has since resumed programmes, but under a more rigorous financial discipline. This included requirements for up to 50% contribution to the expenses of programmes by clients, and a target of 25% for AMSCO administration costs of the programmes. The actual administration costs were 36% in 1996 and 30% in 1997.

iii) Financial Support for Client Training Programmes

8.6 Over the past nine years US\$5.67 million from the MDF has been allocated to support training and management development programmes in 96 of the AMSCO clients (an average of US\$63,000 per client).

- 8.7 Throughout the period there has been a steady reduction in the MDF allocation to individual clients, as shown graphically in Chart 8. This reduction was due in part to the exhaustion of the original subscriptions to the MDF and the difficulty of securing replenishments. This led to a more rigorous policy of requiring a larger proportion of the funding for training programmes to be contributed by the clients themselves.

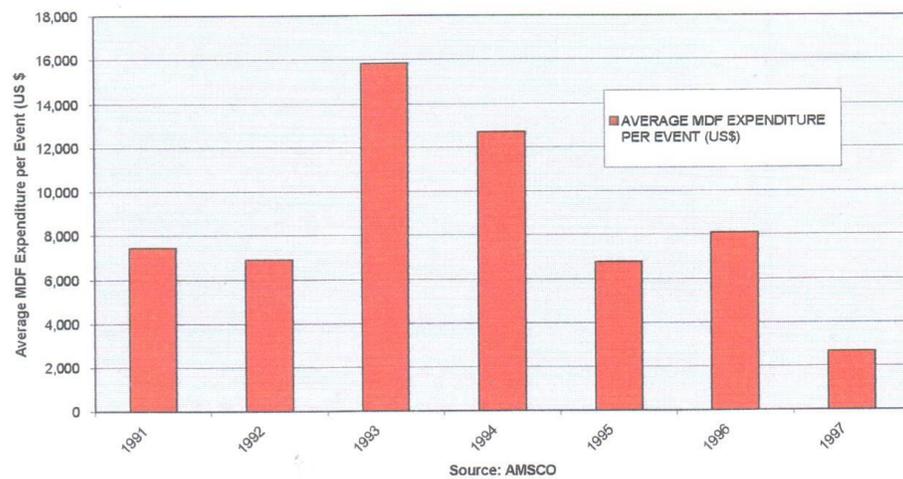
Chart No. 8 : Average Technical Assistance Funding Support for Training (MDF) per AMSCO Client under Contract, 1989-1998 (US \$'000)



- 8.8 The growing size of the portfolio over the past four to five years has also enabled the programmes to benefit from economies of scale. In addition AMSCO has negotiated several cost-sharing training programmes with development-oriented donor organisations, such as ExIm (India), the Commonwealth Secretariat (UK), and SIDA (Sweden). It has also increasingly used local training institutes and trainers, group training, and on-the-job training courses to reduce the unit training expenses. As a result the average MDF contribution of US\$100,000 to individual client training programmes in 1990 had been reduced to US\$40,000 per client in early 1998 (the eleven clients reviewed in the 1995 Impact Study had an average MDF support of US\$79,500 per company).
- 8.9 The trend of the average cost of individual training events (courses) organised by AMSCO is illustrated in Chart 9. This shows that after an initial increase

in average unit event costs to US\$15,800 in 1993, average cost has been progressively reduced through experience and prudent management to less than US\$3,000 per event in 1997.

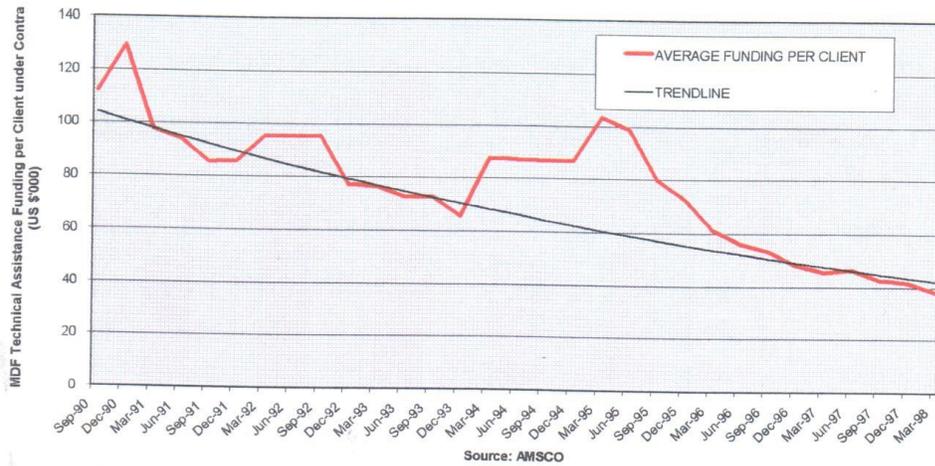
Chart No. 9 : AMSCO Training, 1989-1998 - Average MDF Expenditure per Event (US\$)



8.10 This increasing efficiency in the use of MDF is illustrated more sharply in Chart 10, which shows the decline in the average cost per attendee at AMSCO training events. This has declined from US\$12,000 in 1993 to less than US\$1,000 in 1997.

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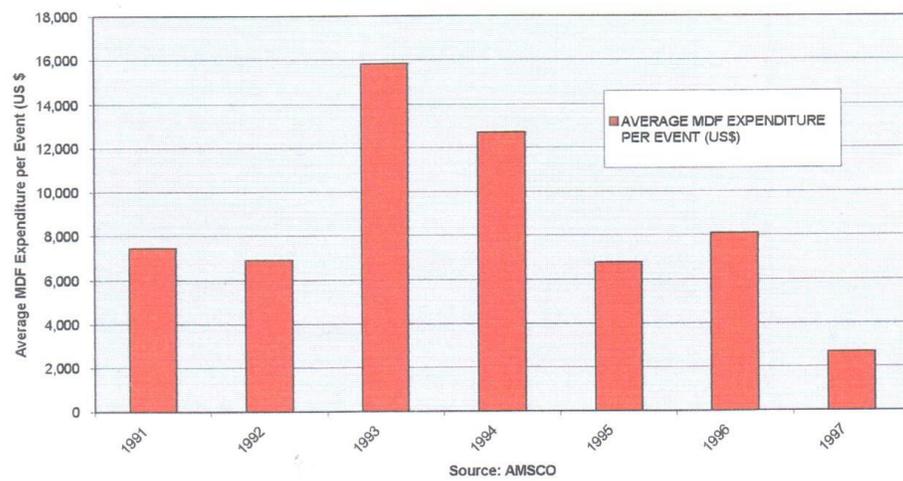


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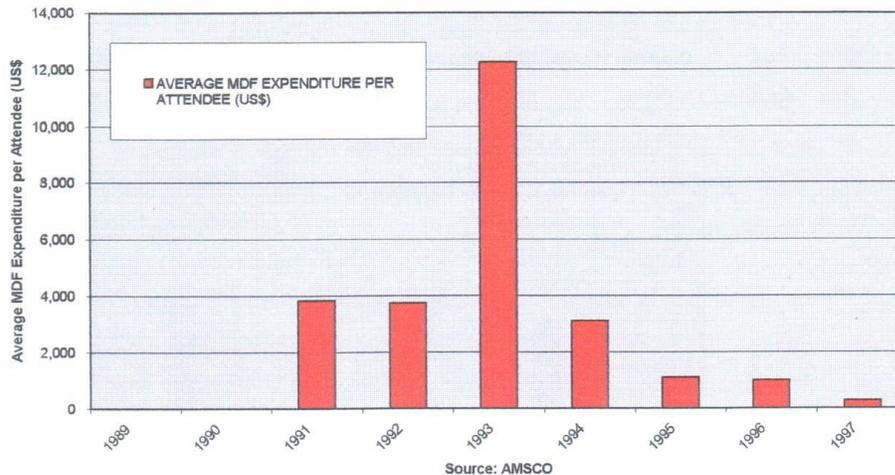
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Chart No. 10 : AMSCO Training, 1989-1998 - Average MDF Expenditure per Attendee (US\$)



iii) **Changing Focus of Training Programmes**

- 8.11 Underlying these financial statistics is a significant change in the priorities of the AMSCO development department. The original stated purpose of the MDF was to train and develop indigenous senior executives to replace the seconded AMSCO managers in the later stages of the intervention period. This tended to involve a limited number of executives being exposed to customised programmes of training. These often included lengthy and costly full-time formal educational courses out-of-country.
- 8.12 This policy was redirected in 1994, as the result of a critical review by an independent consultant, to provide a broader spectrum of training, and to include middle management and staff within the programme. The concept was to create a positive “training culture” within each client that would be sustained after the completion of the AMSCO contract.
- 8.13 The impact of this redirection of the MDF training programmes is clearly shown in Chart 11. For the first five years of AMSCO operation training was concentrated almost exclusively on the executive management of client enterprises, typically between 25 to 40 training events per year, the majority being external courses, many out of country. In 1992/3 there was a very modest start in joint management and staff training events, which were developed to 35 events in 1997. Concurrently programmes for staff,

particularly on-the-job training, were introduced. By 1997 this was the largest component of the overall programme of 157 events, aimed at providing a balanced and integrated range of training and management development opportunities to AMSCO clients.

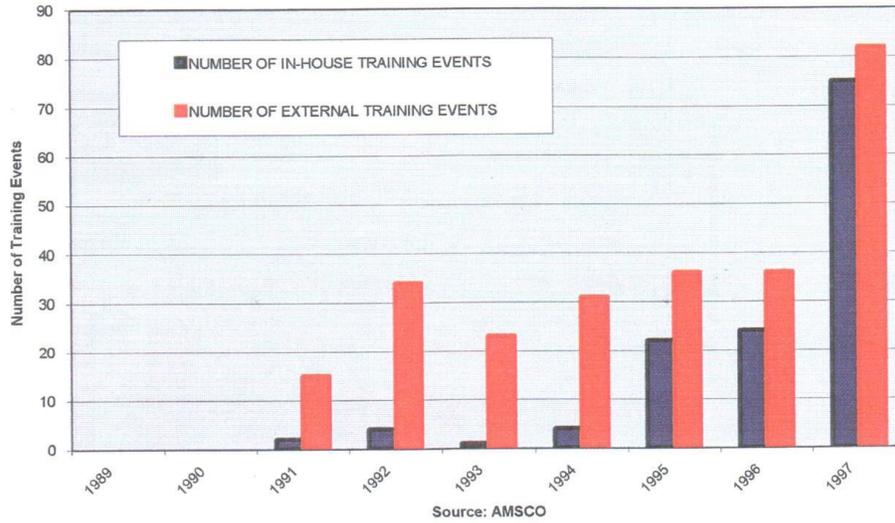
Chart No. 11 : AMSCO Training, 1989-1998 - Relative Amounts of Training for Staff and Management (Number of Events)



8.14

Simultaneous with this redirection of the programme there was a deliberate policy to increase the proportion of training events conducted in-house in clients. This was more appropriate for group training, reducing both the direct and indirect costs to the client. From a very modest level in 1993, by 1997 in-house training events exceeded externally held events. This relative growth is illustrated in Chart 12.

Chart No. 12 : AMSCO Training, 1989-1998 - In-House and External Training Events



8.15

The growth of the training programme followed closely the growth of the client portfolio. The number of participants in the overall programme in 1994 was 160 employees; in 1997 this had increased ten-fold to 1,550 employees. The organisational impact of this dramatic increase was ameliorated to some degree by the increase in the number of group training events: In 1992 the average number of attendees at training events was less than two, but by 1997 this had increased to an average of ten. These trends are illustrated graphically in Charts 13 and 14.

Chart No. 13 : AMSCO Training, 1989-1998 - Average Number of Attendees per Training Event

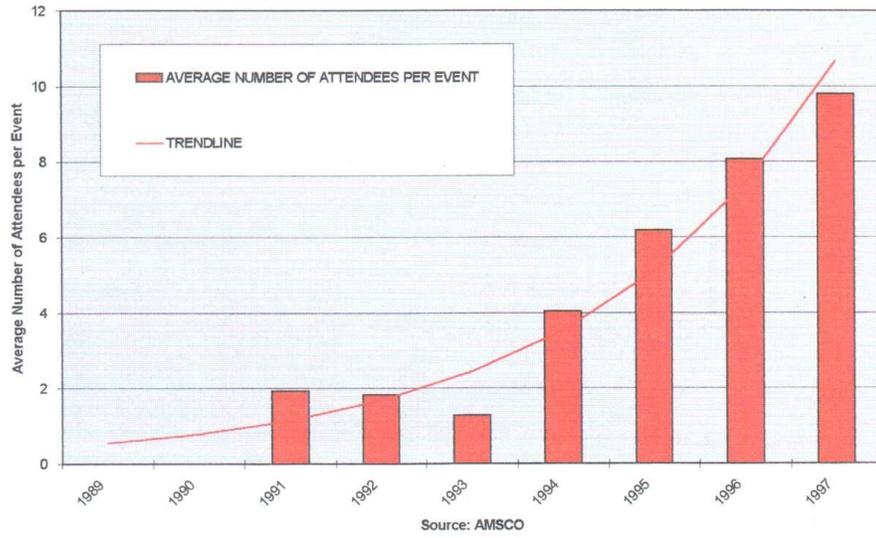
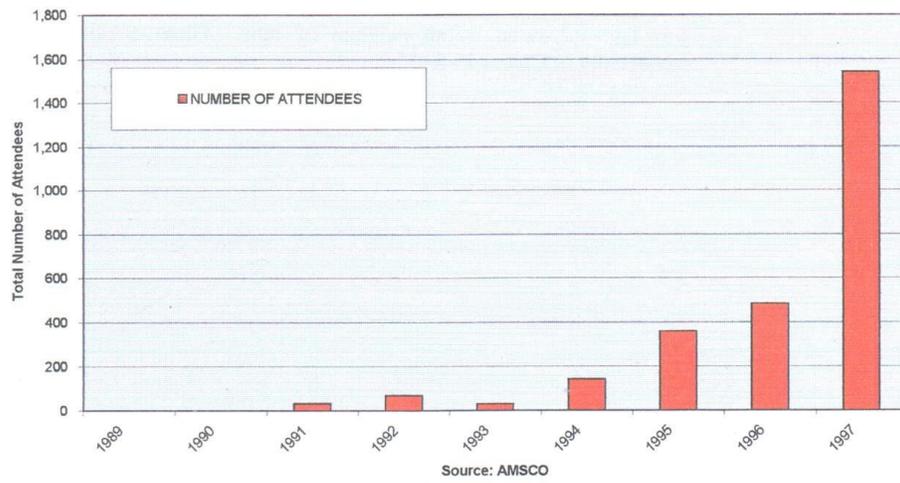


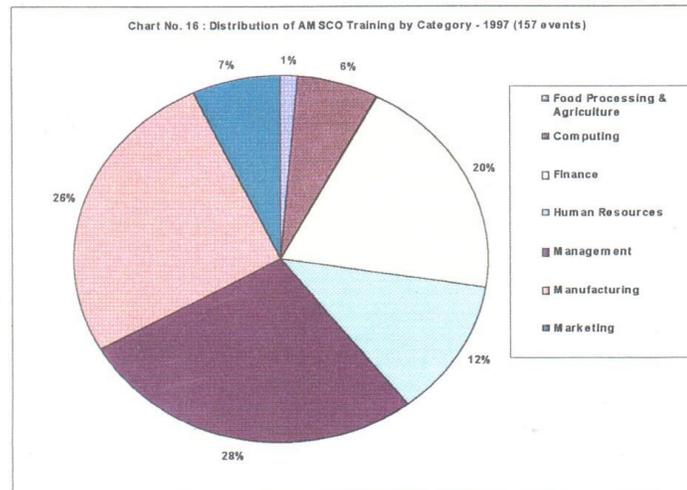
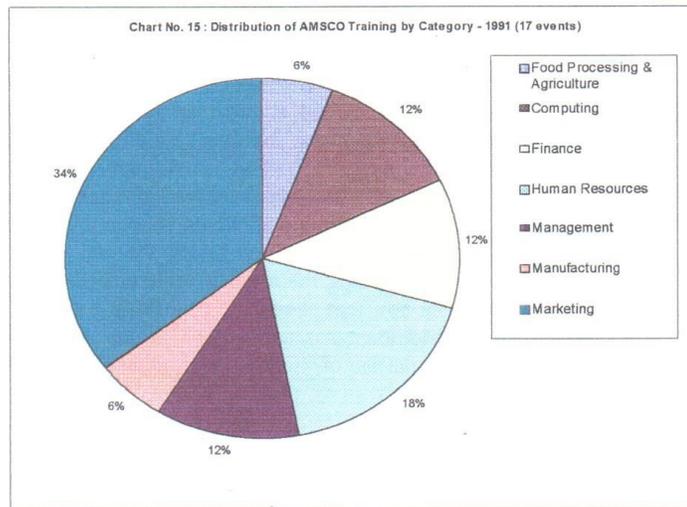
Chart No. 14 : AMSCO Training, 1989-1998 - Total Number of Attendees



iv) **Scope of Training Programmes**

8.16

Since AMSCO inauguration in 1989 AMSCO has provided 389 courses, involving 2,661 client employees. One third of the courses were provided in-house. The training courses provided to clients through the AMSCO programmes cover a wide range of subjects, from marketing to food processing and agricultural technology. The relative number of training courses provided, by subject matter, is illustrated in Charts 15 and 16, which compare training in 1991 with that undertaken in 1997.



