UNIVERSITÀ DEGLI STUDI DI TRENTO
Master on Local Development for the Balkans

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Business Development Services
As an Institutional Support to Local Economic Development
Master Work

Supervisor: prof. Italo Trevisan

Keywords: Business Services, Enterprise Development, BDS Market,
Institutional support, Comparative analysis
JEL Classification: M13, P12, L31, L53, L84

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Academic Year 2003 – 2004
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<th>Description</th>
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<tbody>
<tr>
<td>AFE</td>
<td>Action for Enterprise</td>
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<tr>
<td>AT</td>
<td>Appropriate Technology</td>
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<td>APTEC</td>
<td>Appropriate Technology for Enterprise Creation</td>
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<td>BDC</td>
<td>Business Development Center</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>BIC</td>
<td>Business Innovation Centre</td>
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<td>BSC</td>
<td>Business Service Center</td>
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<td>BSO</td>
<td>Business Support Organization</td>
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<td>CARE</td>
<td>Cooperative Assistance and Relief Everywhere</td>
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<td>CEFE</td>
<td>Competency-based Economies Formation of Enterprise</td>
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<td>CITER</td>
<td>Centro di Informazione Tessile dell’Emilia Romagna (Textile Information Center)</td>
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<td>CNA</td>
<td>Confederazione Nazionale Artigiana (Italian National Confederation of Artisans)</td>
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<td>CNR</td>
<td>Centro Nazionale di Ricerca (National Research Center in Italy)</td>
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<tr>
<td>DFID</td>
<td>United Kingdom Department for International Development</td>
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<td>EICC</td>
<td>Euro Info Correspondence Centre</td>
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<tr>
<td>ENEA</td>
<td>Ente per le Nuove Tecnologie, l’Energia e l’Ambiente (Organization for New Technologies, Energy and Environment)</td>
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<td>ESBN</td>
<td>European e-Business Support Network</td>
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<td>FIT</td>
<td>An International Labour Organisation innovative small enterprise development programme that is harnessing the private sector's potential to stimulate small business development through the provision of non-financial services to small business.</td>
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<td>FGD</td>
<td>Focus Group Discussions</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>GEMINI</td>
<td>USAID research project preceding the Microenterprise Best practices project</td>
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<td>GTZ</td>
<td>German Agency for Technical Cooperation</td>
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<td>HABOR</td>
<td>Croatian Bank for Reconstruction and Development</td>
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<td>HAMAG</td>
<td>Hrvatska Agencija za Malo Gospodarstvo (Croatian Agency for SMEs)</td>
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<td>HITRA</td>
<td>Hrvatska Agencija za Tehnološki Razvoj i Inovacije (Croatian Innovation and Technology Development Agency)</td>
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<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>IDB</td>
<td>Inter-American Development Bank</td>
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<td>IDE</td>
<td>International Development Enterprise</td>
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<td>IFC</td>
<td>International Finance Committee</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>IRC</td>
<td>Innovation Relay Centre</td>
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<td>JOBS</td>
<td>USAID Job Opportunities and Business Support program</td>
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<td>KIS</td>
<td>Knowledge Intensive Services</td>
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<td>MDA</td>
<td>Development Approach</td>
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<td>MBP</td>
<td>Microenterprise Best Practices project</td>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<tr>
<td>MSE</td>
<td>Micro and Small Enterprise</td>
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<td>MSME</td>
<td>Micro, Small and Medium Enterprise</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>PMF</td>
<td>Performance Measurement Framework</td>
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<td>PRA</td>
<td>Participatory Rural Appraisal</td>
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<tr>
<td>RDI</td>
<td>Research, Development and Innovation</td>
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<td>RSC</td>
<td>Real Support Center</td>
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SDC: Swiss Development Corporation
SE: Small Enterprise (refers to a micro-, small-, and/or medium sized firm)
SEEP: Small Enterprise Education and Promotion network
SEWA: Self-Employed Women’s Association
SME: Small and Medium Enterprise
SSP: Support Service Provider
TA: Technical Assistance
UAI: Usage, Attitude, Image market study
UNDP: United Nations Development Programme
UNIDO: United Nations Industrial Development Organization
USAID: United States Agency for International Development
LIST OF DEFINITIONS

