PSC

4th Annual

CIDC DEVELOPMENT CONFERENCE

THOUGHT LEADERSHIP COMPENDIUM

DECEMBER 6, 2016

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LETTER FROM THE PRESIDENT

PSC offers many venues for our members to meet, discuss, collaborate and engage – not just amongst themselves, but with officials from across the spectrum of the U.S. government. As the premier organization for the federal contracting community, PSC also brings together the brightest minds to address the myriad complexities facing us in the marketplace. This Thought Leadership Compendium presents the reports of some of these bright minds and their deep experiences.

Years of practice in the marketplace have enabled our companies to appreciate what works best and why. Fortunately, many of our members are willing to share the depth of knowledge they have accrued through publications such as this compendium. The subjects they address will help frame the topics for discussion at our CIDC monthly meetings in the coming year and with government leadership, and I look forward to hearing your thoughts on them.

Sincerely,

David J. Berteau
President and CEO, PSC

LETTER FROM THE CHAIR

This is now our fourth Council of International Development Companies conference. Who could have imagined we would come so far is just these few short years?

Thanks to the commitment, the passion, and the great work of you, the members of CIDC, and the excellent support provided by PSC, we have taken a group of companies varying in size, scope, and specialties and forged a unified voice for our community in the field of international development.

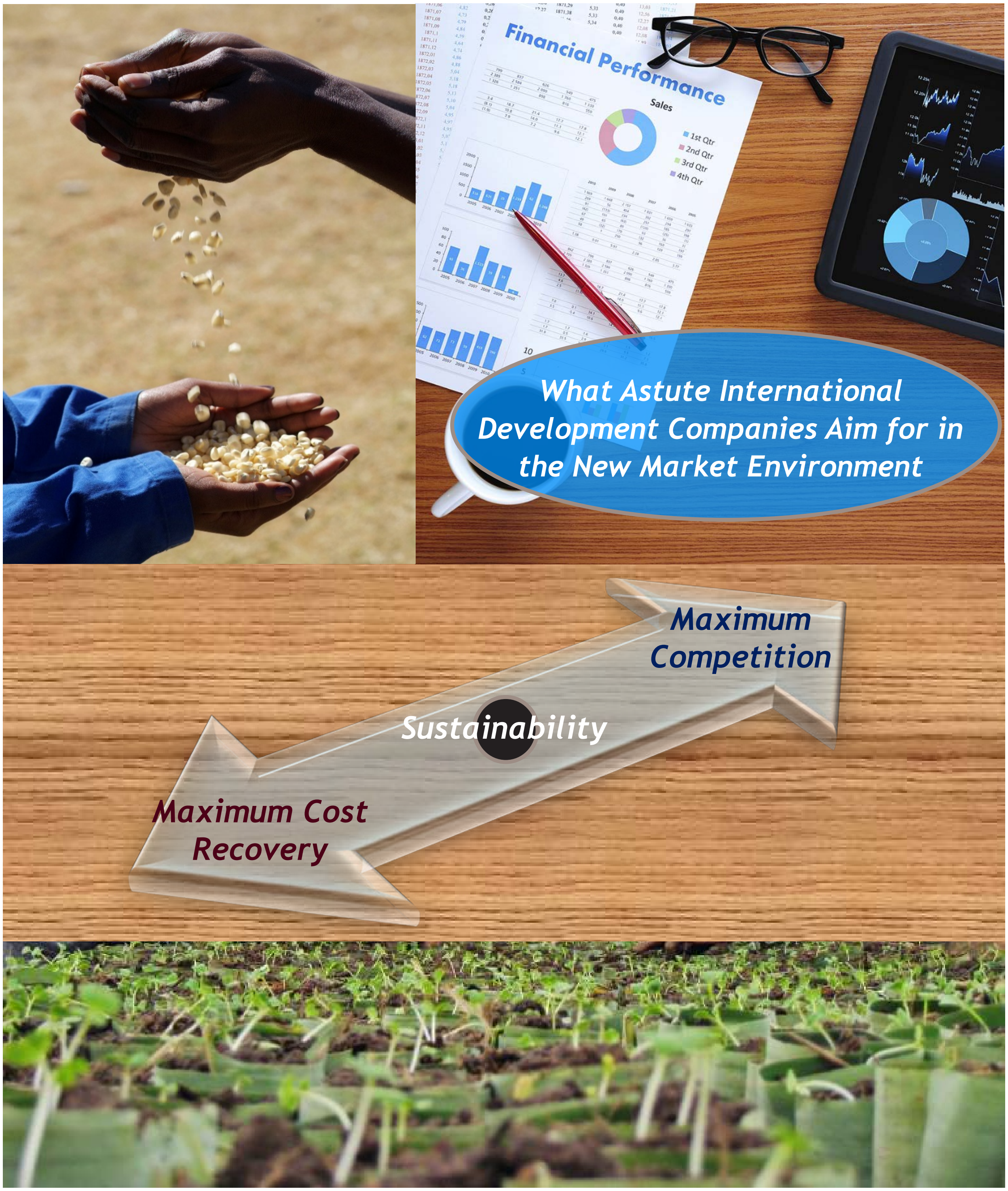
Whether working through CIDC's Executive Advisory Board, our Procurement Reform Task Force, or the General Counsels Working Group, our members have consistently demonstrated the depth of commitment to their work, the importance of delivering results, innovation and lasting impact, and their understanding of the significance of their efforts in helping those most in need.

As a result of the years of experience and talented staff, CIDC thought leadership is unsurpassed – with clear examples on display in this compendium – as we combine our years of expertise and knowledge in the world of development to ensure the best results for those countries receiving assistance from the United States.

I am proud to have served these past two years as your Chair and look forward to staying engaged with the entire CIDC membership through our monthly meetings at PSC, special CIDC initiatives, and at our next annual conference in 2017.

Susanna Mudge
CIDC Chair
President and CEO, Chemonics

Government Contracts & Grants Advisory Services



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BDO

Mission, mission, *mission*. Our mission is why we're here. Our mission personifies our passion to impact others and the world. Our mission is our opportunity.

New Competitive Landscape

USAID serves as a vital conduit for international development companies to execute towards their mission, embody their core values, and pursue their passion. Through the choice of instrument debate and subsequent guidance in the recently revised Automated Directives System (ADS) 304, industry stakeholders have contended that the recent revisions may disrupt industry dynamics. Additionally, the lines between for-profit and nonprofit international development implementers have become increasingly blurry. For example, both entity types have a mission that is geared towards impacting the development industry, each must consider approaches towards sustainability, and both now compete for the same instruments. However, such shifts within the competitive landscape should not disturb any CIDC company's overall mission and opportunities. Rather, such shifts should simply trigger a pivot in approach. Industry players indeed acknowledge this market reality for USAID funds and are making strides towards improving their overall position to compete for those funds. However, an underlying question looms for each CIDC company – is our current shift in strategy sustainable for the business?