8.17 In 1991 a total of 17 training "events" were provided to clients by AMSCO. Marketing courses were the largest group (6 events) followed by Human Resources (3), Finance (2) and Management.

8.18 In 1997, during which 157 training events were provided, the "mix" had changed. Management, Manufacturing and Finance were the predominant numbers, with Marketing and Human Resources much less represented (although jointly amounting to 30 training events, compared to 9 in 1991).

v) **Summary**

8.19 In 1994 AMSCO made a significant change in its approach to the form of management development and training programmes appropriate for its clients. The new policy, aimed at creating a broadly-based "training culture" within client enterprises, involved building up a new type of training event and trainer. This trend is still underway, but analysis indicates that much progress has been achieved in extending the range of courses to the specific requirements of clients, substantially increasing the number of trainees, and significantly reducing the unit costs of training events. The policy of meeting the training requirements of the clients is particularly important now that clients are contributing a major portion of the cost. This development has encouraged clients to participate more directly in the formulation of training and management development programmes.

8.20 AMSCO organises regional and international workshops, seminars and conferences that provide valuable development and networking opportunities to its clients. This fulfils an important specific objective of the original project proposal.

8.21 In addition to gaining control and reducing the unit costs of training events, AMSCO is close to achieving its goal of reducing its overhead expenses incurred in the administration of the MDF to 25% of total expenditure.

Section 9. Summary, Conclusions and Recommendations

i) Summary and Conclusions

- 9.1 The analysis of the case studies and financial data shows that AMSCO has had a positive impact in approximately two-thirds of the 95 clients whose contracts were commenced prior to January 1, 1997.
- 9.2 The review of the training and management development programmes shows that over the same period there have been significant improvements in the areas of the range, cost and quantity of training units provided by AMSCO.
- 9.3 The very rapid increase in the volume of the clients over the past four years has enabled the company to come closer to achieving financial break even. This expansion was achieved with no increase in the headquarters management / staff of AMSCO. One of the consequences of this development has been the deterioration in the quality of some of the services of the company, including the pre-contract initial diagnosis of prospective AMSCO clients and particularly the post-contract monitoring of the performance of clients and field managers.
- 9.4 In the light of these findings it is clear that there should be a period of consolidation of the achievements of the past years. This would provide an opportunity for the company to tighten up the procedures and processes of the company and to improve the quality of the whole range of management services provided by AMSCO.
- 9.5 The following detailed conclusions relate to specific individual areas of AMSCO performance:

Management Services

- AMSCO has grown almost exponentially in recent years, with no increase of the human resources available to supervise the portfolio. This has led to a deterioration in some of the services of the company, in particular pre-contract diagnosis and client monitoring.
- Since early 1997, the lack of funding to assist client companies to meet the expenses of AMSCO field managers has limited the possibility of smaller companies using AMSCO services.
- The lack of information in AMSCO headquarters on the condition and performance of many AMSCO clients, including some current interventions, indicates inadequate contact and monitoring by the AMSCO operations department.
- The "failure" rate of AMSCO interventions, although within the limits of the original project proposal, could be reduced by more effective pre-contract diagnosis and post-contract monitoring.
- The programme overload, concentration of effort on acquiring new clients, and the physical remoteness of the AMSCO operating staff in Amsterdam are inhibitions to effective contact and communication with clients and field managers.

- Since 1995 few of the AMSCO management services contracts contained provisions for a performance-related bonus, despite the increasing demand for AMSCO services.

Training and Management Development Services

- The management development function of AMSCO has been successfully re-oriented, and is now offering a wide range of in-house and external training courses, workshops, seminars and conferences.
- Unit costs of the training and management development events provided through AMSCO have been very substantially reduced, and AMSCO administration expenses are now at an acceptable level.
- The lack of integration between the AMSCO operations and development departments is damaging the efficiency of client monitoring and the benefit of shared information and experience.
- AMSCO has built up considerable forward contractual commitments for the supply of management services to the 63 clients now under active contract. Currently there are not sufficient guaranteed donor contributions to the MDF to meet all of the AMSCO obligations to training and management development costs required under these contracts.

ii)

Recommendations

9.6

The main recommendations of the study are:

- For AMSCO to continue to provide financial support for the costs of management services to SME clients, and to contribute financially to the management development programmes of all clients it is essential to obtain commitments from donors sufficient to cover fully all forward contractual obligations of AMSCO.
- AMSCO should require the inclusion of performance-related bonus provisions in its contracts. Earnings from such provisions would enable the company to provide financial incentives to field managers, and to contribute to the MDF and the AMSCO “bottom line”.
- To help reduce the incidence of AMSCO failures resulting from inadequate pre-contract assessment it is recommended that AMSCO:
 - i) prepare target profiles for potential clients to fit the current marketing policy of the company, as agreed by the Board;
 - ii) prepare a standard outline form of diagnosis, covering all of the essential issues and covenants to be covered in the initial assessment of a prospective client;
 - iii) strengthen the existing procedures for “peer group” review of proposals to proceed to negotiation of a management service agreement, and for the subsequent review of the agreements to be presented to senior management for approval.

- To help reduce the incidence of AMSCO failure resulting from inadequate monitoring and support of the clients and field managers during the course of the intervention it is recommended that AMSCO:
 - i) ensure that all field managers comply with the requirement in their employment contracts to produce within 90 days of taking up the field appointment a business plan or technical performance schedule (as appropriate), for discussion and agreement with AMSCO and the client Board ;
 - ii) include in every client agreement and field manager employment contract a provision for the submission to AMSCO of regular summary reports on the financial and technical performance of the of the client, combining comparison with business plan and details of any exceptional matters arising;
 - iii) install and maintain a system for recording and analysing the critical financial and technical performance of clients, for regular management monitoring reports.

- To improve its efficiency, it is recommended that AMSCO:
 - i) restructure the management of AMSCO (as proposed in the 1997 Strategic Plan) to integrate more closely the three main departments (operations, management development, and finance / administration);
 - ii) establish, where cost effective, regional offices in Africa, staffed sufficiently to be responsible for direct contact with prospective clients, active clients and field managers, and to be the front-line contact point with regional stakeholders in the ATMS / AMSCO project (i.e. UNDP, government, donor representatives, local banks, training institutes, etc.);
 - iii) organise in-house training for both operations and development department staff in report-writing, financial analysis, contract negotiation, and communication skills;
 - iv) strengthen the concept that the responsibility of every staff member is to improve the AMSCO overall "process" of assisting clients to achieve international standards of performance and competition. Staff must understand that "success" is a successful client, not a contract signed or a training programme completed. Group consultation at critical stages of a client relationship should be the norm, and staff rotation between departments should be considered.

ANNEX A: SCHEDULE OF AMISCO CLIENTS (as at March 31, 1998)

NO	COUNTRY	COMPANY NAME	SECTOR	CATEGORY / SIZE	TURNOVER (US\$'000)	NO. EMPLOYEES	AMISCO INTERVENTION (ACTUAL)			TOTAL (as at 31.3.98)	Technical Assistance Funds Provided to Clients			
							MINSRS	COMMENCEMENT	TERMINATION		FMO GRANT (NLG)	FMO LOAN (NLG)	MLF US\$ (US\$)	MDF (NLG)
1	Angola	Cervil	Mfr. (Brewing)	Large/Joint Venture	12,000	1,500	8	01-Jun-92	31-Mar-94	33	179,000	0	1,004,787	475,000
2	Angola	Miyaid	Agri. (Eggs/Poultry)	Small	160	40	1	01-Jun-92	31-Mar-94	22	0	0	0	76,500
3	Burkina Faso	SAP	Mfr. (Tyres)	Large/Rehab.	11,330	579	1	15-Jul-90	14-Jul-95	60	141,000	330,000	175,492	370,129
4	Burkina Faso	BICIA-B	Fin. Serv. (Banking)	Large/Rehab.	17,163	22	1	01-Sep-96	31-Oct-00	19	0	0	0	0
5	Cameroon	Commercial Bk Cameroon	Fin. Serv. (Banking)	Medium/Start-Up	2,400	153	3	01-Nov-97	14-Feb-98	5	0	0	443,509	390,600
6	Cape Verde	Ceris	Mfr. (Brewing)	Medium/Joint Venture	7,050	121	2	15-Feb-93	14-Feb-96	36	0	0	0	136,000
7	Chad	AfricaVance	Food Process. (Meat for Export)	Small/Start-Up	nil	47	2	01-Oct-97	30-Sep-00	6	0	0	0	136,000
8	Gabon	CFG	Mfr. (Plywood)	Large/Privatization	53,000	765	5	14-Dec-94	31-Dec-96	24	200,000	361,000	239,456	39,146
9	Gambia	GPMB	Agri. (Groundnut processing)	Large/Privatization	8,260	432	3	01-Nov-93	31-Jul-93	26	88,000	0	63,232	50,000
10	Ghana	Appleh Menka	Mfr. (Soup)	Medium/Expansion	291	230	1	01-Nov-93	30-Nov-95	35	200,000	115,000	55,280	195,000
11	Ghana	Alugan	Mfr. (Aluminium Bkg Prod)	Medium/Expansion	1,400	50	1	01-Jul-94	31-May-96	23	200,000	115,000	0	120,000
12	Ghana	Cal Merchant Bank	Fin. Serv. (Merchant Banking)	Medium	5,700	134	1	01-Nov-94	31-Jan-96	12	200,000	50,000	0	120,000
13	Ghana	Ghana Leasing	Fin. Serv. (Leasing)	Small	4,000	20	1	01-Feb-95	31-Oct-96	21	200,000	111,000	0	120,000
14	Ghana	Astak	Food Process. (Juices)	Medium	6,500	120	1	01-Jun-95	31-May-96	12	200,000	119,500	0	120,000
15	Ghana	Shang-Ha	Hotel Services	Medium	1,900	253	1	01-Jun-95	31-May-96	12	200,000	95,000	0	0
16	Ghana	Karacollan	Construction (Roads)	Large/Expansion	6,800	1,200	1	15-Oct-95	14-Aug-96	10	200,000	322,000	0	76,500
17	Ghana	Gadi Coalat	Auto (Sales & Service)	Small	4,000	54	2	01-Oct-95	14-Aug-96	10	200,000	87,500	0	76,500
18	Ghana	Scoc (Ghana)	Auto (Sales & Service)	Medium	4,207	165	1	18-Feb-96	31-Jan-99	25	200,000	111,000	0	120,000
19	Ghana	Soun Alim	Mfr. (Cocoa Cakes)	Small	1,723	45	1	01-Apr-96	31-Mar-99	24	200,000	50,000	0	76,500
20	Ghana	Dipaul	Mfr. (Wood products)	Medium	9,000	150	1	01-May-95	30-Nov-98	23	88,673	0	0	91,800
21	Ghana	Vool	Auto (Sales & Service)	Small	5,000	90	1	01-Jan-97	31-Dec-00	15	200,000	130,000	0	95,000
22	Ghana	Tara Systems	Computers (software)	Small	2,200	40	1	01-Sep-97	29-Feb-00	7	0	0	0	242,500
23	Ghana	BMK	Mfr. (Particle boards)	Medium/Start-Up	3,829	111	2	01-Apr-97	31-Mar-00	12	0	0	0	194,000
24	Ghana	Samarrex Timber	Timber (Processing)	Large/Expansion	23,008	1,500	19	01-Apr-97	31-Mar-00	12	0	0	0	194,000
25	Ghana	Ghana Pinewood	Timber (Processing)	Large	18,000	1,700	10	01-Apr-97	31-Mar-00	12	0	0	0	194,000
26	Ghana	Interplast	Mfr. (Plastic Pipes)	Medium/Expansion	3,800	141	1	01-Jul-97	30-Jun-00	9	0	0	0	76,500
27	Ghana	Ghana Manganese	Mining	Large	13,000	740	6	01-Jan-98	31-Aug-99	3	0	0	0	7
28	Ghana	BICH-G	Fin. Serv. (Banking)	Large	16,210	390	1	01-Sep-96	31-Aug-99	19	0	0	695,250	25,000
29	Ghana	ADP	Serv. (Distribution/Retailing)	Medium/Joint Venture	5,000	339	3	01-Nov-92	31-Oct-95	36	0	0	237,415	135,000
30	Ghana	Agribissau	Agri. (cashew, mango, citrus)	Small/Start-Up/Joint Venture	nil	60	1	01-Jul-93	31-Oct-97	51	200,000	135,500	0	150,000
31	Ghana	Cler	Food Process. (Beverages)	Medium/Joint Venture	1,400	156	2	01-Jul-93	31-Jan-98	33	200,000	387,500	0	76,500
32	Ghana	Yenda	Agri. (Footwear)	Small/Start-Up/Joint Venture	424	58	1	01-Jan-96	15-Sep-97	20	207,500	0	0	5,385
33	Ivory Coast	Stalin	Agri. (Dairy)	Medium/Rehab.	1,000	180	2	01-Jan-91	29-Feb-92	14	0	0	296,163	0
34	Ivory Coast	Sabra	Food Process. (Soft Drinks)	Small/Start-Up	1,332	87	2	01-Jul-96	30-Jun-99	22	210,000	100,000	0	76,500
35	Ivory Coast	Seaways	Heavy Eng. (Foundry)	Small	1,800	53	2	01-Sep-96	31-Dec-97	16	0	0	0	136,000
36	Ivory Coast	Fluore Tissage Conf	Textile (Printed Cotton-Wax)	Large/Expansion	2,200	1,043	3	08-Aug-97	17-Aug-00	8	0	0	0	136,000
37	Ivory Coast	Convo	Textile (Cotton-rw & printed)	Large/Expansion	22,000	1,290	1	01-Sep-97	31-Aug-00	7	0	0	0	136,000
38	Ivory Coast	Pengola	Hotel Services	Small/Start-Up	20,000	1,290	3	26-Oct-97	25-Oct-99	6	0	0	0	136,000
39	Ivory Coast	House of Manji	Food Process. (Cereal biscuits)	Large	nil	78	3	01-Aug-97	31-Jul-99	8	0	0	0	0
40	Ivory Coast	Mourlex	Textile	Medium/Expansion	4,720	386	1	01-Sep-92	31-Aug-96	36	215,000	0	146,850	225,000
41	Kenya	Saidh Pains	Mfr. (Pains)	Large/Expansion	12,300	1,000	3	01-Jan-93	31-Jun-96	25	200,000	110,000	109,650	76,897
42	Kenya	H.M Weesbuz	Food Process. (Powdered Milk)	Medium/Rehab.	4,100	124	1	01-Apr-93	31-Mar-96	36	284,000	0	214,200	240,000
43	Kenya	Prestige Packing	Mfr. (Plastic Products)	Medium	4,500	50	1	15-Aug-94	01-Jun-95	5	285,000	0	182,107	100,000
44	Kenya	Wilken	Telecommunications	Small	7,862	220	1	01-Oct-95	30-Sep-96	29	200,000	151,000	0	76,500
45	Kenya	Kenap	Textile (Garments)	Large/Joint Venture	1,962	68	1	01-Mar-96	30-Sep-96	7	0	0	0	0
46	Kenya	Kenap	Fin. Serv. (Fund Management)	Small/Joint Venture	272	800	2	01-Jul-97	30-Jun-00	8	0	0	0	0
47	Kenya	Kenap	Fin. Serv. (Fund Management)	Small/Joint Venture	?	?	2	01-Sep-97	31-Aug-99	8	0	0	0	0
48	Kenya	Kenap	Fin. Serv. (Fund Management)	Small/Joint Venture	?	?	15	01-Sep-97	31-Aug-99	8	0	0	0	0