**Best Practice Criteria:** In the context of the Concerted Actions on Business Support Measures, a practice will consist of either: a public policy measure, or coherent set of measures, or, a particular service or set of services (either public or private), that aim to assist enterprises or entrepreneurs either to develop their business activity or to avoid making mistakes in the operation of a business that would be detrimental to the business or the wider community.

To be a best practice:
- The practice should exist already
- It should have clearly identifiable aims and objectives
- It should be user-friendly and accessible for SMEs
- It should be adaptable and transferable
- Its results should be identifiable and capable of evaluation
- Its being coherent with other good practices, both in concept and delivery, would be advantageous
- Over a range of relevant indicators, it should clearly outperform other practices in terms of efficiency and effectiveness
- It should be capable of being continuously improved

**Business Development Services (BDS):** any non-financial service provided to businesses on either a formal or informal basis. BDS are services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of BDS in this Master work includes a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community.

**Business Support Services (BSS):** refers to those services, originating in a policy initiative, that aim to assist enterprises or entrepreneurs to successfully develop their business activity and to respond effectively to the challenges of their business, social and physical environment.

**BDS facilitator:** an international or local institution which has its primary aim to promote the development of local BDS markets. This may also include a range of services to BDS providers (development of new service products, promoting good practice and building provider capacity) and to BDS consumers (information, education about potential for BDS purchase). A BDS facilitator may also perform other important function, including the external evaluation of the impact of BDS providers, and advocacy for a better policy environment for the local BDS market. Currently, most BDS facilitators are public institution, NGOs or donor project offices, and are usually funded by governments or donors.

**BDS Provider:** a firm, institution or individual that provides BDS directly to the SEs. They may be private for-profit firms, private non-for-profit firms, NGOs, parastatals, national or sub-national government agencies, industry associations, etc. They may also be firms whose core business is not services but who provide them as a part of a broader transactions or business-to-business relationship.
Cost effectiveness or efficiency: is the provision of services (of a given quality) at the lowest possible cost. Cost effectiveness is especially important in assessing services that have important social impact or spread effects but are unlikely to achieve full financial self-sustainability and hence may involve continued subsidies. At the institutional level, management efficiency is important in achieving sustainability.

Consumer: user or buyer of service products offered by business service providers.

Cost effectiveness: a service (of a given type and quality) is cost effective if it is provided at lowest possible cost. It is also, the impact of a program intervention compared to its cost. A program is cost-effective if the ratio of benefits to costs is high.

Demand: the quantity and type of goods or services that buyers wish to purchase at any conceivable price. (Describes the behaviour of consumers)

Donor: the funding agency that pays for development activities.

Facilitator: international or local institutions, usually funded by governments or donors, that aim to expand and improve a BDS market by increasing demand or supporting BDS providers in developing new service products, promoting good practice, and monitoring and evaluating performance.

Framework Programme: is a set of more specific programmes that are brought together in a framework designed to promote coherence and consistency.

Impact: sometimes called "effectiveness", this is the effect a service has on the SE client performance (i.e., that which can be attributed to the service itself, not to outside factors), or it is the broader economic and/or social effect of the intervention. Regarding to a programme, it refers also to the effects of the programme in achieving its objectives, usually defined as an improvement in performance at three levels: the individual enterprises receiving services, the social effect of the programme at the household and community levels, or, more broadly, the market, sector, or economy.

Intervention: the temporary, facilitative mechanism by which donors and facilitators try to effect change (typically a project or a program).

Market: a set of arrangements by which buyers and sellers are in contact to exchange goods or services—the interaction of demand and supply.