The notion of scale is paramount in answering this question. Firms achieving scale are arguably better positioned to secure funding, compete in this environment, and enhance overall sustainability. A Company achieving scale optimizes overall cost recovery as well as profitability across its mix of funders and funding vehicles. However, optimization of cost recovery and profitability can only culminate from a robust framework that aligns with the current competitive landscape and incorporates key considerations. There are various strategies to implement a robust framework and achieve scale – one being the subject of our discussion – an examination of indirect rate cost design.

Baseline

As CIDC companies examine their current indirect cost rate structures within the context of the current environment, they must first understand where their rates stand from an industry perspective. Specifically, firms must understand the perceived "competitive sweet spot" from the purview of its funders – which we noted disregards entity type (for-profit v. nonprofit) as part of that consideration. As such, indirect cost rate benchmarking must consider attributes and implications from both entity-types. We list some key considerations for appropriate benchmarking below:

i. The regulatory framework to which the indirect cost rates are predicated for the for-profit and nonprofit competitors, e.g.,
   - ✓ Federal Acquisition Regulations (FAR) vs. Uniform Guidance
   - ✓ Cost Accounting Standards (CAS) coverage considerations
   - ✓ International regulations

ii. Organizational structure, e.g.,
   - ✓ Single entity and single unit composition
   - ✓ Single entity and multi- unit composition

- ✓ Multiple entities and multi-unit composition

iii. Sponsor-specific requirements and restrictions

iv. Award-specific requirements and restrictions

v. The nature of costs underlying the indirect cost rate structure
   - ✓ Services vs. products
   - ✓ Self-perform vs. subcontract
   - ✓ Grants and subgrants/GUCs
   - ✓ Participation support costs prevalence
   - ✓ Geographical scope of operations

vi. The operational mix of acquisition and assistance instruments

vii. The mechanisms for fee (e.g. contributions or program fee)

Design Structure

After obtaining a sound understanding of where their indirect cost rates fall in relation to competitors, CIDC companies should begin performing various analyses and assessments towards identifying the most optimal design structure. In analyzing these various designs, companies must assess each from an overall cost recovery and competitiveness perspective. Accordingly, firms should develop a comprehensive and detailed indirect cost rate model that captures the key elements (described below), which will allow firms to evaluate and quantify the impact of various scenarios against the overall continuum of maximum cost recovery and ultimate competitiveness, real time.

Overall Cost Recovery & Competitiveness

There are two levels of cost recovery that should be analyzed; the first level being at the program/award level - as specific funders may impose indirect cost rate limitations and restrictions on certain costs. The second is at the support function level (i.e., indirect). Specifically, in order to analyze cost recovery at the program level, firms should delineate current and pipeline awards, by funder, acquisition type, and cost element. Each project's cost composition should be delineated into specific groups that allow for easy implementation of various assumptions and allocation bases. For example, companies should consider grouping costs in terms of labor, subcontractor costs and number of subcontractors, participant support costs, equipment, travel, materials, and/or commodities. After analyzing costs at the programmatic level, firms should extensively examine functional support roles, the nature and circumstances of these roles, cost drivers, and interrelationships across programs (i.e., causal beneficial relationship). By organizing in such a manner, firms can easily toggle among certain assumptions and allocation bases within the model to assess various indirect cost rate structures and its impact on specific programs and funders.

Fundamentally, firms must have a means to recover their indirect costs. So why is this type of analysis important? The extent to which a cost receives overhead burden, and to what degree not only impacts recovery, but also perceived competitiveness. Understanding the regulatory restrictions on recovery is important especially as firms continue to seek additional grants and cooperative agreements. For example, most nonprofit organizations which have traditionally received assistance instruments calculate their indirect cost base on modified total direct cost (MTDC) which includes certain exclusions such as participant expenses, non-expendable equipment and portions of subawards in excess of $25,000 from receiving overhead. For awards with a significant amount of these types of direct expenses, a nonprofit may appear more cost advantageous relative to their for-profit peer(s). While these regulations do not apply to CIDC firms, understanding the competitive environment is critical when competing for and understanding comparative indirect cost rates. Additionally, it is important to note that indirect cost rate design analyses is more complex for firms subject to the Cost Accounting Standards (CAS), either modified or full. Companies subject to CAS not only need to ensure their proposed indirect cost rate structure is CAS-compliant, but also must ensure it is competitive within the context of the new market reality (i.e. with respect to both for-profits and nonprofits).

Profits/Contributions/Available Dollars

It is imperative that profits/unrestricted assets be included in the model due to the fact that: (i) assistance instruments do not provide a mechanism for fee; (ii) certain funders may impose indirect cost rate limitations; and (iii) unallowable costs are inherent in any organization's operations. Thus, in expanding the program base with a mix of both assistance and acquisition instruments, firms will be able to more competitively represent their indirect rates. However, it is critical to note that unrecoverable costs will inherently exist in any design (e.g., unallowables, rate caps). These unrecoverable costs are offset by profits/unrestricted assets – but the degree of their impact can be minimized through additional projects won as a result of competitive indirect cost rates. Accordingly, firms must be able to quantify the amount of profit/unrestricted funds available to offset unrecoverable expenses as a means of strategically determining their position on the cost recovery/competitive continuum.

Final Thoughts

In assessing, evaluating, and analyzing various indirect rate structure design approaches, firms will gravitate towards a robust solution for scale that best aligns with their overall mission, strategic initiatives, and the funding available. It is important to note that this strategy should not be construed as the sole method for achieving scale, but rather a viable one. As implied throughout, this approach requires deep analyses and well-informed considerations in the strategic determination of your position on the cost recovery/competitiveness continuum. As companies begin to bear fruit and achieve scale through the implementation of an optimal indirect cost rate design; they begin experiencing the right balance of cost recovery and competitiveness that positively contributes towards sustainability and the overall mission. To that end, we ask…what is *your mission*?

With any questions regarding indirect cost rates or other compliance matters, please contact:

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JOB CREATION

and the Future of Enterprise Development Assistance

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Cardno
Shaping the Future

Job Creation

and the Future of Enterprise Development Assistance

By David T. King, Ph.D.