ANNEX A. SCHEDULE OF AMSCO CLIENTS (as at March 31, 1998)

CLIENT INFORMATION (at commencement of AMSCO intervention)		SECTOR		* CATEGORY / SIZE	TURNOVER (US\$000)	EMPLOYEES	NO. EMPLOYEES	AMSCO INTERVENTION (ACTUAL)	TOTAL (as at 31.3.98)	Technical Assistance Funds Provided to Clients			
NO	COUNTRY	COMPANY NAME	SECTOR	* CATEGORY / SIZE	TURNOVER	EMPLOYEES	NO. EMPLOYEES	MNGRS COMMENCE	TERMINATION (MTHS)	FMO GRANT (NLG)	FMO LOAN (NLG)	MLF US\$ (US\$)	MDF (NLG)
49	Madagascar	Sud Corfection	Textile (Pullovers)	Medium/Start-up/Join Venture	1,371	3	220	3	01-Oct-96	30-Sep-98	0	0	0
50	Madagascar	South Textiles Madagascar	Textile (Pullovers)	Medium/Expansion	5,719	400	2	2	01-Nov-96	31-Oct-98	200,000	0	83,084
51	Madagascar	Tami Knitwear	Textile	Large/Start-up/Join Venture	2,000	1,981	11	1	01-Sep-97	31-Aug-99	0	0	27,738
52	Madagascar	Madcom	Computer (Desktop Publishing)	Small/Join Venture/Expansion	367	80	2	2	01-Nov-90	01-Nov-93	0	190,000	300,000
53	Malawi	Grain and Milling	Food Process. (Milling)	Large/Privateisation	18,700	1,100	2	2	01-Nov-90	01-Dec-94	0	0	225,000
54	Malawi	Scandiff	Mining (Drilling Equip/Pumps)	Small	400	30	1	1	20-Jun-91	20-Dec-94	42	400,000	72,500
55	Malawi	Indefund	Fin. Serv. (Polypropylene Sacks/Nets)	Medium	1,026	26	2	2	01-Nov-95	28-Feb-97	16	200,000	0
56	Malawi	Bianjira Nesting	Hotel Services	Small/Start-up	2,588	408	2	2	26-Sep-94	25-Sep-96	24	198,000	0
57	Malawi	Grand Hotel	Hotel Services	Small/Expansion	1,599	89	2	2	01-Nov-95	31-Oct-98	29	200,000	400,000
58	Malawi	SGS	Auto (Sales/Rehab)	Small/Privateisation	1,672	41	1	1	01-Jul-97	30-Jun-00	9	0	0
59	Malawi	Hotel Kenaga	Hotel Services	Large/Expansion	2,790	131	1	1	01-Dec-97	30-Nov-00	4	0	0
60	Malawi	Grande Confiserie du Mill	Food Process. (Milling)	Medium	13,000	312	1	1	01-Dec-97	30-Nov-00	4	0	0
61	Malawi	Societe Omnium	Food Process. (Pastry/Sweets)	Medium/Start-up	4,000	120	1	1	01-Sep-97	31-Aug-99	7	0	0
62	Malawi	Societe Omnium	Transport (Shipping)	Small/Join Venture/Expansion	212	53	1	1	01-Jun-94	31-May-96	24	160,000	0
63	Mauritius	Imprint	Computer (Desktop Publishing)	Small/Expansion	14,111	630	5	5	01-May-96	31-Jul-98	23	200,000	400,000
64	Mauritius	Shobri	Textile (Fashion Knitring)	Large/Expansion	16,395	960	4	4	01-Oct-96	30-Apr-97	7	200,000	0
65	Mauritius	Aquarels	Textile (Shirt Mfr.)	Large/Join Venture/Expansion	30,337	2,500	3	3	01-Oct-96	30-Apr-97	7	155,000	0
66	Mauritius	Tropic Kith	Textile	Large/Expansion	1,668	730	3	3	01-Oct-96	30-Sep-98	18	200,000	0
67	Mauritius	Sweat Sun	Textile	Medium/Expansion	5,142	260	3	3	01-Oct-96	30-Sep-98	17	200,000	0
68	Mauritius	Consolidated Dyeing	Textile (Dyeing)	Medium/Expansion	4,204	220	1	1	10-Nov-96	30-Sep-98	18	200,000	0
69	Mauritius	Taylor Smith	Engineering (Ship Bldg & Repair)	Medium/Expansion	634	300	1	1	01-Jun-95	31-May-98	34	200,000	175,000
70	Mauritius	Agripro	Agri. (Cattle)	Medium/Start-up/Join Venture	773	32	3	3	01-Apr-97	31-Mar-00	12	200,000	45,000
71	Mozambique	Nevano	Transport (Maritime)	Small/Start-up/Join Venture	1,060	16	1	1	18-Sep-95	14-Apr-99	36	200,000	220,000
72	Namibia	ODC	Offshore Development	Small/Start-up	2,858	7	2	2	22-Oct-91	21-Oct-94	36	365,000	0
73	Namibia	CPL	Mfr. (Cosmetics)	Small	820	60	5	5	01-Aug-92	31-Jul-95	39	310,000	212,042
74	Nigeria	Birna	Agri. (Maize/Soybeans)	Small	773	7	2	2	01-Aug-92	31-Jul-95	39	500,000	0
75	Nigeria	Dani Foods	Food process. (Soft Drinks/Water)	Small	820	60	5	5	01-Aug-92	31-Jul-95	39	500,000	0
76	Nigeria	OU Bros	Mfr. (Footwear)	Small	1,000	7	1	1	01-Jul-93	31-Mar-94	9	473,000	0
77	Nigeria	Helena Farms	Agri. (Cut Flowers for Export)	Small	1,000	48	2	2	01-Jul-93	30-Jun-97	36	200,000	400,000
78	Nigeria	Soca	Agri. (Dairy)	Small/Expansion	1,200	48	2	2	01-Jul-93	30-Jun-97	36	200,000	0
79	Senegal	Express Transit	Transport (Fwding Agents)	Medium/Expansion	4,865	245	3	3	01-Aug-91	30-Sep-92	14	500,000	0
80	Senegal	Delta Ocean	Retail/Distribution Services	Medium/Rehab.	1,272	0	0	0	26-Oct-92	22-Jun-93	3	0	0
81	Senegal	Fillill	Food Process. (Fish)	Small/Rehab.	33,069	2,000	1	1	20-Oct-92	22-Oct-94	24	150,000	0
82	Senegal	Africamer	Fishing/Fish Processing	Large/Rehab.	648	20	1	1	18-Jun-93	16-Jun-94	12	201,500	0
83	Senegal	Probat	Mfr. (Pre-cast Products)	Small/Rehab.	20,877	360	2	2	08-Sep-96	30-Sep-99	30	0	0
84	Senegal	BICIS	Fin. Serv. (Banking)	Large/Expansion	4,000	150	2	2	23-Mar-97	22-Mar-99	12	0	0
85	Senegal	NBA	Mfr. (Brewing)	Medium/Expansion	1,100	20	1	1	01-Apr-97	31-Mar-00	12	0	0
86	Senegal	Saprom	Music	Small/Expansion	4,000	45	2	2	01-Sep-95	30-Sep-98	31	201,000	0
87	Senegal	RDC	Consultancy	Small/Start-up	5,097	7	8	8	01-Oct-97	30-Sep-99	6	0	0
88	South Africa	OBham	Marketing Service	Small/Start-up	7,692	400	3	3	01-Mar-96	28-Feb-99	25	0	0
89	South Africa	SIDC	Fin. Serv. (Dev. Finance)	Medium	1,300	700	3	3	01-Mar-96	06-Feb-92	17	0	908,676
90	Swaziland	Swaibank	Fin. Serv. (Banking)	Small	972	50	1	1	01-Apr-93	01-Jun-95	26	125,759	43,690
91	Tanzania	New Sugar Company	Agri. (Sugar Estate)	Small	30	30	1	1	01-Jun-94	31-May-97	36	200,000	147,926
92	Tanzania	Shanley & Sons	Mfr. (Saus)	Small/Start-up	972	158	1	1	01-Jun-94	03-Oct-97	36	200,000	240,000
93	Tanzania	Siddon Patis	Tourism (Game Fishing & Resort)	Medium	5,000	150	1	1	01-Jul-95	06-Oct-96	15	200,000	164,500
94	Tanzania	Misradio	Mfr. (Turnery)	Medium	N/A	115	4	4	01-Sep-96	31-Aug-99	19	200,000	100,000
95	Tanzania	Kibarae Brick Fact.	Mfr. (Bricks)	Small/Start-up	1,938	62	1	1	07-May-97	06-May-00	11	0	0
96	Tanzania	TDFL	Fin. Serv. (Dev. Finance)	Medium	400	400	50	50	01-Jul-97	delayed	0	0	0
97	Tanzania	TPS Serena Hotel	Hotel Services	Small	0	0	0	0	01-Jul-97	delayed	0	0	0
98	Tanzania	Tanzania Zanzibar	Hotel Services	Small	0	0	0	0	01-Jul-97	delayed	0	0	0

ANNEX A. SCHEDULE OF AMSCO CLIENTS (as at March 31, 1998)

CLIENT INFORMATION (at commencement of AMSCO Intervention)		SECTOR		* CATEGORY/SIZE	TURNOVER (US\$000)	NO. EMPLOYEES	AMSCO INTERVENTION (ACTUAL)		TOTAL (see at 31.3.98)	Technical Assistance Funds Provided to Clients				
NO	COUNTRY	COMPANY NAME	SECTOR	* CATEGORY/SIZE	TURNOVER (US\$000)	NO. EMPLOYEES	MNGRS	COMMENCE	TERMINATION	(MTHS)	FMO GRANT (NLG)	FMO LOAN (NLG)	MLF US\$ (US\$)	MDF (NLG)
					TURNOVER		MNGRS	COMMENCE	TERMINATION	(MTHS)	FMO GRANT	FMO LOAN	MLF US\$	MDF
101	Togo	Eco Bank	Fin. Serv. (Bank)	Large/Expansion	7	800	2	01-Sep-97	31-Aug-00	7	0	0	0	0
102	Togo	Barque Sans Frontiere	Fin. Serv. (Bank)	Small	200	7	1	01-Jan-98	31-Dec-99	3	0	0	0	0
103	Togo	APMC	Mfr. (Construction Material)	Small/Start-up	720	60	1	01-Dec-97	31-Dec-99	4	0	0	0	68,000
104	Togo	ITP	Mfr. (Plastic Tubewells)	Small/Joint Venture/Expansion	2,865	80	2	01-Feb-94	31-Mar-96	26	0	500,000	0	290,000
105	Togo	BTCI	Fin. Serv. (Banking)	Medium	20,000	70	1	01-Sep-96	31-Aug-98	18	0	0	0	0
106	Uganda	Universal Foods	Agri. (Caramon)	Medium/Expansion	200	75	1	15-Feb-92	15-Feb-94	24	143,000	0	0	89,784
107	Uganda	Katanga Farms	Agri.	Small	251	60	1	01-Feb-93	31-Jan-94	12	137,000	0	0	53,646
108	Uganda	Pripak	Mfr. (Printing/Packaging)	Small	2,059	35	3	01-Feb-93	31-Jan-94	12	0	0	450,000	0
109	Uganda	Nge-Ga	Food Process. (Fish)	Medium	1,700	111	1	10-Jun-94	01-Jan-95	7	0	375,000	48,800	1,740
110	Uganda	Nutti Products	Food Process. (Seed Crop Oils)	Small/Start-up	354	30	1	18-Sep-95	28-Feb-96	5	200,000	123,500	0	76,500
111	Uganda	Sambyle River Lodge	Hotel Services	Small/Start-up	512	27	1	16-Jan-97	14-Mar-00	15	200,000	69,335	0	2,159
112	Zambia	Zaifco	Timber (Milling & Forest Mngt)	Large/Privateisation	12,338	?	4	01-Apr-93	07-Feb-94	10	0	0	169,132	0
113	Zimbabwe	Jongwe	Mfr. (Printing Press)	Small	620	70	1	01-Aug-93	31-Oct-95	27	0	0	0	42,500
114	Zimbabwe	Zinglass	Mfr. (Glass/Plastic Bottles)	Large	10,300	600	4	01-Oct-94	31-Oct-95	13	0	0	150,000	300,000
115	Zimbabwe	Imperial Dairy	Mfr. (Refrigerators/Freezers)	Medium/Start-up/Joint Venture	5,300	128	3	01-Sep-95	31-Dec-97	31	200,000	400,000	0	130,000
116	Zimbabwe	HIB	Fin. Serv. (Merchant Banking)	Small/Start-up	2,400	27	3	01-Oct-95	30-Sep-96	30	200,000	400,000	0	185,000
117	Zimbabwe	Retrofit	Construction (Elect/High volt eng)	Medium	4,800	320	1	01-Dec-95	30-Nov-97	24	200,000	19,500	0	50,000
118	Zimbabwe	Ref Air	Mfr. (Solar Panels)	Small/Rehab.	800	32	1	01-May-96	31-Mar-99	23	95,500	0	0	76,500
119	Zimbabwe	Kuch Builders	Construction (Bldgs)	Small	4,803	28	1	01-Jul-96	30-Jun-99	21	200,000	106,500	0	76,500
120	Zimbabwe	Leasing Co. Zimab.	Fin. Serv. (Leasing/H.P.)	Medium/Start-up	5,911	27	1	01-Jul-96	30-Jun-99	21	200,000	179,500	0	76,500
121	Zimbabwe	Zimbabwe Express	Transport (Airline)	Medium	9,421	71	1	01-Sep-96	31-Aug-98	19	0	0	350,000	58,200
122	Zimbabwe	Fresco	Food Process. (Dehydrated Veg.)	Medium/Start-up	2,057	280	4	01-Nov-96	31-Oct-99	17	200,000	124,000	0	242,500
123	Zimbabwe	Fresca	Mfr. (Plumbing equip)	Small/Start-up/Joint Venture	2,000	52	1	01-Dec-96	31-Jul-99	16	184,500	0	0	76,500
124	Zimbabwe	HIC	Fin. Serv. (Insurance)	Small/Expansion	2,200	51	1	01-Mar-97	29-Feb-00	13	200,000	117,992	0	76,500
125	Zimbabwe	Zeko	Telecommunications	Small/Start-up	?	36	1	01-Jun-97	30-Sep-97	4	0	0	0	0
126	Zimbabwe	Rijngom Financial Svcs	Fin. Serv.	Medium	?	?	1	01-Feb-98	30-Jun-00	2	0	0	0	0
TOTAL										2,391	14,247,432	8,260,827	8,597,549	11,352,708

Source: AMSCO

Note: The size categories (small, medium or large), number of employees and annual turnover are based on the company figures at the commencement of the AMSCO contract

Definitions: S.M.E.: Small and Medium-sized Enterprises;

□ Small: Annual turnover of US\$5 million or less and 100 employees or less

□ Medium: Annual turnover more than US\$5 million, less than US\$10 million and more than 100 employees, less than 500

Large: □ Large: Annual turnover more than US\$10 million. More than 500 employees

ANNEX B

Eleven Summary Case Studies Relating to the Sustainability of AMSCO Impact (refer to Section 6) (Full case studies of these companies are in a separate volume in Annex D)

- Case Study # 1: Milling Company, Southern Africa

The purpose of the original AMSCO intervention was to improve the performance of a parastatal company prior to privatisation. This was achieved, earning AMSCO a performance bonus and an extension of the management service contract by the new private owners.

Following the end of the AMSCO intervention in 1993 the management, working under the new owners, continued to make very substantial improvements in the efficiency of the operation. However, the removal of tariff barriers to imports of flour from larger operators in contiguous countries exposed the Company to severe price competition and loss of markets. The termination of a major contract to service a humanitarian aid programme compounded this problem for the Company.