Market development-based or oriented: activities that try to make the interaction between demand and supply more effective.

Market transaction: the exchange between demand and supply is at full market price (the price at which suppliers are prepared to sell and consumers are prepared to buy, in an unsubsidized situation.)
Outreach: sometimes called "coverage" or "scale", it is the proportion of the target population served in the target market or client population that the programme is designed to serve. This definition is focused on enterprise clients, and is most restrictive than the broader sense of “coverage of unprivileged groups” such as the poor women as used by some authors. Where the target population is limited, and therefore smaller than the total population of SEs locally, the outreach should also be expressed in terms of actual numbers of SEs reached. Defining target market segments is particularly important to minimize potential trade-offs between outreach and other criteria.

Practitioner: a non-profit organization, publicly funded consulting firm, or government institution that provides BDS to SEs or facilitates BDS provision, distinguished from donors who fund these activities.

Provider: a firm or institution that provides BDS directly to SEs. They may be private for-profit or not-for-profit firms, NGOs, parastatals, national or sub-national government agencies, industry associations, etc. It is used more often to refer to non-profit organizations.

Private good: a good (or service) is said to be private if the benefits of consuming it are fully appropriable. For example, if the benefits of a business service accrue solely to the SE purchasing that service, that business service is a private good.

Public good: a good or service is said to be public if the amount consumed by one individual or firm does not reduce the amount available for consumption by others. In other words, it is impossible to exclude others from consuming the good (or service); the benefits are not fully appropriable. The benefits that accrue to others are an “externality”.

Service: the product consumed by SEs—fax services, technical training, consulting, information, etc.

Small Enterprises (SEs): includes micro-enterprises as well as small- and medium-scale enterprises. These size categories are usually defined by the number of employees or by assets, and they vary by country and/or institution. No precise definition is adopted here.

Supplier: a private sector or for-profit individual, organization, or mechanism that supplies BDS directly to SEs. (Contrasts with provider)

Supply: the quantity and type of goods or services that sellers wish to sell at any conceivable price. (Describes the behaviour of suppliers)

Support measures: refers to the broadest group of public business support actions that includes Business Support Services, but also indirect support provided by grants, programmes intended to support businesses and tax incentives with the same intention.
Support programme is a structured set of activities, encouraged by the public authorities, usually involving a well-defined set of objectives and actions and on the basis of funding provided to individuals or groups that meet specific criteria. Often access to the funding will be on a competitive basis and require a response to a formal call for proposals or call for tender.

Sustainability: A BDS provider, facilitator, or individual service is sustainable if commercial revenues are at least as great as the full cost of service provision (direct and indirect costs, fixed and variable costs). Revenues received from the public sector (donors or governments) are not included. Similarly, revenues received as a result of philanthropic or political motivations are not included.

A BDS is “sustainable” if SEs have continuing access to services through unsubsidized, commercial channels beyond the life of a project. Sustainability in BDS is considered at the level of impact on enterprises, specific types of services, and BDS providers and markets. Financial sustainability is a critical part of overall sustainability. Generally, costs should include all those associated with the commercial operation of the provider.

In addition to the running costs these should ultimately include market research, product development, customer feedback, etc. In the short term, however, founders may choose to help with some of these costs, for example, where risks are particularly high in order to demonstrate the merits of product innovation, or to strengthen a group of service providers. The only costs always excluded would be those associated with the additional requirements of funding agencies, such as development costs for products shared with other providers and detailed impact evaluations. In this definition, financial sustainability differs from organizational viability in the sense of the ability of the BDS institution or service to continue in existence by drawing on grants and other non-commercial revenues.
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Abstract

Business development services are designed to help micro, small, and medium enterprises (MSMEs) overcome barriers to increased profitability, by improving their productivity and access to high value markets. In this way they can realize their full potential, work their way out of poverty, create jobs, and increase the growth of the local economy.

