

**Private Sector Competitiveness
and Economic Diversification Project
Lesotho**

**Lesotho Enterprise Assistance Program
[LEAP]**

Operations Manual

June 2008

1. Objective and Essential Concepts

Introduction. The Lesotho Enterprise Assistance Program [LEAP] is funded within the World Bank Private Sector Competitiveness and Economic Diversification Project PSCP for Lesotho. Within Component Two of the project [“supporting economic diversification”], LEAP is Sub-Component D.

Objective. The key overall objective of the PSCP is to facilitate increased growth and competitiveness in the Lesotho private sector.

The objective of LEAP is to strengthen the human and institutional capacity of private firms, and of their representative organizations. Through the provision of technical and financial assistance, LEAP is intended to build international competitiveness within private firms; and build the capacity within business and professional associations and chambers to better serve their members. LEAP is also intended to support the establishment of regular institutionalized public-private sector dialog.

A small provision is also included within LEAP to address the HIV/AIDS issue. Cost-sharing financial assistance will be available within LEAP to support firms willing to run on-site testing programs, using outside service providers.

2. Basic Structure of the Program

The LEAP Business Advisory Unit. LEAP will be operated by the LEAP Business Advisory Unit. This unit will consist of two professionals, working full-time, under term contracts. The unit will be headed by the LEAP Program Manager, an internationally-recruited management consultant, with broad experience in providing consulting advice to MSME’s on how to grow their businesses. He/she will be assisted by the LEAP Business Advisor, a locally-recruited consultant, with wide knowledge of the Lesotho private sector, and with some experience in providing consulting advice to MSME’s within Lesotho.

LEAP Activities.

- a) Direct assistance to individual firms, with the Unit itself providing the direct mentoring assistance; and also administering the provision of cost-sharing grants to firms, for the use of specialized services.
- b) Cost-sharing grant assistance to representative business and professional associations and chambers, to build their capacity to better serve their members.
- c) Cost-sharing grant assistance to firms, for on-site HIV/AIDS testing.

Each of these activities will be dealt with, in turn, in the following sections of this manual.

Resources. The costs of operating the LEAP Business Advisory Unit, over the five years of the project, are estimated to be around \$769,000. The LEAP Grant Fund will have available \$1,000,000, for the use of cost-sharing grants, of all types

3. Capacity-building [CB] Assistance to individual Firms

A Mix of Two Interventions. The dominant activity within LEAP is capacity-building assistance to the individual firm. This assistance will consist of a mix of two interventions. The LEAP Unit itself will provide direct expert mentoring assistance, to assist each firm with the process of building its competitiveness, and thus its total sales. Where specialist help is needed [eg. market research; in-factory improvement in quality; product re-design], then the LEAP Grant Fund will provide cost-sharing grant funding, to facilitate the use of such services.

Mentoring. Each firm being assisted is to be assigned either the LEAP Program Manager or the LEAP Business Advisor as mentor. This mentor will assist the firm through every stage in the process of building capacity, and achieving increased sales. The mentor's essential task is to provide support, guidance and advice, so as to assist the firm to achieve a significant improvement in sales growth.

Help with Locating Potential Customers. Where appropriate, the unit will help assisted firms directly with the process of locating potential customers, either within Lesotho or beyond. The aim is to do what is realistically possible, so as to reach the objective of achieving increased sales.

When Mentoring Help Ceases. In a typical firm, mentoring might be aimed at assisting the firm to break into a new market. The focus is on helping the firm to achieve new breakthrough transactions. In such a case, LEAP mentoring would help the firm to book, and then to fulfil its first full order to the full satisfaction of the customer. Typically, this could be expected to result in a follow-on order from that customer. Once that point had been reached, then normally, LEAP assistance would cease. It is then up to the firm itself to build on this breakthrough transaction, and replicate it in the new market. However, if at a later stage, the firm is ready to take on the next challenge of extending its sales into new ground, then it can apply again for further LEAP assistance. The process then repeats. However, the decision as to when to end LEAP assistance, so as to move on to other firms, is left ultimately to the LEAP Unit.

Targets. The evaluation of the unit's performance will be primarily on the basis of targets, set within annual activity plans for each of the operational years of the Program. A strong focus will be on achieving increased turnover [sales] within individual firms assisted. The unit will be expected to demonstrate, year by year, real progress towards the primary monitoring indicator for LEAP, that assisted firms increase their sales, after assistance, at a rate of increase 10% higher than non-assisted firms. Contracts will be

negotiated with both the LEAP Program Manager and the LEAP Business Advisor that will involve payment of a base fee, plus a performance-related fee.