Operationally the impact of AMSCO has been sustained through the technical successes of the cadre of trained operational managers in the Company. The strategic policy of the Company over the past five years appears to have been faulty, but this was well beyond the scope of AMSCO intervention.

The new owners took over control of the Company nearly five years ago, and as a multi-national company should have made its own strategic assessment of the future of the milling operations of the Company at the time of purchase. There appear to have failed to anticipate long-term economic trends, and to redirect the Company away from the milling of maize.

- Case Study # 2: Agricultural Enterprise, West Africa

The original AMSCO involvement was the provision of a management training and development programme and advisory support to the local senior management of the Company. In 1994, an independent professional review of the training programme reported that it was outstandingly the best example of AMSCO fully achieving the training objectives identified at the beginning of the intervention.

The AMSCO management and training programme, which was completed by the end of 1993, has continued to have positive effects on the operational performance of the Company. The replacement of expatriate managers and the effective training of their local managers have induced financial, economic and social benefits for the Company, the region and the country:

The staff have continued to rationalize their work, especially the commercial distribution system in the succeeding years (1994-1998). As a whole, the fairly well maintained equipment and the highly motivated staff represent key assets for profitable operation of the Company in the milk and dairy sector.

The Company is however seriously handicapped by lack of financial resources for additional investments some of which, although of moderate amount, would significantly increase the sales of the Company and reduce operating costs.

The Company had for some time operated with marginal operating profit, which increased to FCFA 28 million in 1994 and subsequently deteriorated to a marginal operating loss of about FCFA 3 million. The deterioration of the profitability is due to the reduction or near levelling-down of the sales. The decline of sales partly resulted from the Company's inability to supply its principal products (fruit juices, milk and curdled milk which represent 53% of the sales) in packages suited to the income level of the poorer segments of the population. The Company has also been unable to produce yoghurt as planned.

Recently, the Company made significant savings by rationalizing its distribution system, and can therefore become financially viable and is sustained in the long term. This would require an injection of additional investment funds and the support of its shareholders. The Company is currently being maintained at a survival level by the highly motivated staff, but is in a rather precarious operational situation.

The sustainability of the AMSCO impact has been demonstrate by the survival of the Company in the face of continuing cash flow shortage, and the lack of capital investment to improve product range. Without the original AMSCO intervention the Company would not have survived.

(Financial Performance Figures in million local currency units)
 PERIOD OF AMSCO INTERVENTION : DECEMBER 1990 TO DECEMBER 1993

	YE		YE		YE		YE		YE		estimated	
	Dec.31.90	Dec.31.91	Dec.31.92	Dec.31.93	9 mths end, Sept.30.94	Dec.31.94	Dec.31.97	Dec.31.94	Dec.31.97	Dec.31.94	Dec.31.97	Dec.31.97
1. TURNOVER	331	480	530	486	522	696	669	696	669	696	669	669
2. NUMBER OF EMPLOYEES	n.a.	75	69	70	n.a.	70	73	70	73	70	73	73
3. NET PROFIT/(LOSS)	(449)	(257)	(150)	(176)	(121)	(133)	n.a.	(133)	n.a.	(133)	n.a.	n.a.
4. OPERATING PROFIT/(LOSS)	(204)	(14)	40	6	21	28	-3	28	-3	28	-3	-3
5. ASSETS	n.a.	n.a.	n.a.	272	266	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
i) Current	n.a.	n.a.	n.a.	1,311(est)	1278(est)	1,470	1,350	1,470	1,350	1,470	1,350	1,350
ii) Fixed	n.a.	n.a.	n.a.									
6. LIABILITIES	542	240	244	200	284	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
i) Short Term	1,877	1,491	1,505	1,796	1,778	1,778	n.a.	1,778	n.a.	1,778	n.a.	n.a.
ii) Long Term												
7. SHAREHOLDERS EQUITY (DEFICIENCY)	n.a.	(47)	(143)	(415)	(547)	(659)	n.a.	(659)	n.a.	(659)	n.a.	n.a.
8. LABOUR EFFICIENCY RATIOS	n.a.	6.1	7.7	6.9	(9 mths)	9.9	9.2	9.9	9.2	9.9	9.2	9.2
i) Sales Value/Employee	n.a.	(0.2)	0.57	0.09		0.4		0.4		0.4		
ii) Operating Profit/Employee												
9. CAPITAL EFFICIENCY RATIOS	n.a.	n.a.	n.a.	33.9%	41%	47.3%	49.5%	47.3%	49.5%	47.3%	49.5%	49.5%
i) Gross Sales/Fixed Asset Value	n.a.	n.a.	n.a.									
ii) Operating Profit/Fixed Asset Value	n.a.	n.a.	n.a.									
10. EXPORT EARNINGS	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
i) Percentage	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
ii) US\$ Value	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil	nil
11. IMPORT SUBSTITUTION	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
i) Percentage	1.2	1.69	1.92	1.66	--	1.3	1.12	1.3	1.12	1.3	1.12	1.12
ii) US\$ Value (million)												
12. LOCAL CURRENCY Value US\$ each period												

SOURCE: AMSCO files and Client reports

- Case Study # 3: Food Processing, West Africa

The original purpose of the AMSCO intervention was the rehabilitation and privatisation of a state-owned enterprise vital to the national economy. The AMSCO team met the technical and commercial objective identified in its business plan, and enabled the successful sale of the core assets.

The new Company did not systematically take over all activities performed by its predecessor. It is currently involved in purchasing, controlling and exporting groundnuts. The annual volume handled was an average of 20,000 tonnes per year over the last three years but has reached a peak level of 47,000 tonnes in 1997/98. At those levels of operations, the Company has been operating at a loss, but is nearing breakeven point, estimated to be achievable at 55,000 tonnes.

Large investments carried out will have lasting effects on the production of groundnuts and other products, including rice, cotton and palm-trees. The Company will soon enter a phase of profitability, which will be increasing with the Company taking on new economically viable activities, which will support their current business.

The new Company, in consultation with the Government is preparing to invest in related industries and projects. This will concentrate in investments likely to strengthen the groundnut sub-sector and thus consolidate the long-term sustainability of groundnut production as a major source of economic activity and revenue for the Country's population. Staff training and policies have positively impacted on their morale and performance.

The growing production of the new Company had a driving effect on the other sectors of the national economy. Despite the reduction of the workforce from 724 to 432 in the new Company, subcontracted activities resulted in the creation of more than 900 jobs, and it is estimated that a job with the new Company will bring about at least two jobs on the labour market.

Turnover which had dropped to \$8.5 million in 1991, was \$15.1 million in 97/98. With the forthcoming production of groundnut oil, the turnover will be substantially higher. The financial and economic outlook is very good.

Labour efficiency ratio has been improved three fold. With the continued streamlining and rationalization of work, labour productivity is still intensively progressing. The new Company is a profitable and sustainable scheme, with significantly positive social impact.

(Financial Performance Figures expressed in US\$ million)

	PERIOD OF AMSCO INTERVENTION: OCTOBER 1991 to JUNE 1993				Comments:
	YE Nov.30.90	YE Nov.30.91	YE May 1998	GGC Ltd May 1998	
1. <u>TURNOVER</u>	12.51	8.45	15.1		The turnover has already increased by 79% and will substantially increase with oil production
2. <u>NUMBER OF EMPLOYEES</u>	725	724	432		A number of activities have been sub-contracted giving a job multiplier effect of 2.
3. <u>NET PROFIT/(LOSS)</u>	(.45)	(1.84)	(0.3)		The trend of losses is declining and increased profits are anticipated
4. <u>OPERATING PROFIT/(LOSS)</u>	(.42)	(1.4)	Break-even		The Company is near break-even point.
5. <u>ASSETS</u>					Although the new Company's fixed assets have a lower value, their industrial production potential is much higher
i) Current	3.33	2.66			
ii) Fixed (revalued at replacement cost)	19.04	18.42	10.2		
iii) Investment and loans	.71	1.12			
6. <u>LIABILITIES</u>					
i) Short Term	1.09	2.06			
ii) Medium & Long Term	6.71	6.7			
7. <u>SHAREHOLDERS EQUITY (DEFICIENCY)</u>	15.28	13.44			
8. <u>LABOUR EFFICIENCY RATIOS</u>					
i) Sales Value/Employee		1.17%	3.50%		The labour efficiency ratio has substantially increased and will further improve.
ii) Operating Profit/Employee					
9. <u>CAPITAL EFFICIENCY RATIOS</u>					
i) Gross sales/ Fixed Assets Value		46%	148%		Capital efficiency has substantially increased
ii) Net Profit/Fixed Asset Value		(10%)			
10. <u>EXPORT EARNINGS</u>					
i) Percentage	100%	100%	100%		The Company's production is totally exported.
ii) US\$ Value (million)	12.51	8.45	15.1		
11. <u>IMPORT SUBSTITUTION</u>					
i) Percentage	nil	nil	nil		
ii) US\$ Value	nil	nil	nil		

Sources: Draft Business Plan, November 1991 quoting Audited financial statements
 Management monthly reports to AMSCO, November 1991 through August 1993
 Interviews with GGC Ltd (new company) - 1998

- Case Study # 4 – Food Processing, East Africa

During the three years of AMSCO management support, the Company significantly out-performed the targets set in the original rehabilitation business plan prepared by AMSCO in almost every key performance ratio. Throughout the period the export performance of the Company improved to US\$6.3 million per year, twenty-fold the dollar volume three years earlier.

A nominal operating profit in 1991/2 was turned into a profit of US\$1.5 million in 1994/5. The position of the Company as a major producer has been re-established, and equally important, a permanent replacement general manager had been appointed, to lead an enterprise, which had a strong management training culture. Unfortunately the Company has not benefited from the large cash generation of this success, as the principals have used the funds to support other less successful commercial initiatives within the Group.

Since the completion of the AMSCO intervention in mid-1995, competition driven by trade liberalisation has had a major negative impact on the business. In 1995 the company had 45-50% of its main product market. It estimates that now it has only 25-30%. Its second product has also been hard hit by the competition coming into the country, mainly through smuggling by refugee traders. The Company is now considering dropping the line. The failed subsidiary struggles along, as a net liability, with no significant contribution to the Company's cash flow. Given these realities, the Company has developed the line of famine-related foods, to become a global market leader in these commodities. Marketing is not problematic, as the main consumers are international famine relief agencies.

The Company continues to survive with increased turnover and profitability. This is in part due to the long-term impact of the AMSCO intervention on its management structure and capability.

(Financial Performance Figures - in million local currency units)

PERIOD OF AMSCO INTERVENTION: SEPTEMBER 1982 TO AUGUST 1985

	YE		YE		YE		YE		YE		1/2 Year	
	June 30.92	June 30.93	June 30.94	June 30.95	June 30.96	June 30.97	Dec. 31.97	June 30.92	June 30.93	June 30.94	June 30.95	Dec. 31.97
1. TURNOVER	134	184.2	392.9	663	600	908	486					
2. NUMBER OF EMPLOYEES	386	368	402	295	314	351	261					
3. NET PROFIT(LOSS)	(8.7)	24.15	38.8	-46	-44	-50	-79					
4. OPERATING PROFIT(LOSS)	6	38.8	54.7	185	194	244	103					
5. ASSETS												
i) Short Term	73.8	134.5		200	310	480	418					
ii) Fixed	295.7	295.8	317.1	490	501	516	546					
iii) Investments	50	50										
6. SHORT TERM LIABILITIES												
i) Short Term	85.2	156.2	321	305	452	729	690					
ii) Medium & Long Term	45.5	35.6		423	359	267	274					
7. SHAREHOLDERS EQUITY (DEFICIENCY)	288.8	284.4	288.4	2	186	123	121					
8. LABOUR EFFICIENCY RATIOS												
i) Sales Value/ Employee	0.345	0.528	0.977	2.25	1.8	2.6						
ii) Operating profit / Employee	(0.018)	0.105	0.136	0.6	0.6	0.7						
9. CAPITAL EFFICIENCY RATIOS												
i) Gross Sales/ Fixed Assets Value	0.39	65.7%	123.9%	135%	120%	1.8						
ii) Net profit/ Fixed Assets Value	(3%)	8%	12%									
10. EXPORT EARNINGS												
i) Percentage	7%	21%	46%	n.a.	n.a.	n.a.	n.a.					
ii) US\$ Value (000)	262	744	3,000	n.a.	n.a.	n.a.	n.a.					
11. IMPORT SUBSTITUTION												
i) Percentage	93%	79%	54%	n.a.	n.a.	n.a.	n.a.					
ii) US\$ Value (000)	3,492	3,171	3,536	n.a.	n.a.	n.a.	n.a.					

- Case Study # 5: Brewery and Soft Drinks Manufacturer, West Africa

The Company is still one of the leading industrial undertakings in the country. Since the completion of the AMSCO intervention there have been four significant negative development for the Company:

- Growing competition from imports, which has affected sales, particularly on the large islands – the principal local markets;
- The cash flow consequences of the government bureaucratic delays in payments to overseas suppliers;
- The delay in the installation of extensions to brewery, due to postponement of the investment plan, pending the government decision on selling part of its residual shareholding in the Company;
- The launching in 1997 of locally manufactured rival soft drinks – Coca-Cola, Fanta and Sprite.

Despite these adverse factors, the Company has continued the positive operational and financial trends established during the period of AMSCO intervention, albeit at lower rates. Profitability has substantially increased.

As a result of these factors the turnover of the Company has remained in the region of US\$8.4 million over the past three years. However, with improved efficiencies both gross and net profits have increased very substantially (55% and 60% respectively over the last three years). The Company has consistently declared and distributed dividends (US\$ 3 million).

The experience of the past two years has demonstrated the capability of the management of the Company to continue the good performance established during the AMSCO intervention. The AMSCO impact has been demonstrated as sustainable.

Financial Performance Figures expressed in million local currency units.

PERIOD OF AMSCO INTERVENTION: FEBRUARY 1993 TO FEBRUARY 1994

	YE		YE		YE		YE		Comments
	Dec-31/92	Dec-31/93	Dec-31/94	Dec-31/95	Dec-31/96	Dec-31/97	Dec-31/98		
1. TURNOVER	80.1	80.2	107.6	86.6	74.6	71.0			
2. NUMBER OF EMPLOYEES	121	117	122	133	104	148			
3. NET PROFIT(LOSS)	43.0	41.6	83.1	98.2	126.6	133.6			
4. OPERATING PROFIT(LOSS)	174	225	271.9	334.9	427.3	422.2			
5. ASSETS									
i) Current	246.1	308.6	371.6	411.1	0.0	0.0			
ii) Fixed	422.4	349.0	336.3	298.7	0.0	251.9			
6. LIABILITIES									
i) Short	244.1	283.1	272.1	278.7	0.0	0.0			
ii) Medium & Long Term	182.7	142.5	107.3	85.4	0.0	0.0			
7. SHAREHOLDERS EQUITY (DEFICIENCY)	238.7	243.9	236	338.8	0.0	207			
8. LABOUR EFFICIENCY RATIOS									
i) Sales Value/Employee	4.21	6.61	6.2	6.79	0.0	4.8			
ii) Operating Profit/Employee	1.43	1.92	2.23	2.68	0.0	2.85			
9. CAPITAL EFFICIENCY RATIOS									
i) Gross Sales/Fixed Asset Value	121%	193%	233%	300%	0.0	0.0			
ii) Net Profit/Fixed Asset Value	16.24%	11.5%	23.2%	22%	0.0	0.0			
10. EXPORT LEARNING									
i) Percentage	0%	0%	0%	0%	0%	0%			
ii) US\$ Value (million)	0.0	0.0	0.0	0.0	0.0	0.0			
11. IMPORT SUBSTITUTION									
i) Percentage	100%	100%	100%	100%	100%	100%			
ii) US\$ Value (million)	7.0	8.86	8.25	10.19	0.0	0.0			
LOCAL CURRENCY VALUE OF US\$ (for each period)	72.38	74.23	82.87	82.87	82.87	82.87	82.87		

Sources: Audited accounts Dec-31-1992, 1993, 1994
AMSCO and Client records

- Case Study # 6: Manufacture, East Africa

The Company responded exceptionally well during the AMSCO intervention. By the end of that intervention the Company was operating at a net and operating profit levels almost doubled the rate prior to the AMSCO intervention.