One of the ways to facilitate and provide business development services (BDS) to SME’s sector is setting up and managing business centres. The purpose of this paper is to make a comparative analysis of existing experiences, and, by comparing different approaches, to derive possible lessons on how to set up self-sustainable business centres in Balkan transition countries (with focus on case of Croatia).

Sustainability of BDS providers, and full cost recovery by charging fees to small enterprise clients, are now the watchwords for donor facilitated BDS programmes. Small enterprise consultants therefore face the challenges of designing, marketing and delivering BDS products that the market will pay for.

The goal of financial sustainability can only be achieved if business centres offer services that attract a fee-paying clientele. This highlights the main challenge for business centre managers: their targeted users are often micro- and small entrepreneurs with scant resources, with little awareness of how BDS can benefit them, and low willingness to pay fees.

Instead of supporting direct service delivery, or using the old supply driven approach, meaning interventions with services provided or contracted directly by donor project or government agency, agencies working in a new way should rather stimulate a BDS market relying on existing commercial service providers. (1)

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1 Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions; SED Issue Paper No 5, IC-SED –Backstopping mandate, SDC, Bern, June 2000
Executive summary

In transition countries, micro, and small enterprises are faced with a distinct set of problems. In South East Europe, a long period of non-market economies and sudden and turbulent transition led to a situation in SMEs community, in general, characterized by:

- lack of management skills,
- insufficient access to finance
- hostile business environment

without having appropriate institutions able to support MSE development. The transition period, rapid, and, often unexpected, from centrally planned to free market economy has led most countries into high unemployment rates and has caused a serious economic and social crisis.

Business development services are designed to help micro, small, and medium enterprises (MSMEs) overcome barriers to increased profitability, by improving their productivity and access to high value markets.

There are two types of BDS; those intended to help the enterprise owners to get new ideas on how to improve their business activities (increasing productivity, reducing the costs, accessing more profitable markets, etc.), and those required for establishment and operation of the enterprise (registration, equipment procurement or assistance for subcontracting arrangements).

All the types of services can be both informal and formal BDS. Informal BDS are those offered by relatives, friends and employees (information, advice), or in the context of commercial transactions with suppliers, clients and partners. These services are usually accessed free-of-charge and mainly used by Micro, Small and Medium-sized Enterprises.

Business development services vary widely, encompass many disciplines, and do not fit easily into a single category. BDS can be organized into categories that address issues SMEs commonly face. However, there may be significant overlap between categories with some services fitting into more than one.

Before choosing a particular form of intervention, a BDS provider should carry out a thorough needs assessment. An assessment provides insight into the constraints and opportunities in the targeted area of intervention and gives the provider the information needed to determine the appropriate BDS activities. There are variety of techniques and methodologies available for assessing small enterprise constraints and opportunities. They include: Sub-sector analysis, Participatory Rapid Appraisal, General Small Enterprise Survey, BDS Market assessment Tools, Needs Assessment through Clusters and Networks and Action Research/Incremental Approach.

New services or services for the modern economy are helping enterprises in facing the opportunities and stresses of the knowledge economy and global markets and the requirements for sustainable development. Today, most business services are knowledge intensive services (KIS). They provide strategic information permitting businesses to adapt to technological development, internalization and increasingly complex society. They are, also, the key factor for technological innovation.
New technologies allow expansion of BDS markets by increasing their tradability. For these reasons, R&D, ICT an innovation policies need to focus on the building of a strong technological base for innovation in BS. Activities regarded as KIS, based on various types of consultancy, offer expertise on:

- **Management and administration**: including management consultancy, legal, accounting, financial strategy and fiscal advice, takeovers and, restructuring
- **Production**: including architectural and engineering consultancy, distribution logistics, operational leasing, repair and maintenance, and quality control
- **Research and Development**: including contract research, testing and specialist advice
- **Human resources**: including training, recruitment, job evaluation
- **Information and communication**: including data banks, information services, software services, systems design and implementation,
- **Marketing**: including advertising, sales, promotion, market research, public relations, export promotion,

Small enterprises depend very much on an environment that supports innovation. The development of suitable technology and technology & knowledge transfer initiatives are of crucial importance to most of them.