Introduction

The goal of all international development is to improve the economic welfare of the people of poorer nations. Leaving aside direct humanitarian aid, this assistance addresses two areas: the development of democratic societies that encourage equal economic opportunity, because that maximizes economic efficiency; and economic growth itself. This paper focuses on economic growth and job creation.

The foundation proposition is beyond debate: jobs are created in companies. When semi-sinecures in government can seem the most attractive jobs in developing countries, Cardno's approach is to try to increase the size and share of employment in the private sector. The growth of companies is ultimately what Cardno's approach encourages in any economic growth program because only through their sales expansion does the demand for labor increase, creating new jobs.

Youth vocational training graduates under the USAID EMPOWER project in Kosovo, implemented by Cardno.

The author, David T. King, Ph.D., has been Cardno's economic growth expert for more than 10 years. He brings more than 36 years of experience in enterprise development, value chain upgrading, workforce development, access to finance, public-private dialogue, and local capacity development. Since 1996 his leadership, management, and technical skills have been focused on sustainable economic growth in international development.

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Economic growth programs can be broadly broken down into two categories: those that focus mainly on the internal needs and capacities of companies themselves, called "enterprise development" or "competitiveness" programs, and those that focus mainly on factors external to companies but also essential to their competitiveness, commonly referred to as "business environment" programs, including commercial law and regulation, macroeconomic policy, financial sector development, utilities and transport, vocational education, international trade, and taxation. Capacities in both of these broad categories are needed in order for companies to be competitive, grow, and create new jobs.

This paper focuses on the first category – enterprise development projects. It broadly reviews the evolution of approaches to enterprise development support through the past 25 years. It recommends that most aid now needs to be directed to the individual firm level. This has important implications for how competitiveness projects need to be designed.

Essential Requirements for Company Growth

If all jobs are created in companies – growing companies – then the fundamental question for any discussion of assistance to job creation is: what does it take for a company to start, survive, and grow? There are four basic needs:

1. Entrepreneurship: A common but less substantive term for this would be "management," but the most important manager is, in fact, the lead entrepreneur whose vision is driving the business. Entrepreneurship encompasses all managerial capacities and the business concept itself – the product or service must be well-conceived and its market niche well-identified.

Entrepreneurship itself is not a binding constraint to growth, and therefore job creation, in developing countries. This may seem surprising to say, but it should not be. More than anything else, an entrepreneur is a personality type that may be a minority but exists in all countries and cultures, combining unusual optimism, willingness to take on risk, strong ambition, and ability to lead and inspire others. As on-the-ground development workers know, though susceptible to encouragement and sharpening, entrepreneurship is everywhere.

2. Demand: Even given a highly capable entrepreneur with a well-conceived product, a company cannot create jobs unless it can access a market that is large enough to accommodate its growth. Very large companies need global markets. At the other extreme, microenterprises usually do not have problems with demand because they serve highly local markets for quite specific services. For many companies in between, access to markets ranges from less to more of an obstacle to growth. The market size that a company needs depends on its product type and production cost. To take a real example, a company in a small country that wants to produce and sell sandwich panels, which are used to construct the outer walls of warehouses and factories, needs to sell enough for say 50 buildings per year to amortize the cost of the $500,000 mill that it takes to produce the panels. If the local market only needs 20 buildings, then the company must also access export markets to be viable. Depending on such things as trade agreements, trade barriers, and visa regulations, even before connection to actual foreign buyers, this may or may not be possible. If not, then the factory will not be built and the jobs will not be created.

When companies are still relatively small –10-50 employees – they can expand by addressing sub-national or national markets often through import substitution. However, for them to continue to grow into the 100+ worker range that is the engine for large-scale employment growth in all economies, advanced and developing, export markets must be penetrated. This can be highly challenging. Since most developing countries do have limited domestic markets, demand is almost always a binding constraint to a country's economic growth.

3. Technology: A company can have a dynamic entrepreneur and plentiful potential demand but is just an idea without the means of production. It must have the capital equipment required to make the product or service. This ranges from cutters to computers and from less to more sophisticated, productive, and expensive models.

Technology requires money. Investment can come from the entrepreneur's own funds, from family and friends, or from institutional finance – banks, nonbanks, venture/private equity funds, capital markets. The availability of technology is critically a function of access to finance. This is a major obstacle to company growth in all developing economies – especially for small- and medium-sized enterprises (SMEs).

4. Workers: Physical capital is dead without human resources to operate it, and workers almost always need to have applicable expertise. The availability of properly trained and qualified staff is a binding constraint to company growth in all economies, and much more so in developing ones.

The Evolution of Enterprise Development

If capable entrepreneurship (management), demand (access to markets), technology (access to finance), and workers (human resources) are the four essential requirements for a company to grow and therefore create jobs, how have our approaches to catalyzing these elements through development assistance evolved over time?

The chart on page three provides a depiction, using the last 25 years or so of experience in the broad "transition region" – the ex-Communist / socialist states – as an example. Generalizing, five phases can be distinguished:

1. Early Firm-level Assistance: When USAID and other donors first rushed into the region after the fall of the Berlin Wall and civil conflicts and wars in the Caucasus and Balkans, economic growth programs were very well-budgeted, given the strong "Washington-consensus" view that rapid private sector development was the surest way to consolidate nascent democracy as well as to promote peace. Enterprise development projects fanned out into the inefficient state-owned companies that had dominated these economies. They mainly addressed the first essential element, entrepreneurship, helping company owners and managers learn how to administer their businesses effectively. The programs were expensive because interventions in companies were direct – one-by-one. Some programs in post-conflict situations also had grant or loan components to replace equipment that had been destroyed in war, addressing the third essential company growth element, technology.

2. Business Development Services (BDS): Following the initial surges, budgets for economic growth programs were pulled back to more sustainable levels, requiring donors to move away from direct firm-level intervention to wholesale programs. The first of these, BDS, sought to create cadres of local consultants who could do much of what the earlier programs had done mainly using expat consultants. Management and operational capacities were still considered the critical enterprise growth need. The projects were set up as service providers – "business assistance centers" – for all companies, and required them to bear some of the cost.

3. Clustering: The clustering concept was popularized in a well-read 1998 Harvard Business Review article by Michael Porter and gained a devoted following, particularly within USAID. Clustering projects moved enterprise development further away from the firm level. Firm-level support became criticized as "picking winners." Aid was focused entirely at the group/cluster level, gathering firms together to identify shared obstacles to competitiveness and to develop action plans, leading to joint activities in management, workforce, marketing and sales, and production operations.