By 1995, the Company was on the threshold of becoming a serious challenge to the local market leader in its sector. In 1992 the volume of the Company was approximately 10% of that of the leader; by 1995 the volume was up to one third that of the leader. In the view of the management the main targets for dramatic growth in the future were industrial paints, printing inks and coatings for cans. The company attacked these markets aggressively. AMSCO earned performance bonuses on this contract.

The company has continued to achieve steady growth, although the general economic situation in the country has not been favourable to business. Financing costs have been high with interest rates being in the low to middle thirties during the period. Purchasing power has eroded over the period in the whole economy. Despite this turnover increased from US\$7.6 m in 1995 to US\$8.06 m in 1997. Net profit increased from US\$393,000 to US\$544,000. between 1995 and 1997. During the same years operating profit also increased - from US\$660,000 to US\$863,000

The steady growth of the company since 1995 has to be seen in the national context. Interest rates in this period, after a very volatile period, have stabilised in 25% - 35% regions. These high rates have negative impact not only on the purchasing power of the nation but also on the financing of business. Intertwined with macroeconomic problems is political insecurity driven by unclear succession lines within the political ruling party.

Since the end of the AMSCO intervention in 1996 the Company has consistently increased turnover and gross and net profitability. Training programmes have been maintained and developed. The Company is an excellent example of the long-term sustainability of AMSCO intervention

AMSCO IMPACT STUDY, 1988

Case Studies

(Financial Performance Figures in million local currency units)

	PERIOD OF AMSCO INTERVENTION: APRIL 1993 TO APRIL 1996				1997 Y.E.
	1992 Y.E.	1993 Y.E.	1994 Y.E.	1995 Y.E.	
1. TURNOVER	159.8	262	320	425	504
2. NUMBER OF EMPLOYEES	110	124 (May 1, 93)	147	150	164
3. NET PROFIT/LOSS	8	12	16	22	34
4. OPERATING PROFIT/LOSS	11	19	26	37	54
5. ASSETS					
i) Current	108.4	130.5	167	228	288
ii) Fixed	31	34	37	38	100
6. LIABILITIES					
i) Short Term	63.4	85.7	121	200	273
ii) Medium & Long Term	18.7	11.8	7.	6	46
7. SHAREHOLDERS EQUITY (DEFICIENCY)	55.2	57	56	61	68
Dividends	4	10	16		
8. LABOUR EFFICIENCY RATIOS					
i) Sales value/employee	1,444	2,032	2,176	2.8	3.07
ii) Operating Profit/Employee	0.101	0.477	0.177	0.25	0.21
9. CAPITAL EFFICIENCY RATIOS					
i) Gross Sales/Fixed Assets Value	514%	741%	664%	1118%	504%
ii) Net Profit/Fixed Assets Value	28%	35%	43%	57%	38%
10. EXPORT EARNINGS					
i) Percentage	0.9%	3%	2.7%	3%	
ii) US Value ('000)	400	132	222	227	
11. IMPORTS/SUBSTITUTION					
i) Percentage	67.5	66.4	66.0	73.4	
ii) US Value (US\$ million)	2.95	3	4.68	5.56	

Sources: Audited accounts for the year ended Dec-31, 1992, 1993 and 1994. Auditors: Coopers & Lybrand

i) Client's management accounts for 6 month period ended June 1995

: AMSCO files

: Client principal and senior management personnel

- Case Study # 7: Manufacture, West Africa

The intervention in the Company has been probably the toughest assignment that AMSCO has undertaken. Over the five year period the Company has encountered almost all the problems that can beset an African enterprise other than civil war: devaluation; smuggled goods; 'dumping' of foreign imports; national labour strikes; termination of credit lines; power shortages; and blocked foreign exchange transactions.

In the last three years of AMSCO management the Company continuously achieved major improvements in every department. It emerged a profitable and better managed enterprise, with a senior executive management team that developed in experience and training with AMSCO.

At the completion of the AMSCO intervention, in 1995, the Company still faced serious problems, but was much better equipped to deal with them than it was at the beginning of the operation.

Over the past three years the Company has faced increased competition from foreign imports. Despite this the annual turnover has been increased by 50% over the last full financial year of AMSCO management. Initially profits continued to increase, but the pressure on prices has caused them to fall back over the past year or so. Key financial performance ratios have continued to improve and the percentage of exports maintained on the increased turnover. The senior executives of the Company have continued to maintain close contact with AMSCO.

(Financial Performance Figures expressed in million local currency units)

	PERIOD OF AMSCO INTERVENTION:							
	1st Contract: Oct. 1990 to Dec.1992 ; 2nd Contract June 1993 to July 1996							
	YE Dec.31.90	YE Dec.31.91	YE Dec.31.92	YE Dec.31.93	YE Dec. 31.94	YE Dec. 31.95	YE Dec. 31.96	YE Dec. 31.97
1. TURNOVER	2,700	2,404	2,026	1,595	2,092	2,696	1,875	3,071
2. NUMBER OF EMPLOYEES	519	405	349	333	200	272	295	341
3. NET PROFIT/(LOSS)	(132)	7	(303)	(428)	19.4	99	73	48
4. OPERATING PROFIT/(LOSS)	(202)	83	11	(464)	31.2	132	123	85
	(estimated)							
5. ASSETS								
i) Current	2,284	2,088	1,866	1,034	1,432	1,867	1,852	1,738
ii) Fixed	1,274	1,214	1,081	938	1,798	1,533	1,383	1,327
6. LIABILITIES								
i) Short Term	1,857	1,531	1,741	1,320	1,117	1,401	1,136	1,154
ii) Medium & Long Term	1,010	1,073	811	984	1,228	938	964	793
7. SHAREHOLDERS EQUITY (DEFICIENCY)	691	698	395	(331)	885	1,061	1,135	1,118
8. LABOUR EFFICIENCY RATIOS								
i) Sales Value/Employee	5	6	6	5	10	9.9	6.4	9.0
ii) Operating Profit/Employee		0.205	0.031	(1.393)	.156	0.5	0.4	0.2
9. CAPITAL EFFICIENCY RATIOS								
i) Gross Sales/Fixed Asset Value	230%	214%	209%	182%	116.3%	175.86%	135.57%	231.42%
ii) Net Profit/Fixed Asset Value	(11%)	0.6%	(31%)	48.7%	1.08%	6.46%	5.28%	3.62%
10. EXPORT EARNINGS								
i) Percentage of turnover	17%	24%	18%	29.7%	22.5%	20%	25%	21%
ii) US\$ Value	US\$1,669,000	\$2,115,150	\$1,363,876	\$1,622,867	\$878,024	\$1,101,645	\$893,879	\$1,089,246
11. IMPORT SUBSTITUTION								
i) Percentage	83%	76%	82%	70.3%	77.5%	0.8	0.75	0.79
ii) US\$ Value (million)	\$8,150,000	\$6,697,975	\$6,213,213	\$3,841,333	\$3,024,306	\$4,406,579	\$2,681,636	\$4,097,640
12. Local Currency Value of US\$1 per period		272.775	267.385	291.9	536.09	489.45	524.4	592.07

Sources: AMSCO files and client reports

- Case Study # 8: Agricultural Enterprise, West Africa

One of the main purposes of the AMSCO intervention was to provide resources to assist the project through its start-up phase, to enable it to demonstrate to potential long-term investors the credibility of the concept.

The first objective of the AMSCO intervention, to act as a catalyst to bring the major finance to the project, was achieved in early 1995, when the International Finance Corporation (IFC) and the Banco de Fomento made commitments to provide a total of US\$75,000 equity and loans of US\$ 1.25 million to the project.

The second objective, which was to complete the implementation of the project, is now completed and is within the original plan budget and time targets. One hundred jobs have been created. The third objective, to establish a well managed and profitable farm operation with indigenous managers was achieved in 1996/97.

With the completion of the entire Company programme AMSCO have assisted in the creation of an agro-business project from a "green field" start.

The AMSCO intervention of more than four years was completed only six months ago, and therefore it is too early to form a judgement of the long-term sustainability of the AMSCO impact on the company.

- Case Study # 9: Manufacture, West Africa

The company was a successful African regional company with good quality supportive shareholders, driven to insolvency and near-bankruptcy by a short period of severe local political and economic instability. The role of AMSCO has been to provide a supportive framework to enable the existing technical partner/shareholder of the Company to provide the management required to rehabilitate the company.

In 1995, at half-way stage of the AMSCO contract, the Company was on the way to regaining its market volume (in old FCFA value), and has returned to profitability for the first time since 1992. In August 1994 the Company replaced the AMSCO appointed general manager with a local senior manager, who continues to benefit from strong technical management support from the foreign technical partner. The Company able to improve the efficiency on the production lines through ongoing technical training, replacement of older employees with a younger and more educated work force and a more experienced management team.

This case highlight three major factors which can make major contributions to a sustainable AMSCO intervention:

- A good quality in depth training and management development programme, addressing the specific issues and problems faced by the Company;
- A committed joint venture technical partner, with access to good quality management and training resources; and
- A “business friendly” national and regional economic environment.

In the four years since the commencement of the original AMSCO contract the Company has enjoyed these circumstances. As a result it has prospered, two of its foreign shareholders have been able to desinvest their shareholdings at a profit. The Company is now a successful African-owned enterprise with good prospect for the future.

The AMSCO intervention of three years was only completed one year ago, and therefore it is too early to form a judgement of the long terms sustainability of the AMSCO impact on the Company.

- Case Study # 10: Desk Top Publishing, Southern Africa

AMSCO's intervention commenced in late 1993 when it proposed to provide the company with a technical manager, specializing in more complex aspects of computer assisted pre-press. The manager, who assumed his responsibilities June 1994, was responsible for managing production and the development and training of the local staff

In August 1994 the company moved its text key-in operations to a newly established subsidiary in a neighbouring country to take advantage of cheaper operating costs. The subsidiary was responsible for all text key-in operations. All formatting, administration and commercial operations remained in home country. The neighbouring country operations were later expanded to 70 personnel to meet increased demand. In February 1995 the technical manager was terminated by AMSCO at the request of the company and was replaced by an individual with substantial DTP experience. However, business continued to deteriorate, and the Company went into bankruptcy in June 1996.

Warning signs were already obvious in 1994 when the company began to realize it was facing fierce competition not only from Asia, but also within France. The technology it was using was simple enough for individuals to do pre-press and processing themselves. French customers could get the work done in France lower than the Company's production cost. Unexpected competition had forced the company to reduce prices to the point where the price level (sales price) fell below the cost of production. Hence the company's decision to move the simple pre-press electronic technology business to the neighbouring country and diversify into more sophisticated typesetting services. The company did complete one textbook order, but this market proved to be difficult since each order for mathematics or scientific textbooks had to be tendered for separately.

At the same time the company was building up a huge overdraft facility to cover its operating expenses. Its short-term debt had been growing at an alarming rate pushing the debt/equity ratio to 235%. Other factors such as the seasonality of the printing business and the general strike in France were contributing factors which expedited the rapid demise of the Company. Given all of the above, the promoter felt conversion of short-term to long-term debt and the injection of further equity capital could not save the business or make it economically and financially viable.

The main policy implication of this case is that AMSCO should be extremely cautious in undertaking contracts under which the AMSCO secondee/team does not have responsibility for the general management function of the client company. In any event, the fact that the AMSCO manager would carry only technical responsibility in no way relieves the AMSCO Operations department of the responsibility of a full assessment of the general commercial prospects of a client before entering a contractual obligation. This client is now clearly an intervention "failure".

- Case Study # 11: Hotel, West Africa

APDF prepared a full feasibility study for the rehabilitation of the hotel based on the earlier study made by the African Enterprise Fund. It was AEF who referred the company to AMSCO.

The initial AMSCO contract was for a period of two years, commencing September 16, 1994, providing the services and expertise of a General Manager. AMSCO also provided a consultant to work with the General Manager in the preparation of a recruitment and training programme for both the specialist and the general staff of the Hotel.

In March '95 the hotel was opened on a 'staff-in-training' basis with the official opening to follow at the end of March. The performance of the Company, both during the AMSCO intervention and in the following twenty months has been exceptionally good. During the first eighteen month of operation of the hotel, under AMSCO management, average occupancy rates were 33% higher and revenue and operating profitability 50% higher than on an ambitious business plan.

Since the completion of the AMSCO contract performance has continued to improve, and the physical facilities of the hotel are being extended. All of the critical ratios have improved and shareholders equity has more than doubled.

This client is an outstanding example of the successful intervention in an African enterprise. The obvious benefits introduced during the two years of AMSCO management and intensive training programme have formed the basis for the ongoing operation of an hotel of international standards.

AMSCO IMPACT STUDY, 1998

	(Financial Performance Figures in million local currency units)										
	PERIOD OF AMSCO INTERVENTION : SEPTEMBER 1994 TO SEPTEMBER 1996					POST-INVESTMENT					Comments
	PRE-INVESTMENT		1/2 year Dec.31.95		YE Dec.31.95	Actual		YE Dec.31.96	Actual		
Dec.31.94	YE	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	
1. TURNOVER Occupancy rate			328	860	1,223	1,429					
2. NUMBER OF EMPLOYEES	89	80	80	80	85	89					
3. NET PROFIT/(LOSS)	126	126	126	249	245	286					Estimate - 10%
4. OPERATING PROFIT/(LOSS)											Estimate - 20%
5. ASSETS											
i) Current	627	918	918	454	780	1,385					
ii) Fixed	408	1,503	1,503	1,552	1,842	1,934					
6. LIABILITIES											
i) Short Term	385	676	676	636	659	493					
ii) Medium & Long Term	206	1,111	1,111	1,000	1,209	1,044					
7. SHAREHOLDERS EQUITY (DEFICIENCY)	456	808	808	370	754	1,782					
8. LABOUR EFFICIENCY RATIOS											
i) Sales Value/Employee				11	14	16					
ii) Profit/Employee (calculated on monthly basis)					1.44	1.61					
9. CAPITAL EFFICIENCY RATIOS											
i) Gross Sales/Fixed Asset Value				55%	66%	74%					
ii) Net Profit/Fixed Asset Value (calculated on monthly basis)					7%	7%					
10. EXPORT EARNINGS											
i) Percentage					85%						
ii) US\$ Value ('000)					\$1,982,361						
11. IMPORT SUBSTITUTION											
i) Percentage	nil	nil	nil	nil	nil	nil					nil
ii) US\$ Value	nil	nil	nil	nil	nil	nil					nil

Sources: AMSCO files and Client reports

Annex C

Selected Examples of Failure of AMSCO Intervention.

(Reference Section 7)

(Some client failures fall into more than one category)

a) Inadequate initial diagnosis of client

- Mining and Drilling Equipment – May 1991 – 3 years -
The cost of a European expatriate was well beyond the financial capacity of this client, which should have been obvious at the time of the pre-contract diagnostic. At the end of the AMSCO contract the client had a debt burden of more than \$200,000 resulting from the AMSCO intervention. Shareholder: IFU - AMSCO possibly relied too much on the due diligence of the institutional shareholder IFU, who are also AMSCO shareholder.
- Fishing and Fish Processing – Jan.1993 – 12 months
The initial AMSCO approach to the company was made at the initiative of a creditors group. Possibly as a result, the principals of the company claim that they were not fully consulted at that time, and that AMSCO underestimated the problems involved. This situation was compounded by the fact that the AMSCO field manager appointed was not suitable or effective. IFC provided the funding for this project. AMSCO did not properly assess the project but relied on the due diligence and recommendation of IFC who are also AMSCO shareholder.
- Consultancy – September 1995 – 2 years
In this case AMSCO relied on the recommendation of one of its shareholders IFU and Carl Bro without a thorough assessment of the needs or financial resources of the client. This reliance continued through the contract period, with serious financial consequences for the client. Effectively, AMSCO abdicated its responsibilities to another party. The Company has recently been completely restructured financially and managerially.
- Timber (Milling and Forest Management) – July 1993 – 4 months
In the initial diagnosis of this parastatal AMSCO failed to evaluate accurately the lack of commitment by its directors (and behind them, the government) to the AMSCO intervention. This was demonstrated within four months of the commencement of the contract, when a newly appointed local Managing Director refused to accept the position or authority of the senior AMSCO field manager.
- Transport (Forwarding Agent) – August 1991 – 1 year
This company faced serious financial difficulties for many years, including litigation with creditors, which still continue. From subsequent experience with the company and its main sponsor it appears very unlikely that a thorough diagnosis of the company and its sponsors was undertaken by AMSCO prior to entering a contractual commitment. In hindsight this company should never have been considered as a potential client for AMSCO. There also appears to have been no meaningful discussion with the

client on the responsibilities and authority of the General Manager provided by AMSCO, and insufficient monitoring / support of the General Manager by AMSCO headquarters during the crucial first several months of the contract.