The Market Development Approach (MDA) proposes a new vision for success - numerous, competitive BDS suppliers who sell a wide range of services to large numbers and types of enterprises.

The BDS market development approach defines two key roles in delivering services to SEs such as:

- **Provider/Supplier**: Delivers services directly to SMEs
- **Facilitator**: Supports service delivery to SMEs by developing a vibrant, competitive market for them

Central to the concept of developing BDS markets is the idea of building on indigenous initiative and demand within the private sector. Basic principles of BDS market development are:

- **Impact centered programmes**: The focus of BDS programming is to create a positive impact, measured by outreach, sustainability and cost-effectiveness.
- **Specific, focus tailored services**: BDS must address specific needs and wants, focus on high priority issues and be tailored to add high value to SE.
- **Demand driven services**: Responds to the SE needs and wants.
- **Sustainable service delivery**: BDS should be made available to SEs over the long run through financially sustainable delivery mechanisms, institutions and markets, in sum, through private sector.

Traditionally, donors and governments have intervened in BDS markets directly providing services using public BDS providers, or permanently subsidizing services delivered by other service providers, allowing SMEs to acquire services free or at very low cost. In this, former approach, donors and governments tended to substitute for undeveloped BDS markets, possibly crowding out existing or potential commercial service providers.
Traditional approaches have failed to achieve high outreach, since the numbers of SEs served was limited by the amount of subsidies available. In addition, institutional sustainability has been very low, since programmes often cease when public funds are exhausted.

Main characteristics of this, supply-driven approach, are:
- Donors support and few providers
- NGOs provide free and highly subsidized services
- Small number of SMEs gain access to services designed by donor/NGO
- Program/project lasts as long as funding is available

Main characteristics of new, demand-driven approach are:
- Donor or facilitator supports numerous suppliers with Technical Assistance (TA) rather than grants
- Suppliers are commercially oriented and competing to serve SMEs
- Suppliers provide services SMEs want to have and serves numerous SMEs
- Suppliers earn profits and provide services over the long term

Regarding the institutional set up, actors participating in BDS market development activities may be: individuals, private for-profit firms, NGOs or non-for-profit sector, parastatals, government agencies, business associations, small enterprises, or business networks.

Local governments also have to play a proactive role in coordinating BDS market development activities as a part of broader local economic development strategies.

Regarding the BDS market development, the activities the governments have to be strongly involved in, are:
- Policy regulation,
- Enforcing competition and standards
- Co-ordination of SE development initiatives
- Information provision
- Investment in R&D
- Procurement
- Explicit BDS market facilitation

One of the key problems faced by all private sector organizations in developing countries, which affect their ability to provide quality services, is a lack of finance. The private sector organization or NGOs in developing countries are either voluntary (in the Anglo-Saxon tradition) or compulsory (“French system”).

There is evidence to show that small promotional, advisory or assistance agencies or centres with small staffs operating locally or confined to a specific sector, perform better. They can avoid the bureaucratic weakness of large national organizations and of too many activities. Strong field links are essential to develop and promote SMEs and such links may only be sustained through local, decentralized organizations. This should involve close collaboration with the private sector, including business associations, chambers of commerce, management development and universities.

Analysing the existing Italian experience is to say that real (business) services are aimed at satisfying a demand, which is initially the potential one and rarely disclosed. Therefore, a great deal of uncertainty characterises the feasibility of supplying such a type of services. An even greater uncertainty surrounds the willingness of the SMEs to perform radical internal
restructuring successfully. However, in the Italian case, the creation of a real service centre requires significant initial investment not only in terms of financial resources but also in terms of trust based relationships to be established with potential clients.