4. Value Chains: Basically an evolution of the clustering approach, value chain upgrading projects expanded the analytical model for planning assistance beyond horizontal collaboration to include a comprehensive vertical depiction of a product line, from raw materials to final consumers. These projects sought to facilitate market development, supporting services that would address gaps or weaknesses in the value chain, such as promotion and marketing, input supply, and access to finance. They backed away further from firm-level assistance, carefully avoiding themselves taking on any of these roles to instead build sustainable local capacities.

The Impact of Wholesale Approaches to Enterprise Development

The BDS, clustering, and value chain approaches succeeded mainly in three areas. First, they built capable networks of local consultants so that many of the managerial and operational consulting services needed by firms could be obtained locally. Second, they exhaustively assessed the strengths, weaknesses, opportunities, and threats that were faced by companies in all of the key productive sectors in their economies leading to well-defined development strategies, often in collaboration with government. These strategies addressed needs across the four requirements for company growth and in the business environment. Third, they built platforms for cooperation, mobilizing and often financially supporting group-level activities that, in turn, improved the competitiveness of individual companies.

But having achieved these results, the impact on job creation began to seem inadequate. Certainly the projects did contribute to company competitiveness but often in a generic way. For example, the positive effects of facilitating sector strategy depended on someone else following up – a ministry, a business association, or a local development agency. The projects themselves did not have the ability to intervene directly at the company level. For this reason, some monitoring and evaluation experts went so far as to question whether performance management indicators for such projects should even include job creation, even though that was undoubtedly the outcome sought by project designers.

Donors began to question whether repeating such projects would produce the major employment impact they sought, particularly as the demand for clear and well-defined results and attribution became more insistent. This has led to the fifth and final phase shown in the chart.

The Resurrection of Firm-Level Assistance

Firm-level assistance is returning because transformational, large-scale job creation – still regarded as the best foundation to peace and political stability – is elusive. There has been progress, but unemployment rates – particularly among youth – remain far too high in most developing countries. Frustration with lack of economic opportunity is common, breeding cynicism and worse.

Wholesale projects were best able to clearly attribute job creation impact when the group-level or strategic activities that they supported ended up directly benefitting individual companies. For example, a sector action plan facilitated by a competiveness project might call for attending certain international trade shows, and project grant funds might co-finance the participation of local companies that otherwise would not have attended. In those cases, new sales contracts resulting from the show, and the consequent new employment, were clearly attributable to the project's support. But such opportunities for direct impact were limited because the projects were restricted to activities that benefitted groups of companies, not individual ones.

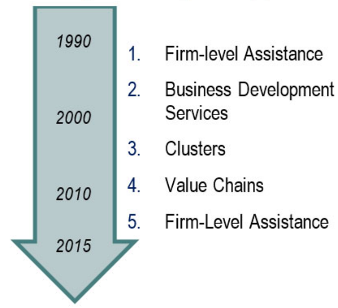
Firm-level assistance means helping companies directly with the four essential requirements for growth. For large-scale job creation, what kinds of companies do we want to assist?

Developing economies typically consist of a very large number of very small companies, a very small number of very large companies, and a fair number of companies in between. The economy of Kosovo typifies this structure. It is made up of somewhat less than 125,000 firms. Microenterprises are 120,000 or more of these – companies with less than 10 employees, the majority of which are in fact sole proprietorships. These grow jobs through multiplication, not by internal expansion, because their markets are real but capped in size. At the other end of the size scale, no more than 400 companies have 50 or more employees, which qualifies as large in most developing economies. Many of these are in mature, slower growth stages.

Sandwiched in between are about 2,000 companies with 10 to 50 employees. These companies can be called true SMEs. They are headed by capable entrepreneurs and the markets they face are potentially very large. Their countries' wide trade deficits evidence both import-substitution and export opportunities. The range of products and services they supply spans almost every sector of the economy.

Many of these SMEs have quite dynamic growth potential – if they can widen their connections to buyers, purchase new equipment, and find qualified workers. Kosovo's 2,000 SMEs, for example, employ

25 Years of Enterprise Development Approaches



The chart provides a satirical depiction, using the last 25 years or so of experience in the broad "transition region,"– the ex-Communist/socialist states – as an example of the evolution of enterprise development. Generalizing, these five phases can be distinguished. .

The positive effects of facilitating sector strategy depended on someone else following up ... Some monitoring and evaluation experts went so far as to question whether performance management indicators ... should even include job creation.

All photos are courtesy of the Cardno-implemented USAID/Kosovo EMPOWER Private Sector Activity. Kosovo struggles with high levels of poverty, unemployment, energy shortages, and over-dependence on imports, combined with a small export sector. In its first year, EMPOWER Private Sector Activity created more than 450 new jobs, including positions for women, youth, and minorities. Nearly 400 companies benefitted from project assistance, leading to more than €850,000 in attributable sales. EMPOWER's Strategic Activities Fund approved 65 grant applications. The resulting expansion of applicants' business operations is expected to create more than 2,000 additional jobs.

Enterprise development program design, therefore, needs to come to grips with the fact that the project either must itself be capable of providing finance or it must be positioned to develop new nonbank financing channels – especially dedicated SME investment funds – and actively solicit finance from available investors.

25 people on average. Simply doubling their size would create 50,000 new jobs, enough to reduce the total number of unemployed in the country by almost 40 percent or, if concentrated, completely wipe out youth unemployment.

Of course, it is unreasonable to expect that a single enterprise development project could directly benefit 2,000 firms and not all of them need assisting. But by demonstrating the impact of direct assistance to a subset that do need it, such a project would stimulate similar support from both the public and private sectors. What kind of support?

For demand, or access to markets, projects must help companies directly to connect with buyers. In most cases the need is for foreign buyers, so they can expand beyond limited domestic markets where they already know the buyers. Developing country SMEs must be able to sustainably insert themselves into the same global marketing channels that are normal for growing companies in advanced economies. This means consistently attending the referential trade shows that are particular to their sectors, forming close relationships with sales agents that know buyers in target markets, and promoting themselves in relevant industry media.

For workers, or access to human resources, projects can directly support in-company training of new workers customized for the individual company or in the form of internship or apprenticeship programs involving dozens of companies in a particular sector needing similar skills. Each would benefit directly by obtaining one or more vetted trainees at a low cost who may be hired at the end of the program.

While a firm-focused project would certainly take a more individually tailored approach than a typical competitiveness project, connection to markets and workforce development are things that development projects are used to doing. This is not, however, the case for the final critical element for company growth – technology, or access to finance. For this, we must recognize that firm-level assistance very often means actually providing finance. This is the elephant in the room in enterprise development assistance.