Allocating Unit Resources. The unit will be free to allocate its available resources, primarily professional time, as it sees fit, so as to meet its agreed targets. However, each new firm making contact with the unit will be visited on a first-come first-serve basis. The intensity with which each firm is then given follow-up assistance, however, will depend on how the unit evaluates each, as likely to contribute to agreed targets, primarily increased sales.

The Initial Diagnostic. Following the initial contact visit, direct assistance to each firm will begin with a formal firm diagnostic, typically taking one to two days for the mentor to complete. This will be comprehensive, and evaluate all key elements of the business, which contribute towards achieving increased sales. The intention is to identify, in order of priority, the weaknesses or gaps that, when remedied, will lead to the highest possible impact in terms of increased sales growth.

Agreeing the Plan of Action. Following the diagnostic, the mentor dealing with a particular firm will present to that firm the results, and a proposal for how the unit intends to assist the firm in addressing the priority weaknesses or gaps identified, and thus assist in achieving improved sales growth. The intention is to reach agreement on a plan of action, to be undertaken by the firm, but with support provided by the mentor.

The Three Stages of Assistance. Typically, the mentor will support the firm to go through three stages, in order to make a significant impact on sales growth. First comes detailed understanding of the target market. Second comes making improvements in the supply package being offered to that market, based on the detailed understanding obtained. Third comes active selling into that market, so as to achieve the first breakthrough transactions. Firms will be discouraged from attempting to focus on active selling, until appropriate preparations are in place, in terms of market understanding, and supply package work.

Regular Monitoring of Progress. Once this plan of action is agreed, the primary role of the mentor is to visit the firm, on a pre-agreed regular basis. Each time, a set of actions will be agreed, based on progress made since the previous monitoring visit. The average frequency of such visits is expected to be quarterly.

Supply of Sales Data. Each assisted firm will commit itself in writing, before the diagnostic is undertaken, to supply sales data to the unit for a period of at least three years after direct assistance begins. Each firm will also need to commit itself to co-operate fully with the regular surveys, organized within the project, that will be conducted to monitor LEAP impact, and also with the World Bank Lesotho Investment Climate Assessment.

Confidentiality. The mentor, and the unit as a whole, will be bound by their contracts to maintain confidentiality. In order to make the mentoring assistance meaningful, the firm

will inevitably share with its mentor information that could be commercially sensitive. The confidentiality of such information must be assured.

The Use of the LEAP Grant Fund. The unit itself will decide on when to offer an assisted firm financial assistance from the LEAP Grant Fund. Again, the primary consideration will be to maximize impact, in terms of total sales growth achieved. The intention is that this fund is to be used, where the use of specialized external services is likely to have a powerful impact, in terms of addressing the key weaknesses or gaps identified in the diagnostic.

3.1 Eligibility Criteria

The Eligible Firm. Any privately-controlled commercial entity, duly registered, licenced or notified in Lesotho, in accordance with the applicable law, and operating its business in Lesotho, will be eligible for LEAP capacity-building assistance, so long as it operates in an eligible sub-sector [see below].

Expected Areas of Uptake. It is expected that uptake is likely to come from the following areas of activity. In no way is the program limited to these areas.

- Export-ready or almost-export-ready local firms, selling goods or services beyond Lesotho, into the wider SACU market [following the example set by roads contractors and others];
- Locally-controlled firms in retail and wholesale, facing tough competition from firms from South Africa serving Lesotho, or from foreign-controlled retailers operating within Lesotho;
- Firms, mainly South African-controlled, re-locating labor-intensive assembly operations into Lesotho, to serve the South African market [following the lead set already in clothing, shoes and umbrellas, mainly produced in the Maputsoe area];
- Supply of goods and services by small locally-controlled firms to larger entities within Lesotho, such as government departments, or foreign-owned factories [security services, cleaning and maintenance, foods for hotels, stationary supply etc.].

Excluded Activities. Private firms operating in all sub-sectors of the economy are eligible for CB assistance, with the following explicit exclusion. Firms producing garments primarily for the US market, taking advantage of the DCCS subsidy, will not be eligible. This exclusion may be reviewed if the government considers allocation of additional resources to be channeled through the LEAP program.

Treatment of Farms growing primarily for the domestic Lesotho Market. Such farms will only be supported on the basis of a clear written commitment to making significant improvements in supply efficiency. It would be such improvements that would be supported.

Start-up Operations. It is expected that most firms assisted will already be operational. However, the unit will be at liberty to assist start-up operations by registered commercial

firms, as it sees fit, bearing in mind that start-up's are inherently more risky, in terms of contributing to overall sales growth targets.