- Manufacturing (Tannery) – July 1995 – 15 months
The dangers of taking an existing manager in a client company and giving the status and benefits of an AMSCO field manager were highlighted in this client. This appointment, which was the result of a compromise with the client, led to a serious problem with both other staff and the directors of the company, which was resolved only when the manager left the company for another position. The company immediately terminated the AMSCO contract.

b) Inadequate understanding of the management services contract, particularly the terms of reference, specification and profile of the AMSCO field manager (s)

- Telecommunications - March 1996 – for 6 months
In this discussions leading up to this AMSCO contract the client was left with the impression that AMSCO would enable it to procure an investment in the company by FMO, who declined to invest four months after the arrival of the AMSCO field manager. The company immediately terminated the AMSCO contract.
- Mining and Drilling Equipment – May 1991 – 3 years -
The selection of the field managers for this client appears to have been completely inappropriate. The seconded technical manager was a mechanic although the project required someone with drilling expertise and experience. Additionally, the cost of the expatriate managers was seriously overpriced compared to suitable alternatives available in the region (the company employed reasonably priced local and South African staff immediately the AMSCO contract was terminated). The expense of AMSCO managers on the budget of this small company was financially damaging, and casts serious doubt on the judgement of AMSCO in its initial diagnosis and the selection of suitable managers.
- Manufacturing (Aluminum Building Products)- July 1994 – 23 months
During the pre-contract negotiations the principals of the company stressed that the Managing Director (a family member) would retain full executive control and responsibility for the policies and operations of the company, with the General Manager (the AMSCO field manager) reporting to him. In the event the duties of the General Manager were effectively limited to management development and training, until the AMSCO contract was prematurely terminated in May 1996. AMSC relied on one of its shareholder, IFC and APDF to assess this company.
- Manufacturing (Wood Products) – May 1995 – one contract – 8 months and second contract 11 months.
A well-qualified and experienced General Manager was recruited by AMSCO, and approved by the client owner (and founder). Despite this agreement the owner quickly became dissatisfied with the General Manager,

reporting him as too theoretical, uncommunicative, and without practical experience or aptitude. In fact the owner, who wished to partly retire, did not want a General Manager, but an assistant to deal with problems in the field. This issue should have been exposed in a thorough pre-contract discussion and agreement on the terms of reference and profile of the General Manager. Within one year the contract was terminated due to the dissatisfaction of the owner. The expansion was financed by IFC and CDC, two of AMSCO shareholders.

- Fishing and Fish Processing– January 1993 – 12 months
The rehabilitation of this company presented a very tough assignment, which proved to be beyond the capabilities of the AMSCO field manager. This situation was made more difficult by the fact that the client had not been consulted fully in the selection of the manager, and as a result lacked trust in him. This, plus the failure of the parties to delineate the separate functions and responsibilities between the CEO and General Manager led to a complete break-down of the relationship and the client's request for the removal of the manager and termination of the AMSCO contract within one year. Both ADB and IFC were providing funding for this project.

c) Selection of the AMSCO field manager(s)

- Manufacturing (Soap) – Nov. 1993 – 25 months
AMSCO judged the local candidate proposed as Managing Director by the client to be quite unsuitable, but withdrew objections under pressure from the client. The Company had been previously assisted by APDF, and financed by IFC. The performance of the General Manager was completely inadequate; the relationship between AMSCO and the Company was very difficult, the Company finally going into default on the payment of AMSCO fees, and the contract being terminated prematurely.
- Textile – Jan 1993 – 25 months
The two AMSCO field managers for this parastatal enterprise were selected without discussion with the directors of the Company. The directors found the General Manager to be incompetent, particularly in the vital marketing function. One director of the Board described the AMSCO field managers as "tourists". The Board did not support a management proposal for further capital investment. This proved to be a fatal decision for the Company, and twenty-one months into the AMSCO contract the company was insolvent. A receiver was appointed, who immediately fired the AMSCO field managers. The receiver subsequently commenced an effective turnaround programme of the company.
- Manufacturing (Polypropylene Sacks & Nets) – November 1995 – 16 months
The objective of this client was to obtain ASMCO assistance in its expansion plans through the appointment of a General Manager and Factory Manager. In the event the secondments were an "absolute disaster" (in the words of the Managing Director). Criticisms by the client ranged from low worker morale, poor record maintenance, training largely absent, no production planning, no

systematic maintenance, to overtime expenses out of control and a dirty and unhygienic factory. Ironically, these managers were originally recruited by the same Managing Director of the company, and accepted by AMSCO. Clearly AMSCO had abdicated its responsibilities in the selection of its field managers, putting its client and its own reputation at risk. The AMSCO contract was terminated when the company was restructured.

d) Failure of third parties to honour major commitments to the project

• Telecommunication – March 1996 – for 6 months

The initial diagnosis assumed that the client would qualify for an FMO/IBTA grant, and AMSCO committed to a three-year contract. When the Technical Assistance was refused the client did not hold to their commitment to pay the AMSCO fees and the contract was terminated.

• Automobile (Sales and Services) – Oct. 1995 – 10 months

As part of the AMSCO management services contract the sponsor of this company committed to provide sufficient working capital during the first few months of the intervention to cover an anticipated short-term cash flow deficit. This funding was not provided, and the business came to a standstill within months. The client then terminated the contract on the grounds that they were not getting value for money. AMSCO had to repatriate the manager.

• Transport (Maritime) – September 1993 – 9 months

The foundation of this business was the partnership between a Belgian and a German company, under which the local company would handle cargoes forwarded through it by the German company. Unfortunately this partner did not honour its contractual commitments, the cash flow of the company dried up, and the operation was shut down. The remaining sponsors are now looking for alternative partners, and have indicated that they would wish to resume the contractual relationship with AMSCO.

• Manufacturing (Tannery) – July 1995 – 15 months

This company received investments of US\$ 1 million each from IFC and a local financial institution. IFC introduced the company to AMSCO, and in anticipation of substantial funding AMSCO entered into a management services contract with the company in mid-1995. The IFC funding did not become available until 1996, and the local institution funds not until 1997. As a result the development plan was constantly being postponed, and the AMSCO field manager could not perform his main responsibilities. The contract was prematurely terminated when the General Manager left for alternative employment.

e) Inadequate monitoring and support of the performance of the AMSCO field manager and the client enterprise

• Manufacturing (Soap) – November 1993 – 25 months

The General Manager, originally selected by the owner and accepted by AMSCO, failed to provide regular reports to AMSCO. The Company ran

into serious financial problems, went in default on the payment of AMSCO fees. Despite this AMSCO allowed the situation (and the overdue payments) to develop for several months before acting. AMSCO relied on IFC the institutional financier to refinance the company. An internal fraud was subsequently exposed.

- Agricultural (Dairy) – January 1991 – 14 months
The CEO of this company reports to AMSCO several times regarding the poor performance of the seconded Director-General. These were not followed up in an appropriate manner by the AMSCO Operations Officer. Despite requests by the client no reaction or interest in the situation was shown by AMSCO senior management through out the period of intervention . AMSCO relied on the assessments of IFC and BOAD who were shareholders in this Company.
- Mining and Drilling Equipment – May 1991 – 44 months
The Company had three year of consecutive losses during the period of AMSCO intervention, and the ASMCO contract was terminated immediately by the new owner in 1994. This situation should not have been allowed to continue, and would have been picked up by AMSCO headquarter staff had there been reviews of regular financial reports from the Company. AMSCO also relied on the assessment of its own shareholder IFU who were involved in the project.
- Manufacturing (Polypropylene Sacks & Nets) – November 1995 - 16 months.
The Managing Director of this company described the relations with AMSCO headquarters as “completely broken down”. He cited the total lack of response by the AMSCO operation staff to problems, the renegeing by AMSCO on agreements on fees and bonuses and the failure of AMSCO take any responsibility for the poor performance by the field managers. Most importantly, the client received no response to its direct approach to AMSCO senior management.
- Retail and Distribution – October 1992 – 3 months
This contract was terminated within six months of the commencement, basically because the client was completely dissatisfied with the performance of the AMSCO manager. He complained that AMSCO headquarters was not in contact with the company, and provided no monitoring service, and that there was no meaningful communication from ASMCO headquarters.
- Fishing and Fish Processing - January 1993- 12 months
The AMSCO field manager appointed to this client proved unable to cope with the very serious problems of the company. The owner complained that AMSCO provided no effective monitoring or support service to the company, and made no response to his letters of complaint to AMSCO headquarters.

- Consultancy – Sept. 1995 -
The CEO of this company complained that no performance criteria were established for the AMSCO managers, and that the AMSCO monitoring staff consulted exclusively with the managers and not the company. The client suffered serious financial problems as a result of the very high cost of the AMSCO managers, and their failure to improve the performance of the company. The Company has now been restructured and recapitalised.
- Financial Services (Leasing) - February 1995 – 12 months
The history of the twelve months of AMSCO intervention in this company is of a rapidly deteriorating situation between the AMSCO team and the local staff and directors leading to political action to ban the seconded staff from the country. AMSCO relied on its shareholder CDC and on an international institution – DEG for support. Regular and effective monitoring and contact between AMSCO and the client could possibly have revealed this situation before it was beyond recovery.

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Annexes:

- A. Schedule of Clients, AMSCO, 1989 – 1998, with extensive key data
- B. Eleven Summary Case Studies Relating to the Sustainability of AMSCO Impact
- C. Specific Examples of Failure of AMSCO Intervention

Section 1. Executive Summary

i) Purpose and Method

- 1.1 The purpose of the study is to evaluate and where possible to quantify the impact of AMSCO intervention on the financial and human resource development of its client enterprises.
- 1.2 The study commences with a review of the entire AMSCO portfolio of clients, its geographic and sectoral distribution, and the sources and application of donor funding made available to clients from the UNDP / ATMS project and other sources. The overhead and headquarters staff expenses per client are examined, as well as the quality of the management services offered by AMSCO.
- 1.3 Case studies have been prepared for all those clients where information was made available, a total of 90 studies. Since inauguration in April 1989 AMSCO has entered management services contracts with 126 companies, of which 31 have been signed after December 31, 1996, making 95 clients suitable for the study of the impact of AMSCO intervention.

ii) Scope of the Study

- 1.4 Each of the case studies includes a brief history of the company and specific details of the form of the training and management development programmes introduced to the client. Where available the studies quantify the changes in key financial and technical performance variables of the client during the period of AMSCO intervention.
- 1.5 Based on the information contained in the case studies five separate analysis are presented:
- The regional differences in client performance during AMSCO interventions;
 - The financial performance of 37 clients during successful AMSCO interventions;
 - The "sustainability" of AMSCO impact in the post-contract performance of the companies reported in the 1995 AMSCO Impact Study: Eleven Selected Cases;
 - The reasons for the failure of AMSCO interventions in 25 companies;
 - The volume, cost and range of the training and management development programmes provided by AMSCO to its client companies over the period 1989-1997.

iii) AMSCO Portfolio

- 1.6 The outstanding impression from the review of the AMSCO portfolio over the nine year period since inauguration is of a dynamic development, constantly adjusting to meet the changes in conditions in the market place and the resources available. The rate of growth of the portfolio over the past four years has been remarkable, demonstrating a flexibility to meet changing conditions.

This has enabled the company to build up a substantial volume of “work in progress”. The reduction of unit costs during the same period is a major step towards AMSCO reaching financial break even.

- 1.7 The review of the development of the AMSCO portfolio raises three concerns for the future:
- That donors provide sufficient funds for management support to enable AMSCO to maintain a high percentage of SME’s in its future portfolio;
 - That donors provide sufficient funds to the MDF to ensure that AMSCO can meet its contractual obligations to provide a proportion of the costs of training and management development programmes;
 - That the “hidden costs” of the very large recent increase in the portfolio, in terms of a reduction of the ability of AMSCO to deliver high quality management services to its clients be fully addressed.

iv) **Regional Comparison**

1.8 Financial data were made available for only three AMSCO clients in East Africa. These are insufficient to be treated as representative.

1.9 The differences in the performance of the AMSCO portfolio of clients in West and Southern Africa were analysed, and found to be principally due to two factors:

- The macro-economic environments in which the clients were operating; and
- The different financial structure and market orientation of the individual clients in each region.

1.10 Many of the AMSCO clients in West Africa, particularly those in the FCFA zone, suffered the general economic downturn experienced by the region in the early 1990’s. For some clients this was compounded by currency devaluation and exposure to increased foreign competition. The capitalisation of many of the clients was weak, and their products aimed only at a local market.

1.11 The strength of the Southern Africa portfolio lies in the large export-oriented clients in Mauritius and Madagascar, a very successful financial service enterprise in Zimbabwe and an export zone management company in Namibia. The basis for success was pro-active government support, combined with focused market targets, strong balance sheets and senior management awareness of the vital importance of a well trained workforce.

v) **Financial Impact**

1.12 The analysis indicates that AMSCO has been a cost-effective vehicle, in term of cost / benefit results on donor-provided funds.

1.13 The benefit to clients is also demonstrated. The average net profit improvement of US\$568,000 in 22 months represent a 240% return on the net cost to the clients of the AMSCO management teams (after donor funding

provision). Clients would benefit further from the improved condition of the management of the companies after the AMSCO intervention.

1.14 Without donor funding support the analysis is significantly different. Typically, the costs of the AMSCO managers are substantially more than the increased company earnings they will achieve during the first year of intervention. This short term additional cash requirement is beyond the resources of many companies, particularly SME's. It is for this reason that donors should restore a reasonable level of funding to assist smaller companies to meet the immediate costs of AMSCO management teams.

1.15 In view of the increased demand for AMSCO services, and the demonstrable financial benefit to its clients, AMSCO should require performance-related bonus provisions in its contracts. This would enable AMSCO to provide financial incentives to all field managers, and a contribution to both the MDF and the AMSCO "bottom line".

vi) **"Sustainability"**

1.16 The 1995 report AMSCO Impact Study: Eleven Selected Cases examined the financial impact of the intervention of AMSCO in eleven selected clients. These companies were revisited to determine how they had fared since the completion of the AMSCO intervention

1.17 The individual case studies describe the factors which affected the development of each of the eleven companies since the end of the AMSCO contract. All except one have developed financially and commercially. In addition, training continues to be an important function.

1.18 Financial data are available for seven of these companies. Overall performance has continued to improve steadily since the end of the AMSCO interventions. Average turnover has increased by US\$1.4 million (22%); operating and net profits by US\$159,000 and US\$31,000 respectively; shareholders equity has increased by 12%; and liquidity ratios by 28%. Exports have doubled in value, in US dollars. In local currency these improvements are even greater.

1.19 These achievements are particularly credible in view of the fact that several of the companies faced increasing competition from foreign imports as a result of trade liberalisation policies, as well as adverse local economic conditions. All of the companies were in financial and / or managerial distress at the time of the commencement of the AMSCO intervention, and their ongoing success must in part be due to the improvements introduced during that intervention. This review indicates that the impact of AMSCO on its clients is sustainable.

vii) **AMSCO "Failures"**

1.20 It is recommended that to reduce the incidence of failure of its contracts AMSCO should:

- improve the quality and thoroughness of pre-contract client diagnosis and pre-contract negotiations with clients;

- establish an effective post-contract monitoring and support mechanism; and
- broaden the base of its manager recruiting efforts in Africa and the Far East to help to reduce the high cost of management.