Or perhaps more accurately, it has to date been the elephant not in the room.

SMEs in developing countries have far fewer options to finding finance than do those in advanced economies. This is broadly demonstrated by the ratio of private sector credit to GDP – the most important indicator of overall financial sector development. This rose markedly in many developing countries in the decade up to the global financial crisis of 2008 – in the Europe and Eurasia region, from about 20 percent to 60-70 percent of the GDP. But compared to 150-250 percent ratios in advanced economies, it is clear that firms in developing economies have much more difficulty in accessing finance.

Firms in developing countries, for this reason and others (particularly the well-budgeted industrial development support they receive from their governments), end up at a severe competitive disadvantage to companies in advanced economies, in global and even import-competing markets. This is a major obstacle for overall economic growth.

Credit ratios remain low not because their banks aren't lending, but because there is virtually no nonbank finance in developing countries. There is very little leasing (other than vehicles), virtually no factoring, no nonbank equipment finance, no purchase order finance, extremely limited export finance, and capital markets that may exist but provide essentially no business finance, especially to SMEs – no corporate bonds, no commercial paper, and few, if any, dedicated investment funds. The reason that advanced economies have credit-to-GDP ratios that are so much higher than those of developing

Table 1: Holdings of Financial Assets in BiH

Financial Institution	KM MM	%
Commercial Banks	20,923	86.1%
Insurance Companies	1,054	4.3%
Investment Funds	810	3.3%
Leasing Companies	767	3.2%
Microcredit Organizations	752	3.1%
Total	24,306	100.00%

Source: BiH Financial Sector Assessment (USAID 2014).
The KM, or convertible mark, is about 2 to the Euro.

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- USAID, ***20 Years of USAID Economic Growth Assistance in Europe and Eurasia*** (July 2013). https://www.usaid.gov/sites/default/files/documents/1863/EE_20_Year__Review.pdf
- USAID, ***SME Access to Finance in Bosnia & Herzegovina*** (July 2104). http://pdf.usaid.gov/pdf_docs/PA00M9SK.pdf

countries is not that their bank credit ratios are larger, but because up to half of their credit comes from nonbanks. The table on page four illustrates this point with a typical example for Bosnia-Herzegovina. If microcredit organizations are combined with commercial banks, only about 10 percent of all credit comes from nonbanks.

Nonbank finance is especially suitable for SMEs because it is usually closely tied to specific working capital or equipment assets and so can be obtained with much simpler processes and paperwork than is required for a bank loan.

Implications for the Future of Enterprise Development

The evolution of enterprise development projects over the past 25 years has established a foundation of strategic direction, management capacity, and local consulting expertise on which firm-level assistance can now be built. Such assistance should be modeled roughly on the approach of private investors: select firms that have clearly demonstrable market opportunities, identify what is keeping them from realizing those opportunities, and work to address those challenges. The most common needs will be one or more of these three: finance for equipment, buyer connections, and skilled workers. And, certainly as companies start growing from small to mid-sized, they will need consulting in what we have included under the heading of entrepreneurship: managerial organization, product development, and operational efficiency.

Connection to buyers and workforce development, and well as management and operations, are areas where USAID and other donor projects have done a lot of work and continue to do so. These development capacities can be readily applied to projects that are dedicated to the firm level, and some are showing marked success in creating new jobs.[1]

What has been most lacking in enterprise development is support for finance itself – the critical requirement for expansion of the actual physical means of production. Without adequate equipment, developing country companies with market opportunities are unable to exploit their common competitive advantage – the low cost of labor. With modern equipment, so much of which is software-driven, and appropriate worker training, developing countries can produce a wide range of consumables and durable goods of a quality that is just as high as in any advanced economy, and therefore readily penetrate global supply chains.

Almost all of the work that donors have done to promote access to finance has been in building the structures of financial systems. This has produced results but only in commercial banking. And when donors have supplied actual finance, this has usually gone through commercial banks, often simply amplifying their already-excess liquidity. Where investment funds have been set up by donors supposedly to invest in SMEs, they behave like standard private equity funds, doing a very few relatively large deals, far beyond what is needed by the thousands of 10-50 employee true SMEs that have great growth potential.[2]

1. A good example of a firm-level focused effort delivering these kinds technical needs is the USAID Tunisia Business Reform & Competitiveness Project, implemented by Pragma Corporation. http://www.brcp.tn/

2. For example, EBRD's Enterprise Expansion Fund for the Western Balkans (ENEF), a potentially €100 million facility established in 2014 and dedicated to "SMEs with high growth potential," had by March 2016 invested €4 million in only two investments, and expected to do only 5-6 more within the following year. Its target investment range is €1-10 million or more. See http://www.wbedif.eu/about-wb-edif/enterprise-expansion-fund-enef/

Enterprise development program design, therefore, needs to come to grips with the fact that the project either must itself be capable of providing finance or it must be positioned to develop new nonbank financing channels – especially dedicated SME investment funds – and actively solicit finance from available investors, local and international, commercial and social, much as a private merger and acquisitions firm would do. Except in this case the target market is the thousands of true SMEs.[3]

It is important to dispense with the notion that firm-level assistance means "picking winners." It does not. A firm-level assistance project welcomes all companies that have unrealized market opportunities, like any private lender or investor would. Since a project does not have an unlimited budget, it will tend to rank companies according to the size of their market opportunities and therefore their potential for creating new jobs, because that is what it is trying to maximize during its term.

All jobs are created in growing companies. Enterprise development projects now need to move toward a more granular approach that directly supports companies. Assessment efforts need to move on from identifying sector-level issues to evaluating the market and growth opportunities of individual companies, and addressing their specific needs. Where this can be done with systemic support – as for example through vocational education and training institutions – it will be more cost-effective. But since every company has specific needs to realize its potential, these should grow to become the focus of enterprise development assistance.

3. An example of a project with a strong firm-level finance component is USAID Empower Private Sector Kosovo, implemented by Cardno Emerging Markets. http://empowerkosovo.org/

Charting a Path to Sustainability:

From Technical Capacity to Management Capacity

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December 6, 2016

When we think of foreign assistance projects, we usually mean technical sectors: health, agriculture, democracy & governance, climate change, etc. Those of us in the international development field enthusiastically roll up our sleeves to transfer knowledge, but are we doing enough to help promote sustainability? Are we really helping to empower communities?