3.2 Rules applying to Firm-level Grants

Purchases of Services Eligible for LEAP Grant Support. Purchases of any specialized service, considered by the LEAP Unit likely to make a significant contribution to addressing identified key weaknesses or gaps, will be eligible for grant support. Payments for services may be for service fees and, where appropriate, for associated travel and subsistence costs, incurred directly and exclusively in connection with the delivery of eligible services.

Exclusion of Hardware and Internal Costs. Purchases of hardware, even if exclusively required for the activity being assisted, will not be eligible for grant support. Similarly, expenditures on internal costs, such as on the employment of staff, are not eligible.

Levels of Support. In most cases, firms are expected to receive one single grant, to help address a key weakness or gap. The LEAP grant will cover 60% of the pre-approved total cost to the firm of purchasing the service. Where the unit considers that returns from further follow-on injections of grant support will yield attractive returns, a firm may receive follow-on grants. No firm or group of firms under common control may, however, receive more than \$50,000 in grants in total.

Limits of Support per Firm. It is expected that most grants will be under \$10,000. Most services required will be accessed within southern Africa, if not available within Lesotho itself. Any grant that takes a cumulative total over \$25,000 or individual total over \$15,000 received by any one firm, or group of firms under common control, will require a "no objection" from the LEAP Approvals Committee. The members of this committee will be selected by the Project Evaluation (PR) Committee, and will consist of two government members and one private-sector member. Meetings of this committee will be called by the LEAP Program Manager, as needed. Where it proves impossible to convene a meeting of this committee within two weeks of a request from the LEAP Unit, then a committee "no objection" may be accepted on the basis of "agreement by circulation."

Supplier Selection. The firm itself will agree and sign the contract for supply of services with the supplier. The firm itself, therefore, will have the final say in selection of supplier. However, the unit will need to be satisfied that the supplier selected is competent to supply the service required, and that a genuine arms'-length commercial relationship exists between the supported firm and the service supplier.

Assistance with Locating Service Suppliers. If requested by the firm, the unit will use its best efforts to locate suitably qualified specialist service suppliers. The unit will be expected to develop contacts, particularly in South Africa, so as to locate specialist service suppliers, as needed.

Market Prices for Services. If the unit suspects that the price being charged for a service may be considerably out of line with market realities, it can, by exception, insist on the assisted firm selecting the supplier by means of competitive bidding between at least three technically qualified suppliers.

Avoiding Double Subsidies. Where a firm is already receiving grant support for a service purchase from some other source, then no LEAP grant can be given.

Basis of Payment. Each purchase of a service for which a LEAP grant is to be provided must be approved by the unit, in advance of the service delivery. For each grant, a simple letter of agreement is signed by the unit and the firm, confirming the basis for grant payment. Payment of grants is strictly on a re-imbusement basis, on the basis of a financial statement called "Statement of Expenses", prepared on a cash basis, summarizing all expenses incurred on the approved activity, supported by all supporting source documents. In most cases, payment will be on completion of the service delivery. At the request of the assisted firm, payments may be made in stages, on completion of pre-agreed stages of work.

Use it, or Lose it. If a firm that does not commence service delivery within three months of approval, the unit, at its discretion, may cancel the approval and use the allocate funds for other assisted firms.

Supporting Documentation. Payment of a grant or a stage payment will be on submission of acceptable supporting documentation. This will be a financial statement, called "Statement of Expenses", prepared on a cash basis, summarizing all expenses incurred on the approved activity, supported by the relevant source documents. For fee payments, this would normally mean the original service supplier's invoice, confirmed as paid, and with the amounts in line with the prior approval made by the unit, and confirmed in the letter of agreement. For expense payments, this would normally include the originals of appropriate vouchers, flight coupons, boarding cards, hotels bills, etc., again, in line with what was approved in advance. Copies of all source documents are also to be maintained by the assisted firm. The Grant Beneficiary should also present data as agreed with LEAP to enable LEAP to monitor and evaluate the activity in accordance with the LEAP Results Monitoring Framework.

Maintenance of the financial control systems. The grant beneficiary should maintain an acceptable financial control system for the LEAP assisted activity that would ensure at least proper authorization of all expenses, complete recording of all expenses, maintenance of all related source documents and the production of a "Statement of Expenses" from these records.