1.21 It is recognised that these recommendations would involve additional staff, and would be most effectively implemented on a regional basis, through offices in Africa.

viii) **Training and Management Development**

1.22 In 1994 AMSCO made a significant change in its approach to the form of management development and training programmes appropriate for its clients. The new policy, aimed at creating a broadly-based "training culture" within client enterprises, involved development of new types of training event and trainer.

1.23 This development is still underway. Analysis indicates that progress has been achieved in extending the range of courses to the specific requirements of clients, increasing substantially the number of trainees and reducing significantly the unit costs of training events. AMSCO has also organised a series of regional and international workshops, seminars and conferences that provide valuable development and networking opportunities to its clients. This fulfils an important objective of the original project proposal.

1.24 In addition to meeting client training requirements more closely and reducing the unit costs of training events, AMSCO has achieved a control of the overhead expenses incurred in the administration of the MDF.

ix) **Summary and Conclusions**

1.25 **Management Services**

- AMSCO has had a positive impact on the financial performance of a high proportion of its clients (approximately two thirds of the 90 clients studied);
- AMSCO has grown almost exponentially in recent years, with no increase of the human resources available to supervise the portfolio. This has led to a deterioration in some of the services of the company, in particular pre-contract diagnosis and client monitoring.
- Since early 1997, the lack of funding to assist client companies to meet the expenses of AMSCO field managers has limited the possibility of smaller companies using AMSCO services.
- The lack of information in AMSCO headquarters on the condition and performance of many AMSCO clients, including some current interventions, indicates inadequate contact and monitoring by the AMSCO operations department.
- The "failure" rate of AMSCO interventions, although within the limits of the original project proposal, could be reduced by more effective pre-contract diagnosis and post-contract monitoring.

- The programme overload, concentration of effort on acquiring new clients, and the physical remoteness of the AMSCO operating staff in Amsterdam are inhibitions to effective contact and communication with clients and field managers.
- Since 1995 few of the AMSCO management services contracts contained provisions for a performance-related bonus, despite the increasing demand for AMSCO services.

1.26 Training and Management Development Services

- The management development function of AMSCO has been successfully re-oriented, and is now offering a wide range of in-house and external training courses, workshops, seminars and conferences.
- Unit costs of the training and management development events provided through AMSCO have been very substantially reduced, and AMSCO administration expenses are now at an acceptable level.
- The lack of integration between the AMSCO operations and development departments is damaging the efficiency of client monitoring and the benefit of shared information and experience.
- AMSCO has built up considerable forward contractual commitments for the supply of management services to the 63 clients now under active contract. Currently there are not sufficient guaranteed donor contributions to the MDF to meet all of the AMSCO obligations to training and management development costs required under these contracts.

x) Recommendations

1.27 The main recommendations of the study are:

- For AMSCO to continue to provide financial support for the costs of management services to SME clients, and to contribute financially to the management development programmes of all clients it is essential to obtain commitments from donors sufficient to cover fully all forward contractual obligations of AMSCO.
- AMSCO should require the inclusion of performance-related bonus provisions in its contracts. Earnings from such provisions would enable the company to provide financial incentives to field managers, and to contribute to the MDF and the AMSCO "bottom line".
- To help reduce the incidence of AMSCO failures resulting from inadequate pre-contract assessment it is recommended that AMSCO:
 - i) prepare target profiles for potential clients to fit the current marketing policy of the company, as agreed by the Board;
 - ii) prepare a standard outline form of diagnosis, covering all of the essential issues and covenants to be covered in the initial assessment of a prospective client;
 - iii) strengthen the existing procedures for "peer group" review of proposals to proceed to negotiation of a management service agreement, and for the subsequent review of the agreements to be presented to senior management for approval.

- To help reduce the incidence of AMSCO failure resulting from inadequate monitoring and support of the clients and field managers during the course of the intervention it is recommended that AMSCO:
 - i) ensure that all field managers comply with the requirement in their employment contracts to produce within 90 days of taking up the field appointment a business plan or technical performance schedule (as appropriate), for discussion and agreement with AMSCO and the client Board ;
 - ii) include in every client agreement and field manager employment contract a provision for the submission to AMSCO of regular summary reports on the financial and technical performance of the of the client, combining comparison with business plan and details of any exceptional matters arising;
 - iii) install and maintain a system for recording and analysing the critical financial and technical performance of clients, for regular management monitoring reports.

- To improve its efficiency, it is recommended that AMSCO:
 - i) restructure the management of AMSCO (as proposed in the 1997 Strategic Plan) to integrate more closely the three main departments (operations, management development, and finance / administration);
 - ii) establish, where cost effective, regional offices in Africa, staffed sufficiently to be responsible for direct contact with prospective clients, active clients and field managers, and to be the front-line contact point with regional stakeholders in the ATMS / AMSCO project (i.e. UNDP, government, donor representatives, local banks, training institutes, etc.);
 - iii) organise in-house training for both operations and development department staff in report-writing, financial analysis, contract negotiation, and communication skills;
 - iv) strengthen the concept that the responsibility of every staff member is to improve the AMSCO overall "process" of assisting clients to achieve international standards of performance and competition. Staff must understand that "success" is a successful client, not a contract signed or a training programme completed. Group consultation at critical stages of a client relationship should be the norm, and staff rotation between departments should be considered.

Section 2. Introduction

i) Purpose of the Study

2.1 The purpose of the study is to evaluate and where possible to quantify the impact of AMSCO intervention on both the financial well-being and the human resource development of its client enterprises, across its entire portfolio of clients.

ii) Definitions

2.2 The primary criteria used to measure the financial impact on individual clients are changes in their financial and operational performance during and (where available) after the period of AMSCO intervention.

2.3 The main parameters used to evaluate the financial impact of the AMSCO intervention are:

- Turnover;
- Number of employees;
- Net profit;
- Operating profit;
- Assets;
- Liabilities;
- Shareholders' equity;
- Labour efficiency ratios;
 on turnover;
 on operating profits;
- Capital efficiency ratios;
 on turnover;
 on net profits;
- Liquidity ratios;
 on current assets/liabilities;
 on total assets/liabilities;
- Export earnings;
- Import substitution; and
- Technology transfer.

2.4 Data on some of these functions were not available (or necessary relevant) for some client enterprises. However, sufficient adequate data were available to enable a clear analysis to be made of the financial impact of the AMSCO intervention across the portfolio.

2.5 The impact of AMSCO intervention on the human resource development culture of the client enterprises is measured by the number and range of staff / employee training courses and management development programmes in which the managers and staff of clients participated.

2.6 The “sustainability” of the AMSCO impact after the termination of AMSCO intervention is evaluated by follow-up studies of the eleven selected companies included in the 1995 report “AMSCO Impact Study: Eleven Selected Cases”. These follow-up studies apply the same criteria as those used for the study.

iii) **Case Studies**

2.7 The primary analysis of each enterprise in the AMSCO portfolio is presented in the form of a case study. The main sources of data for these studies were the annual reports, financial statements, management accounts, operating reports, and training programmes of the relevant companies. These data have been supplemented extensively from business plans, training evaluation reports, technical assessments and correspondence, plus direct discussions with client companies’ executives and principals. Annex D, containing copies of all of the case studies (and which therefore contains sensitive confidential information on individual companies), is held by AMSCO and available for review on request.

2.8 To provide the context in which each intervention took place, the case studies also provide a brief history of each company and a fairly detailed summary of the management and training intervention that has been provided to each of the clients.

2.9 95 clients qualified for this study (contracts entered prior to January 1, 1997). Each of these has been “graded”, the grade being based on the financial and technical performance of the company during the period of AMSCO intervention, the depth and success of the training programme, and anecdotal information available in management reports and independent evaluations of the company. The grades range from “A” – very successful; “B” successful; “C” – adequate; “D” less than adequate; to “E” failure

Table I: AMSCO Portfolio, 1989 – 1998
Graded by Performance

Client Category	Number of Clients
Total AMSCO (contracts, 1989-1998)	126
Post 31.12.1996 contracts (not qualified for study)	31
Clients qualified for study	95
“Adequate”, “Successful” and “Very Successful” Interventions	66
“Inadequate” and “Failed” Interventions	29

- 2.10 Sufficient information was available to prepare 90 detailed case studies.
From these studies four specific analyses are developed:
- the regional differences in client performance during AMSCO interventions;
 - the financial performance of 37 clients during successful AMSCO interventions;
 - the “sustainability” of AMSCO impact on the post-contract performance of the Companies reported in the 1995 AMSCO Impact Study: Eleven Selected Cases;
 - the reasons for the failure of AMSCO intervention in 25 companies;
 - the volume, cost and range of the training and management development programmes provided by AMSCO to its client companies over the period 1989-1997.

iv) **Conversion and Aggregation**

- 2.11 In order to provide comparison between the changes in the performance of individual enterprises, and to calculate the weighted average impact of AMSCO over the whole portfolio, the financial data have been converted to US dollar values (using the exchange rate applicable in each of the relevant years).
- 2.12 The on-going financial impact of AMSCO intervention is also identified from the actual estimated performance of each company in its current financial year. These figures have also been converted to US dollars and presented individually and also in aggregate form.

Section 3. The AMSCO Client Portfolio: 1989 – 1998

i) Introduction

- 3.1 The full portfolio of AMSCO management service clients is set out in Annex 1, which includes specific information on: client size, sector, turnover and number of employees at the beginning of AMSCO intervention; the dates of AMSCO intervention, the number of AMSCO managers seconded; and the amount of donor financial support provided to individual clients.

Between April 30, 1989 and March 31, 1998, AMSCO has signed a total of 126 management service contracts with enterprises in sub-Saharan Africa. 33 of these contracts had been completed to full (or extended) term, 62 are on-going, 2 have been postponed and 29 have been prematurely terminated.

ii) Sectoral Distribution

- 3.2 The range of activities of AMSCO clients covers an extremely wide sectoral spread: Table 2 below indicates the main commercial / industrial areas in which AMSCO has been involved:

Table 2 : Sectoral Distribution of AMSCO Clients, 1989 - 1998

Sector	No. of AMSCO Clients	Total Employees	Annual Turnover (US\$'000)	Total AMSCO Managers
Manufacturing	31	6,204	157,963	58
Financial Services	19	2,619	112,912	28
Food Processing	14	2,870	59,955	25
Textile	12	11,734	131,613	42
Agriculture	11	1,245	15,108	19
Hotel Services	7	938	6,801	7
Transport	5	413	16,959	11
Automobile Services	4	388	14,879	6
Computers	3	173	2,779	3
Construction	3	1,548	16,203	3
Timber	3	3,200	53,346	33
Mining	2	770	13,400	7
Retail Services	2	497	5,673	4
Telecommunications	2	104	1,962	2
Consultancy	1	45	4,000	2
Engineering	1	220	4,204	1
Fishery	1	2,000	33,069	1
Heavy Engineering	1	53	1,800	2
Marketing Services	1	8	?	1
Music	1	20	1,100	1
Offshore Development	1	16	1,000	1
Tourism	1	158	nil	1
TOTAL	126	35,223	654,726	258

AMSCO has built up specialist experience and capability in several key business development areas, especially: financial services; hotel services; manufacturing; textile; and food processing.

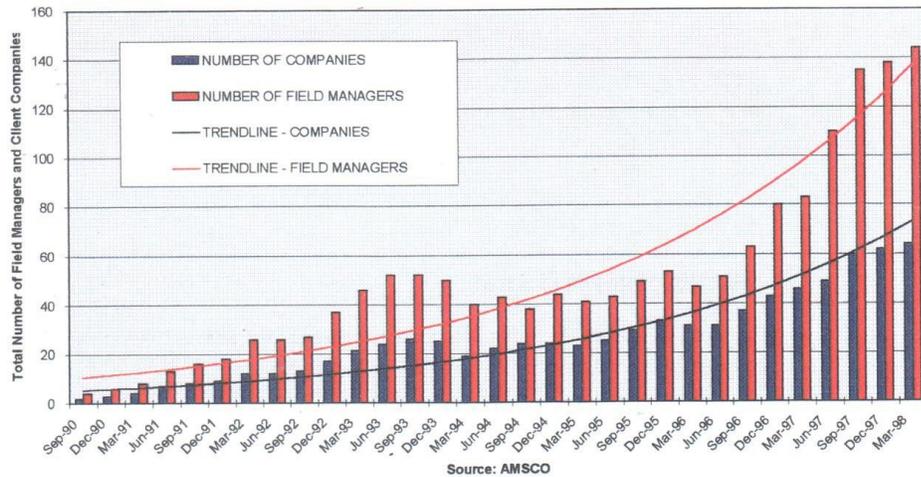
ii) **Geographic Distribution**

3.3 AMSCO has been operating over the past nine years throughout sub-Saharan Africa: 50% of its client were in West Africa; 32% in Southern Africa; and 18% in East Africa. AMSCO has operated in a total of 27 countries. Concentrations of clients have developed in Ghana, Ivory Coast, Kenya, Mali, Mauritius, Senegal, Tanzania, Uganda and Zimbabwe.

iv) **Growth of Portfolio**

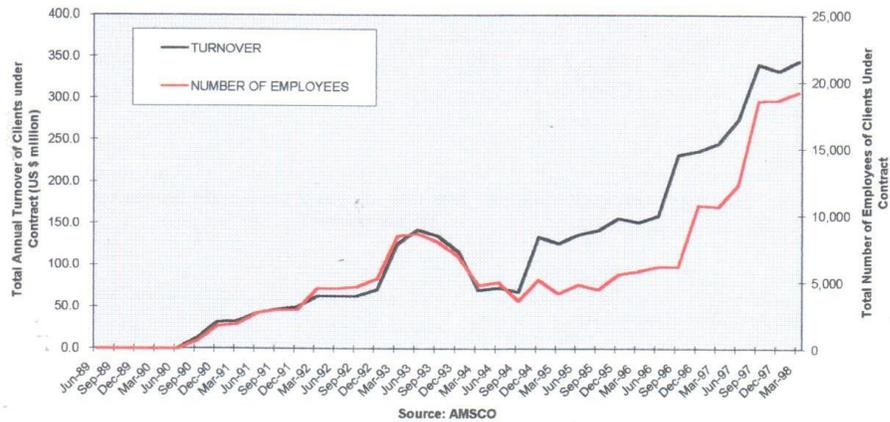
3.4 The AMSCO portfolio of client enterprises under contract has steadily increased over the years, as Chart 1 illustrates. In April 1994, (the fifth anniversary of the inauguration of the AMSCO/ATMS project) the company had 20 clients under contract. This number has risen at an increasing rate to reach 60 clients under contract by the end of 1997. At March 31, 1998, there were 64 clients under contract. Alongside this increase in the volume the number of field managers seconded to clients also increased, from 40 in April 1994 to 144 in March 1998. The growth in the number of managers is also shown in Chart 1.

Chart No. 1 : AMSCO Client Portfolio, 1989-1998 - Number of Clients under Contract and Number of Field Managers



3.5 The growth of the portfolio had the obvious effect of increasing the influence of AMSCO. Chart 2 shows the total annual turnover and number of employees of AMSCO clients under contract at any one time. By March 1998 these amounted to US\$350 million and more than 19,000 employees. These numbers are based on individual company statistics at the beginning of each AMSCO contract and therefore probably understate the actual numbers applying during the contract period. Over time the average annual turnover of individual clients under contract has varied between US\$3 million to US\$6 million per client (with an overall average of US\$5 million per client), and the average number of employees has varied from 150 to 300 per client (with an overall average of 250).