Institutional capacity building is an umbrella term we use in describing our work with local organizations, whether non-governmental organizations, commercial companies, or government entities. But more often than not, what we are actually referring to is technical capacity building—an effort that may or may not yield long-term improvements in the work of the *institutions* with which we work.

At the same time, the current trend emphasizes "sustainability," especially regarding the activities being implemented by donor-funded projects, but also the local organizations themselves that are needed to ensure that they continue to serve their communities and populations and have the ability to grow and develop.

To truly achieve sustainability, however, we need not only technical capacity building, but also a focus on *organizational* capacity building. We call this management capacity building.

No matter how proficient the local organizations are in the technical arena, without strong policies in place, reliable systems at the ready, and properly trained personnel who are fully capable of handling the various tasks required to achieve success, the likelihood of their continued growth and sustainability is severely limited.

Most projects unfortunately devote little funding to management capacity. When there is funding, it mainly goes to building the financial capacity of these organizations, which is of course a hot button for donors.

But for organizations to be sustainable, they need much more than financial systems. Based on our extensive experience working with organizations in the development sphere, we have determined that there are nine interrelated key components that organizations must develop to achieve sustainability, as shown in the graphic at right. We understand that organizations cannot transform into sustainable entities overnight, but these nine areas are interrelated components that can be developed gradually to form a strong organization.

Often, local organizations have little idea where to begin to build their management capacity. Applying these nine comprehensive and systematic management capacity building blocks helps institutionalize systems and capabilities. Building capacity in these nine key areas by order of priority, local organizations can also see their development in more manageable steps. The key here is that the prioritization itself must reflect an organization's current needs and its capacity to address them. Coupled with peer-to-peer mentoring and coaching, we increase the likelihood that these strengthened local organizations will have the wherewithal to be sustainable even as donor funding decreases.

Management capacity building also empowers local organizations to build their ability as "learning" organizations that can adapt to changes and new circumstances and can continually improve.

Stronger organizations lead to stronger communities that increase opportunities for people to better support their families, ultimately creating stronger, more secure economies around the world.

OMNI-CHANNEL SUPPLY CHAIN FOR HEALTH

ACHIEVING PEPFAR 90-90-90 GOALS THROUGH AGILITY

LMI WHITE PAPER

NOVEMBER 2016

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At the end of 2015, 17 million people were receiving antiretroviral therapy (ART) worldwide–a combination of antiretroviral medicines used to slow down the rate of HIV/AIDS multiplying in the body. Although significant strides have been made to address the need and supply of ART, health systems have only been able to cover 46 percent of the estimated 36.7 million people living with HIV/AIDS. To expand HIV/AIDS patients' access to ARTs, public health officials are adopting new service delivery models that avoid clinic visits, but these models will be hindered by legacy supply chains designed for large deliveries to clinics. Health systems need to adopt Omni-channel supply chain design to link flexible product distribution with flexible service delivery.

Ensuring Patients Receive ART Services

For decades, HIV/AIDS prevention and treatment programs operated on patients coming to a fixed point to get services. The entire supply chain was based on ensuring shelves had ample stock of commodities so patients did not leave empty-handed. But new HIV treatment guidelines, PEPFAR's 90-90-90 goals, and medical advances that allow HIV patients to live normal lives have forces health officials to rethink that approach. Health systems realized they could improve coverage and adherence if patients had better, more convenient access to health services and commodities. Many health systems are now piloting various ways for patients to receive services, improve service acceptance, and strengthen ART adherence through:

- adherence clubs,
- direct or local delivery of medicines,
- community health workers,
- mobile clinics, and
- traditional health clinics.

At the 2016 International AIDS Conference (AIDS 2016) in Durban, South Africa, there was a common theme: the fight against HIV/AIDS needs to transition to more patient focused services. Relying on patients to give up a day (or sometimes more) of work to travel to and wait in line in a traditional health clinic leads to patients dropping out of the system and not adhering to their ART regimen. This inconvenience equally prevents people from getting tested, meaning that at risk populations are not getting the care and, if needed, treatment they need.

Bringing health services to patients has, unsurprisingly, been demonstrated to improve prevention, testing, and treatment results. Pilots of new delivery methods have shown very positive results. As health systems push to test, treat, and retain more patients, it is clear that building new clinics and supply chain infrastructure is not a cost effective or timely solution.

But more flexibility in service delivery requires a more responsive management and supply chain structure. Most countries still rely on multi-tiered, asset heavy supply chain networks that are not up to the task. These supply chains are designed for large, infrequent shipments of commodities with the intent of maintaining ample stocks of products at the point of service. This structure will not support small, frequent shipments to one or a few patients that the new services require. At the same time, designing a different supply chain for each distribution channel became unwieldy, and data gets lost when patients switch delivery channels. Omni-channel supply chain design can change all that.

Leveraging Omni-channel Successes for Better ART Delivery

Most companies today realize improved performance when customers have more convenient ways to get their products. Retail companies have designed flexible delivery options to make getting products easy for customers. Delivery models include:

- order online with home delivery,
- order online and pick up at a store,
- shop in store with home delivery, and
- traditional store shopping.

Introducing these delivery models stressed existing supply chains and caused some failures. Stores were not designed for customer pick-ups or as shipping locations. Legacy warehouses did not have the resources to do small package shipments or receive customer returns. And supply chain software was not able to track customer receipts at a variety of locations. By rethinking the supply chain design, retail companies have revamped their ability to serve customers when and where it is most convenient for the customer. These so called “Omni-channel” supply chains are designed to integrate the management of customer deliveries regardless of the specific channel the customer chooses to use.

These same solutions can drive the patient centered health system of the future by providing flexibility in where and when products are delivered while maintaining product quality and traceability. Omni-channel solutions can provide the added value of tracking delivery of products directly to the patient, enabling better tracking of adherence and other patient behaviors.

Bringing Omni-channel approaches to health supply chains requires evaluating how the health system wants to reach patients. With that in mind, an effective supply chain design can follow. You don’t have to redesign the entire supply chain. In many cases, the last mile activities will be the most impacted. That being said, it is worth looking at how the end-to-end supply chain supports the new service delivery requirements. For example, procuring individually packaged medicines rather than bulk packaged can enable direct to patient delivery and make the overall health system more efficient.

It is also important to recognize that implementing an Omni-channel approach is not just a matter of changing how products are delivered. In most cases, it will require new tools for tracking shipments to the customer, planning commodity requirements, and managing the regulatory issues of having patients receive commodities from a non-pharmacist. There also needs to be a well-conceived process for handing products that the customer does not pick up or accept.