Travel Cost Guidelines. Air travel will normally be supported on the basis of Economy travel. If per-diem expense allowances are used, these should be at a level no higher than the published UNDP per-diem rates for the locations concerned.**Auditing of grants.**

Within the letter of agreement signed by each LEAP grant beneficiary in advance of commencing any LEAP-grant supported activity, the beneficiary will agree to collaborate fully with the financial and operational audits that will take place regularly at project level. In particular, the beneficiary will agree to make available to these audits all “statements of expenses;” all supporting source documents [e.g., service supplier invoices, vouchers, flight coupons, boarding cards etc.]. Each beneficiary will agree to make these documents available for a period of three years from the date of the final grant payment made to that beneficiary.

3.3 Special Arrangements for Particular Sub-Sectors

Allocations for specific Sub-sectors. Out of the total LEAP Grant Fund available, \$100,000 will be expressly earmarked for use exclusively within the tourism industry. Similarly, a further \$100,000 will be expressly earmarked for use exclusively within the horticulture industry. The uptake of these allocations will be reviewed by the regular World Bank implementation support missions, and at the Mid-term Review [see Section 8], and may be modified at these times.

4. Grants to Firms for HIV/AIDS Testing

Common Rules. The rules applying to CB assistance grants to individual firms, as elaborated in the previous section, will generally apply to HIV/AIDS grants out of the LEAP Grant Fund. However, the following rules apply specifically to grants for firms for HIV/AIDS testing.

Expenditures eligible for Support. HIV/AIDS grants will support expenditures by firms for on-site HIV testing at the firm’s premises. Grants will support payments of fees and associated billable expenses, to outside suppliers of testing services. Grant support will not be available for HIV/AIDS education activities.¹

Eligible Sub-Sectors. Firms active in the textile and clothing industries are expressly excluded from LEAP HIV/AIDS support, since these industries are already supported by the ALAFA project.

Overall Cap. Applications for HIV/AIDS grant support will be considered and approved by the unit, strictly on a first-come, first-served basis. The percentage rates of support, and the limits per firm, will be as per CB grants.² The total amount available from the LEAP Grant Fund for HIV/AIDS grants will be capped at \$50,000.

¹ Under the new Labor Code Amendment dealing with HIV/AIDS matters, it is a punishable offence for an employer not to provide HIV/AIDS education to his/her workforce.

² Unlike the ALAFA scheme of support, the supported firm may not provide its contribution to the supported activity in the form of “in-kind” payments, such as working hours lost by employees. For LEAP support, the firm must pay its percentage contribution to the costs of each outside service being provided.

5. Grants to Representative Organizations

Objective. The objective of this intervention is to help build capacity within the representative organizations of the private sector, so that they can better serve their members, and thus, build up membership and income. In a small country such as Lesotho, this is a real challenge, since the absolute numbers within the private sector are so small.

Eligible Representative Organizations. Grants may be extended to any duly registered representative organization of the private sector. This includes national and local chambers; trade or industry associations; and professional bodies representing professionals in private practice [eg. accountants, consulting engineers, lawyers].

Activities eligible for Grant Support. Cost-sharing grants from the LEAP Grant Fund may be used to support capacity-building activities of three types:

- Activities aimed directly at building the internal capacity of an organization to better serve its members [eg. training for paid association staff; twinning with chambers overseas];
- The planning and development of new services to be provided for members [eg. developing a price information service; developing a website for members];³
- The commissioning of external expert assistance, to undertake research, studies or surveys, on issues affecting members and related to the operating or regulatory environment they face [eg. government systems for contract awards and tendering; VAT refund problems; Customs delays].

Common Rules. Grant support will be on a similar cost-sharing basis to CB grants for individual firms, and will generally follow the same rules. However, the following special rules apply to grants for representative organizations.

Limits linked to Real Support. The intention is that grant support should be in proportion to the real support being received by each organization from its members, expressed through actual subscription income received from members. Therefore, in any one accounting [financial] year of an organization, the total grant funding available to it from the LEAP Grant Fund will be no more than the total income received from members during the previous operational year. This is to be verified by means of audited accounts.

Treatment of new Representative Bodies. An exception to the above rule is made in the case of any new representative body, or a body that had not previously raised subscriptions from members. Such a body would be required to show evidence of a formal resolution, in line with its constitution, indicating the rates of subscription applying to members. It would also be required to verify the names and addresses of all members from which such subscriptions are to be raised during its current financial year.

³ Note that support is limited to the planning and development of new services, and does not cover the costs of delivering a particular service.

Total LEAP grant funding during its first year would be no more than the expected total membership income, based on agreed rates of subscription, and the verified membership. In the second year, the normal rule [previous paragraph] would apply.

Rates of Support. Representative organizations will receive grant support of 75% for expenditures on eligible activities. Each organization may not receive more than \$20,000 in total grant support.