Chart No. 2 : AMSCO Client Portfolio, 1989-1998 - Total Annual Turnover of Clients Under Contract (US \$ million) and Total Number of Employees of Clients Under Contract (based on figures at the commencement of each AMSCO contract)



v) **Size Distribution of Clients**

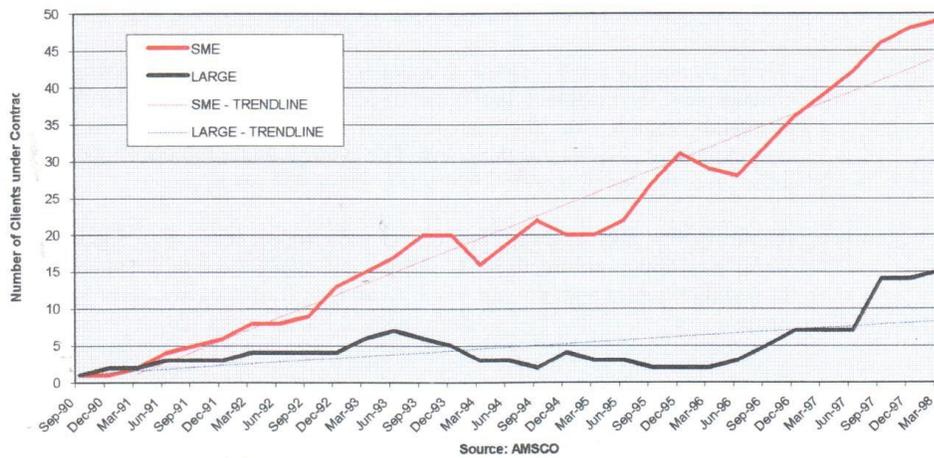
3.5 Each of the AMSCO clients has been categorised by size between SME (small and medium-sized enterprises) and Large, with a further split in SME between Small and Medium. Definitions applied in this categorisation are:

- Small: Annual turnover of US\$5 million or less and 100 employees or less
- Medium: Annual turnover between US\$5 and US\$10 million having between 100 and 500 employees
- Large: Annual turnover of more than US\$10 million with more than 500 employees

The categorisation of individual clients by size is based on client performance at the beginning of the AMSCO contract.

3.7 Annex I shows the category of each AMSCO client by size. 78% of the total number of clients were SME's (99 clients), and 60% of these were "Small" companies. Chart 3, which plots the distribution of AMSCO clients under contract year by year, shows that the balance between SME's and large clients has been fairly steady over the years.

Chart No. 3 : AMSCO Client Portfolio, 1989-1998 - Number of Clients under Contract, by Size (SME / Large)



vi) **Donor Financial Support for AMSCO Clients**

3.8 Over the nine years of AMSCO operations the three principal sources of donor financial support for AMSCO clients have been the ATMS Management Development Fund ("MDF"), the ATMS Management Loan Fund ("MLF"), and FMO / IBTA funding. MDF is exclusively used for the support of client training and management development programmes. The

MLF and FMO / IBTA loans and grants have been available to assist clients in meeting the costs of AMSCO seconded field managers. The financial support of these funds has been augmented by ad hoc grants from other donor sources for individual clients for specific purposes.

3.9 The following table shows total funds allocated to AMSCO clients up to March 31, 1998 from the three main sources of donor funds:

Table 3: Principal Sources of Donor Funding for AMSCO Clients, 1989-1998

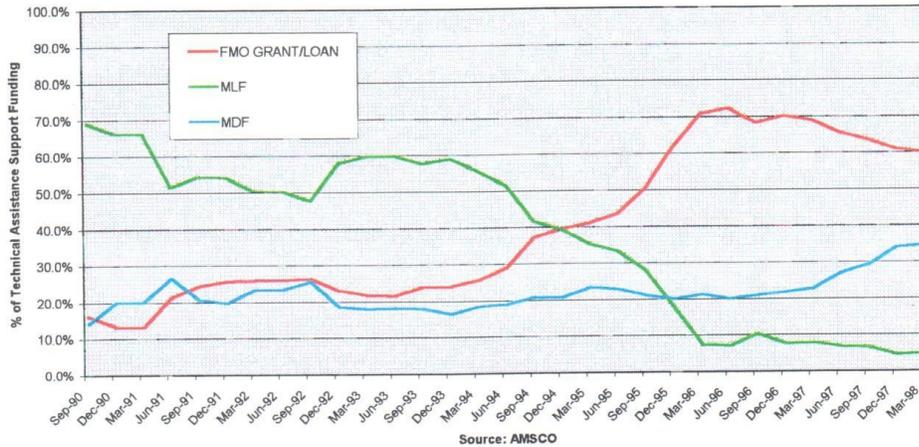
Source:	NLG million	US\$ million
MDF	11.35	7.05
MLF	---	8.60
FMO/IBTA		
• Grant	14.25	
• Loan	<u>8.29</u>	
Sub-total FMO/IBTA	22.54 *	14.00
TOTAL (US\$ million)		29.65

(* note: NLG converted to US\$ at 1.61)

These figures indicate that the average financial support for training and management development has been US\$60,000 per client, and the direct financial support for the expenses of seconded AMSCO managers approximately US\$180,000 per client. The average total of donor support per client over the period 1989 to 1998 was US\$240,000 per client.

3.10 These global and average figures do not reflect the very significant underlying downward trends in the sources and applications of donor funding to AMSCO clients over the past several years, as illustrated in Charts 4 and 5 below.

Chart No. 4 : AMSCO Client Portfolio, 1989-1998 - Sources of Technical Assistance Funding Support for Clients under Contract by Source (%)



- Type of Donor Funding

Chart 4 illustrates the high reliance placed on the MLF during the first five years of the AMSCO project until its use was discontinued in 1994. It also clearly shows the increasing role played by FMO / IBTA funds from 1991 through to early 1997, when this budget allocation was terminated. The benefits of each of these funds have continued after their termination, as the allocations to individual clients were spread over the periods of the AMSCO contract.

Since early 1997 there have been no sources of funds to assist new AMSCO clients to meet the expenses of seconded managers. This has drastically reduced the AMSCO ability to help SME's, and as a result AMSCO marketing is now increasingly concentrated on larger companies, and on clients involving joint venture partners, both of which are able to afford the full cost of AMSCO services.

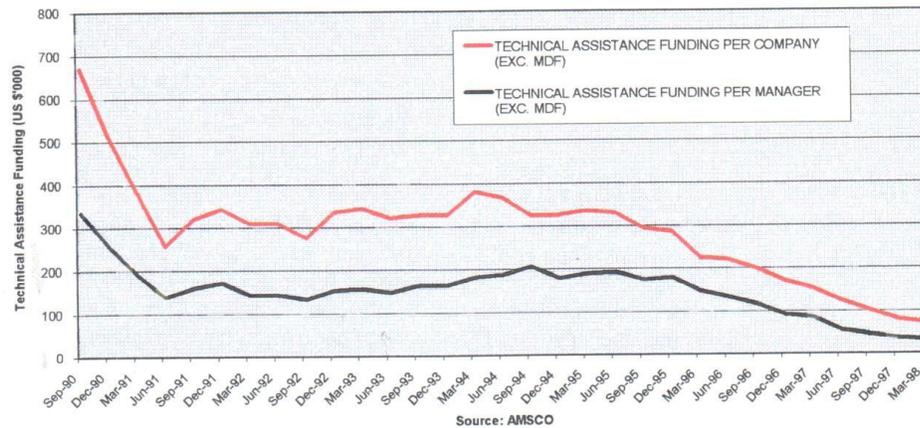
- Application of Donor Funding

Initially the use by AMSCO of donor funding to clients was generous. The average funding provided to the eleven clients reported in the 1995 AMSCO Impact Study, excluding MDF, was just under US\$500,000 per client. Support in the range of US\$400,000 to US\$450,000 per client was typical of the period up to mid-1995. At that time AMSCO came under the twin pressures of the increasing difficulty of raising further

funds and the increasing demand for funds arising from a growing portfolio.

The consequence of these pressures was for AMSCO progressively to reduce the funding support offered to clients. Commitments to clients for financial support to assist in meeting the expenses of the AMSCO management teams were stopped completely in March 1997, when the allocation from the FMO / IBTA budget was terminated. Earlier IBTA commitments continue to be disbursed, but the drastic reduction on the donor support for current AMSCO clients is shown in Chart 5, falling from US\$300,000 per client in June 1995 to US\$75,000 in March 1998.

Chart No. 5 : Average Technical Assistance Funding Support (excluding MDF) per Field Manager and per AMSCO Client under Contract, 1989-1998 (US \$'000)

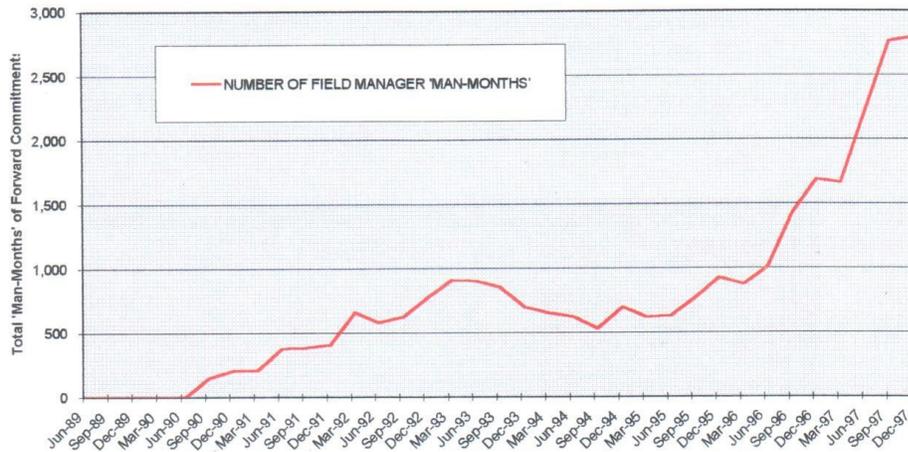


vii) **Forward Commitments – “Work in Progress”**

3.11

As a result of the steady growth in the number of clients and field managers, AMSCO has over the past four years built up substantial forward commitments, in terms of the total manager-months to be supplied to clients in the future. At the end of 1994 these amounted to 500 “manager months” (i.e. the equivalent of providing two managers to ten clients for approximately two years). By the end of December 1997 the corresponding figures was 2,500 “manager months” (the equivalent of providing two managers to 50 clients for two years). Figure 6 illustrates the rapid growth of this “work in progress” over the past few years.

Chart No. 6 : AMSCO Client Portfolio, 1989-1998 - Field Manager Forward Contractual Commitments, "Work in Progress" (in 'Man-Months')



Source: AMSCO

3.12 The substantial commitments for AMSCO management services provide assurance of business in the immediate future, and reflect the higher profile and good reputation that has now been established in the market place. It also provides a platform for AMSCO management to consolidate, improve the efficiency of the organisation and the overall quality of its services. To donors it should indicate the increased efficiency of the ATMS / AMSCO project as a delivery vehicle of funding for the development of the private sector in Africa, and particularly to SME's .

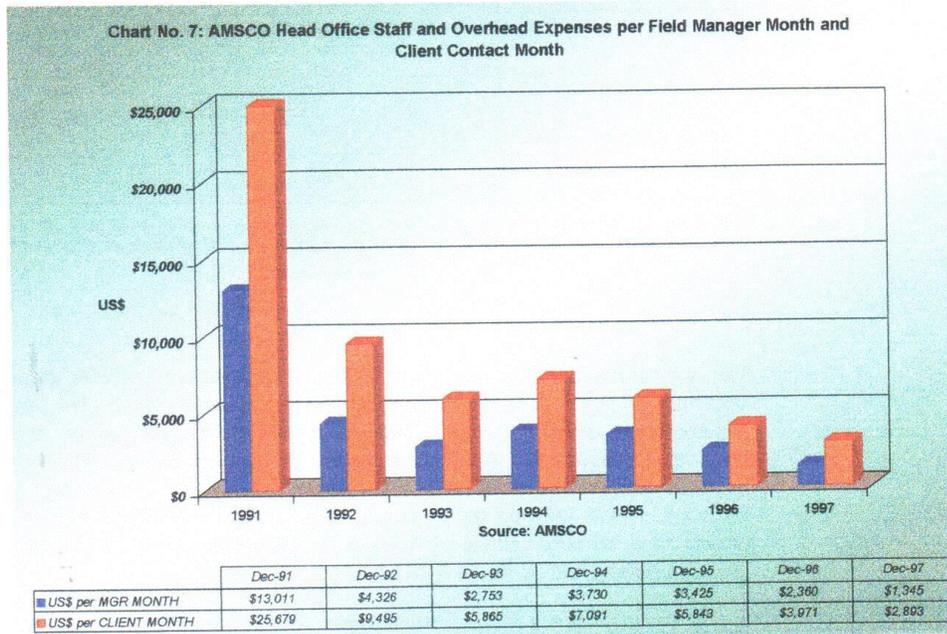
viii) **AMSCO Overhead Expenses 1989-1998**

3.13 Over the period 1991 to 1998 the total staff levels at AMSCO headquarters have remained level in the range of 12 to 16 persons, excluding the staff of the development department. The total of direct costs and overhead expenses, also excluding those associated with the MDF, have increased only 10% during the same period, to US\$3.94 million in 1997 (these figures exclude any provision for doubtful debtors or write-offs).

3.14 The overhead expenses of the headquarters have remained relatively unchanged, in marked contrast to the increased volume of business undertaken by the Company. This is illustrated by Chart 1 (page 11), which

shows that the number of clients and managers under contract has tripled over the four years, and is now eight-fold the volume of 1991.

- 3.15 The increased “productivity” of the AMSCO headquarters, measured in terms of staff and overhead expenses per “client contract month” signed up, and in terms of the headquarters expenses per “manager month” contracted out, is shown in Chart 7. This indicates that by December 1997 the average expenses incurred in “servicing” each “manager month” of the field managers was US\$1,345, and US\$2,893 per client month, a ten-fold reduction of the figures for 1991.



- 3.16 As a later section of this study will indicate, this increase in the apparent efficiency of the headquarters operation in costs per unit of service to clients has had adverse effects on the delivery and quality of some of those services.

viii) **Summary**

- 3.17 The outstanding impression from the review of the AMSCO portfolio over the nine-year period since inauguration is that of a dynamic development,

constantly adjusting to meet the frequent changes in conditions in the market place and the resources available.

- 3.18 The rate of growth of the portfolio over the past four years has been remarkable, demonstrating a flexibility to meet changed conditions rapidly. This has enabled the company to build up a substantial volume of "work in progress" for the future.
- 3.19 The reduction of unit costs achieved during the same period is also a significant financial achievement and a major step towards AMSCO achieving financial break even.
- 3.20 The review of the development of the AMSCO portfolio raises three concerns for the future:
- that donors provide sufficient technical assistance funds for management subsidies to enable AMSCO to maintain a high percentage of SME clients in its future portfolio;
 - that donors provide sufficient technical assistance funds to the MDF to ensure that AMSCO can meet its contractual obligations to provide part of the expenses of the training and management development programmes;
 - that the "hidden costs" of the very rapid increase in the portfolio, in terms of reduction in the ability of AMSCO to deliver high quality management services to its client be fully addressed.

Section 4. Regional Comparisons of Performance of AMSCO Clients

4.1 In the course of the research it has become evident that there are substantial difference in the performance of AMSCO clients in each of the three main Sub-Saharan regions. These are therefore analysed to ascertain to what extent these regional differences are due to AMSCO performance or to structural differences between the regions.

i) **Volume of AMSCO business**

4.2 The most obvious difference between the regions is the volume of business, in terms of numbers of AMSCO clients and the aggregate turnover of those clients. There are also significant differences in the timing of the intervention by AMSCO in enterprises in each region and the relative ratios of success and failure of those interventions

Table 4. Number of clients, by region and "success" status

Client Category	West Africa	East Africa	Southern Africa	Total
Total AMSCO (contracts 1989-1998)	63 (50%)	23 (18%)	40 (32%)	126 (100%)
Post 31.12.96 contracts (insufficient time for "impact")	20 (65%)	5 (16%)	6 (19%)	31 (100%)
Clients qualified for study	43	18	34	95
Sample of 37 clients from 64 "Successful" clients (refer Section 5)	17 (46%)	3 (8%)	17 (46%)	37 (100%)
"Failures" (refer Section 7)	18 (62%)	6 (21%)	5 (17%)	29 (100%)
Clients not included in the study	8 (28%)	9 (31%)	12 (41%)	29 (100%)

The analysis of the data of the 37 "successful" clients in the sample by region throws up significant differences in the average performance in key financial indicators.

iii) **Financial Performance of Clients**

4.3 Financial data were made available only for three AMSCO clients in East Africa, reducing the sample to 25% of the AMSCO portfolio in the region. These are insufficient to be treated as representative.

4.4 The client samples used in this study from West and Southern Africa are large and comparable: each contains 17 clients, and each has similar general characteristics (such as aggregate turnover and number of employees). However there is a very substantial difference in the financial performance of the clients, during the periods of AMSCO intervention. This is summarised in Table 5.