With more mobile testing solutions being pressed into use, Omni-channel is a solution for laboratory networks as well. More agile networks are needed to supply needed testing commodities, such as reagents and sample kits as well as for managing samples themselves. Rethinking these supply chains will help improve testing coverage, response times, and get more HIV+ patients onto treatments.

Another important aspect of Omni-channel approaches is integrating patient data across networks. The move toward test-and-treat models highlights this need. Health systems now need better integration of lab and treatment data so that patients can be easily entered into treatment systems as soon as they are tested. This will also help better track the relationships between test results, adherence, and chosen delivery model, allowing public health experts to continue improving service delivery and results.

Fighting HIV/AIDS with Omni-channel Supply Chain Design

To serve patients through more flexible and direct methods, the supply chain must adapt to new, flexible models. New designs need to consider end-to-end flexibility, recognizing that procurement changes, such as individual packaging from suppliers and smaller, more frequent orders, can be enablers of patient-centered service approaches. In short, we need to engage the commercial industry and learn from their experiences to engage this next phase of the fight against AIDS.

The fight against AIDS is at a transition point. The messages of AIDS 2016 were clear. The 90-90-90 testing, treatment, and suppression goals have changed the focus. Reduced funding has created a need for efficiency. Research for new treatments and even a vaccine are showing great promise. And the patient must be the center of the fight. Bringing all of these themes together requires a supply chain that is flexible, responsive, effective, and patient focused.

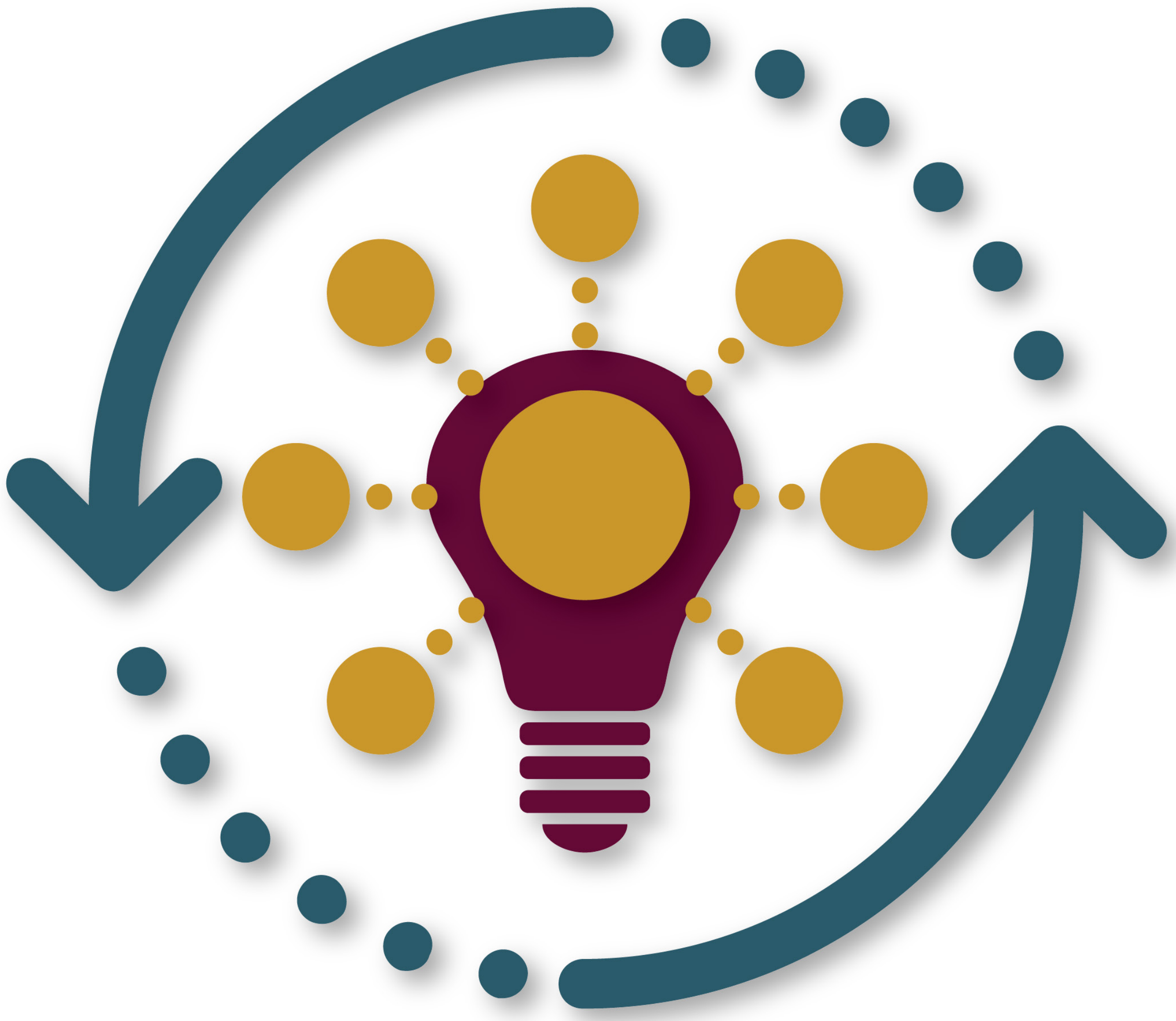
Omni-channel design can be the solution and an essential tool in the fight. But it will take careful planning and design to get there. A new supply chain model has implications for management, systems, and the workforce. You may also need to engage new partners to achieve these goals. Finally, don't forget the patient. Transitioning to receiving medicines outside of a clinic is a change for them as well, and patients will need some education to maintain adherence and regular testing and counseling.

Please contact Taylor Wilkerson, at twilkerson@lmi.org, to learn about how LMI's supply chain capabilities to help position your health system to meet the needs of your patients or customers.

Taylor Wilkerson heads LMI's Global Health group. He also co-chairs the Supply Chain Risk Leadership Council and chairs the Penn State Center for Supply Chain Research advisory board.

COLLABORATING, LEARNING, AND ADAPTING:

FACILITATING AGILE PROGRAM SUCCESS THROUGH CLA



BY
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QED GROUP

Driving better outcomes

COLLABORATING, LEARNING, AND ADAPTING

FACILITATING AGILE PROGRAM SUCCESS THROUGH CLA

INTRODUCTION

Collaborating, Learning, and Adapting (CLA) are not unfamiliar concepts to development professionals, but the effort to identify, design, and resource CLA provides a greater opportunity for informed decision-making and flexibility, which enables better results. CLA can be implemented through a wide number of activities, many of which are highlighted in this article, and through their alignment emerges a comprehensive CLA approach.