Eligible Expenditures. Only expenditures on external services and on travel will be eligible for grant support.

Overall Cap. Applications for grant support will be considered and approved by the unit, strictly on a first-come, first-served basis. The total amount available from the LEAP Grant Fund for grants to representative organizations will be capped at \$100,000. This cap, and the cap applying to each individual organization may be reviewed by the regular World Bank implementation support missions.

6 Reporting, Management and Contracting Arrangements

Project-level Reporting Arrangements. Day-to-day management of the project will be delegated to the Project Management Unit [PMU], headed by the Project Manager. The project-level reporting and management arrangements are spelled out in detail in the Project Operational Manual and the Project Implementation Plan.

Reporting Lines. Once LEAP is operational, the LEAP Program Manager [LPM] will report to the PSC Project Manager, and will be responsible to this committee for the effective operation and management of all aspects of the LEAP Program. He/she will be responsible for ensuring that the program is run in strict accordance with the terms of this Operations Manual, and also in accordance with the Project Operational Manual and the Project Implementation Plan. The staff of the unit will report to the LEAP Program Manager for the whole period of the Program, even in later years when the LEAP Program Manager will work only part-time on LEAP.

Annual Activity Plans. The LPM will prepare Annual Activity Plans for each twelve-month period of operation of the program. This will detail how the unit intends to utilize the resources available to it, so as to achieve its targets. Each Annual Activity Plan is to be approved, in advance of the period concerned, by the PR Committee. Each plan will specify the core activities in clear terms, such that performance against these targets can be verified.⁴

⁴ So, for instance, it would not be enough to specify that, during the year, the unit would run dissemination seminars in regional centers. It should specify that the unit would run

Quarterly Progress Reports. At the end of each three-month period of operation, the LPM will prepare and submit to the PMU a Quarterly Progress Report, showing in detail how actual activities have compared with what was planned. This report will also detail progress being made towards agreed targets. Each Quarterly Progress Report will be circulated by the PMU to the members of the PR Committee, and to the World Bank/IDA, for comment. This regular reporting cycle will link into the reporting cycle specified at project level within the Project Implementation Manual.

Annual Renewable Contracts. The staff members of the LEAP Business Advisory Unit will be on individual contracts, annually renewable after the initial two years of the program. The intention is that staff members will stay in place for the full term of the project. However, staff members will be clearly on notice that they must perform, year by year, or they will be quickly replaced.

Achievement of Targets. Each year, the performance of individual staff members and the unit itself will be evaluated. In most years, this will be on the basis of the activity targets agreed within the Annual Activity Plans. However, at the times of the Mid-term Review and the Implementation Completion Report [see next section], it will be possible also to evaluate the unit in terms of the achievement of the impact indicators set for the program. Contracts will be negotiated with both the LEAP Program Manager and the LEAP Business Advisor that will involve payment of a base fee, plus a performance-related fee.

8. Monitoring and Evaluation

The Annual Project Audit. The PMU will be responsible for arranging an independent annual financial and operational audit for the project. This audit will extend to all LEAP operations.

World Bank/IDA Supervision. The World Bank/IDA will conduct regular implementation support missions, of which there will be at least two each year. These will include detailed regular supervision of the operations of the LEAP Program and the LEAP Business Advisory Unit. These supervision missions will make full use of the Annual Activity Plans and the Quarterly Progress Reports, to assist in their evaluation of progress being achieved.

Mid-term Review. The Project Mid-term Review by the World Bank/IDA is scheduled for December 2009. Ahead of this review, the PMU will organize an independent sample survey of private firms in Lesotho, covering both firms assisted by LEAP and firms not assisted. Similarly, the sample survey will cover representative organizations, both those

at least four dissemination seminars in regional centers, with total attendance overall not less than 120 individuals employed in private businesses. In addition, attendees would be asked to complete simple feedback forms, indicating their level of satisfaction with the events.

assisted and those not assisted. This survey will enable the review team to evaluate whether LEAP is on course to achieve the specified primary outcome indicators for the program. Supported firms and supported representative organizations are expected to grow 10% faster than non-supported ones [see PAD, Results Framework, Annex 3].

Implementation Completion Report. A second sample survey will be undertaken, on the same basis, after the completion date of the project [June 2012], to feed into the World Bank/IDA Implementation Completion Report.

9. Amendment of this Manual

Procedure. This manual may be amended as required, so as to achieve the objectives of the LEAP Program. However, it can only be amended on the recommendation of the Public-Private Steering Committee, with subsequent “No Objection” by the World Bank/IDA.