WHY ADAPTIVE MANAGEMENT AND CHANGE MATTERS

Development projects operate in complex systems, whether internationally or domestically. Political parties and priorities, environmental factors, economic contexts, advances in innovation and technology, and health and well-being conditions shift—sometimes overnight and sometimes over a prolonged period of time (see **Figure 1**). Goals and objectives that made sense at the onset of a project can become irrelevant over the three-to-five year period of performance, leaving project staff with no option but to fail or adapt.

In these circumstances, adaptive responsiveness can make the difference between having a positive, neutral, or even a negative impact. These decisions must be informed and based in evidence, which is why Collaborating, Learning, and Adapting (CLA) plans and processes should be determined at the beginning of any project, and adjusted accordingly, throughout the life cycle of the project. USAID defines CLA as "a set of processes and activities that help ensure programming is coordinated, grounded in evidence, and adjusted as necessary to remain effective throughout implementation" (ADS 201, 2016). As a result, development programs operate best when they engage relevant stakeholders, utilize appropriate knowledge, and maintain flexibility.

HOW CLA WORKS IN PRACTICE

The CLA approach helps create the conditions for development success through strategic collaboration, continuous learning, and adaptive management. **Collaboration** engages stakeholders internally and externally through a variety of means to provide expertise, input, and feedback. **Learning** occurs when ideas and information are generated, captured, shared, and applied in an effort to improve practice. **Adaptation** enables positive change and improvement through lessons learned and informed decision-making.

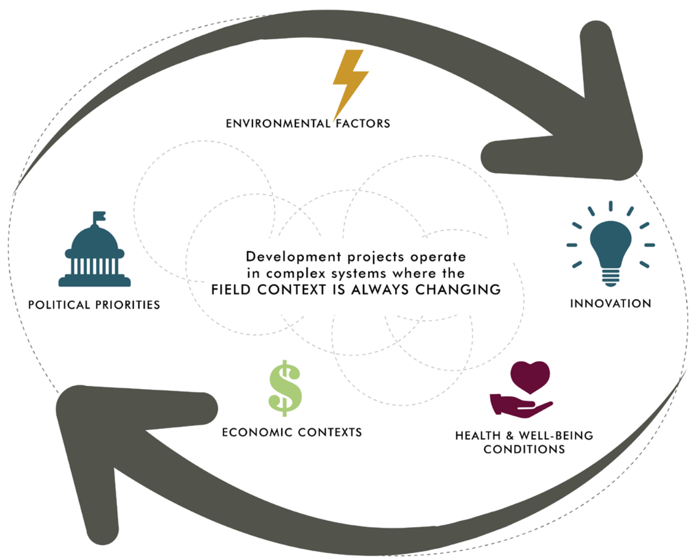

Figure 1: *Shifting Conditions Within Complex Systems*

Many CLA activities are already undertaken during project implementation, but a CLA plan allows project staff to be intentional about designing and resourcing these activities. In planning for CLA, project staff should consider how various activities complement one another to achieve specific goals and objectives. The following questions can help identify the right activities. Who needs to be involved, when, and how? What resources are required or need to be developed? How will information be generated and shared? How will information and ideas be used for decision-making? These CLA activities may include learning networks, communities of practice, trainings, learning events, as well as policy changes and strategic organization development – see **Figure 2** to learn more about some of these illustrative CLA activities.

COLLABORATION

- Working with governments
- Working with implementing partners
- Working with the private sector
- Working with donors
- Working with NGOs
- Working with beneficiaries
- Sharing internally
- Sharing externally
- Consortiums
- Learning Networks
- Communities of Practice
- Working Groups
- Aligning mechanisms
- Networking
- Consultations
- Peer-to-Peer Mentoring

LEARNING

- Data collection
- Evaluation
- Research
- Engaging subject matter experts
- Presentations
- Events (in person and online)
- Open Space Learning & Listening
- Information synthesis
- Information/data analysis
- Training
- Webspaces
- Knowledge Management platforms
- After-Action Reviews
- Knowledge capture
- Portfolio reviews
- Knowledge exchanges
- Communications/ PR products

ADAPTING

- Strategic decisions
- Workplanning
- Policy change
- Innovation
- Iteration/ Human Centered Design
- Addressing gamechangers
- Flexible design
- Prioritization
- Organizational Development

Figure 2: *Illustrative CLA Activities*

Development projects are often already implementing many of these CLA activities in their day-to-day project work plan and exchanges with major stakeholders such as donors, governments, beneficiaries, and other implementing partners. Establishing a learning plan to fully understand how the project incorporates these activities, where gaps exist, and how to expand utilization of CLA measures, is the critical first step in becoming a CLA-centered and learning-focused development program.

CLA'S INTERSECTIONS WITH MEL

The QED Group has been working at the intersection of Monitoring, Evaluation, and Learning (MEL) for nearly 20 years, incorporating CLA designs and developments into our core business since the concept emerged in 2011. There is a natural transition and evolution of using the data and evidence generated through M&E efforts to inform decision-making, change management, and utilization. CLA provides a critical platform whereby stakeholders can be identified and engaged, knowledge is captured and disseminated, and adaptive management can occur. By facilitating a multi-faceted approach, CLA together with MEL creates a credible knowledge base and organizational culture upon which project goals and objectives can be effectively reached.

CLA IN ACTION:
QED Project Supports USAID Learning

Working with its Monitoring, Evaluation, and Learning Contract (The Learning Contract), implemented by The QED Group, the USAID/Uganda mission organized a "Collaborating, Learning, and Adapting (CLA) Peer Sharing Event," in May 2016. The 3-day peer-assist event allowed USAID missions and implementing partners to exchange experiences and share examples of how CLA is being conceptualized in their work and put into practice. The event was organized into a series of common-interest topics, such as integrating monitoring, evaluation, and learning (MEL); operationalizing CLA; and knowledge transfer to smooth staff transitions. As part of the peer-assist approach, USAID/Uganda shared a current example of its CLA in Action. Through The Learning Contract, USAID/Uganda recently piloted an innovative MEL training course for mission staff and USAID/Uganda implementing partners. The course was conducted in two parts with time in between to apply selected MEL improvements so that participants could share their experience implementing these changes during the second part of the course. Beyond peer exchange, the event also included the opportunity for visiting staff to hear from USAID/Uganda's Mission Leadership Council, other mission technical staff, and a Chiefs of Party panel from various projects about how they implement and leverage CLA at their various levels.

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