This analysis has indicated a paradigm for action, useful to be implemented in transition countries, but, with the exception that the experience of Italian real business service centres cannot be simply transplanted to the transition country reality. It is necessary to clearly define what could be most effectively implemented within the settings of a local SME environment and how to support adaptation to the local institutional approach allowing significant customisation of the business services to local circumstances.

It is a fact that the competitive advantage of SMEs in Italy is based on three main aspects: specialization, cooperation and flexibility, but, the clearest “limit” of the Italian experience with BS centres, as well as clusters/districts, is the endogeneity of the policy initiative, which means that the majority of initiatives come from actors within the local environment.

The approach of international donor organizations facilitated through different programmes and local institutions was, within the framework of a small enterprise development strategy, to promote business development services (BDS) and support them. The emerging strategy was focused on developing markets for BDS that are appropriate to that demanded by small enterprises trying to avoid direct provision of BDS by governments and donors.

In Croatia, like in other parts of the world, USAID implemented the same or very similar strategy as in the Russian case. The assistance program is structured around four Strategic Objectives:

- Growth of a dynamic and competitive private sector;
- More effective citizen participation and improved governance;
- Accelerated return and sustainable reintegration of war-affected populations;
- Mitigation of adverse social trends.

In that sense, the Croatian Enterprise Promotion Activity (CEPA) programme is designed to stimulate private enterprise productivity and profitability in Croatia by providing the best practice business tools, access to international quality standards and quality certification to enterprises.

The ILO BC approach has evolved from the implementation of BC projects in South East Europe. BCs were created in different circumstances in response to particular local specificities. To date, ILO has implemented its BDS approach in Bulgaria, Bosnia-Herzegovina, Kosovo and Serbia and Montenegro, all transition countries in the aftermath of either a severe economic crisis or a war.

Besides its financial contribution and technical assistance, UNIDO offers technical support by facilitating access to decision makers, etc. Apart from the financial resources, UNIDO supervises BCs operations and carries out further staff training. After a three-year initial period, financial contribution becomes significantly reduced, expecting local government agencies and private sector institutions to take over financial support, and running costs.

The PHARE programme established by the European Union has financed a large number of BC programmes as a focal point of an overall institutional support instrument for SME development in 10 countries in Central and Eastern Europe. The Phare Business Centre programme is one of the biggest attempts to build up BC-networks.
Trying to satisfy the need for better coordination of SME promotion, Ministry for Craft, Small and Medium Enterprises established a new Agency titled “Croatian Agency for Small business (HAMAG) as a successor of Croatian Guarantee Agency (HGA).

HAMAG is modeled after Enterprise Ireland and the US Small Business Administration, and its role is to provide the guarantees and non-repayable financial supports, credit financing subsidizing loan interests, lease and selling of real estates in state ownership, education and counseling, coordination of all supporting institutions, employment support, professional training, new technologies, innovations and fairs as well as the participation of the entrepreneurship for the sake of faster development of small scale industry.

Croatian Enterprise Promotion Project (CEPA) and the Employers Association conducted survey to identify the needs for service provision for entrepreneurs. On the other hand, the survey to identify the existing services’ offer is also provided.

A survey was conducted, with the primary objective to determine the business service needs and supply in Croatian small business environment. The objective of supply as well as needs analysis is to establish a complete picture of different elements of the BDS which exists in Croatia.

The survey has shown that the mostly demanded services have been: quality assurance systems, information technology assistance, marketing and sales assistance and, management and HR development. These essentially identify for service providers where to focus their energies. Some other services important for SMEs development and growth were not considered by respondents as important and useful for their future use like technological marketing and consulting, project management, contact building, organizational consulting, trade fair, intellectual property protection, etc.).

The comparison of the service provider side and SME side analyses’ results illustrates existing dysfunctions and facilitates the deduction of necessary measures. When comparing these two portfolios, considerable deviations were determined. Thus the demand for market related services such as HR Management, Finance assistance service and Export Management is very low, although in the demand portfolio, the companies do have a considerable need for these services and, according to the self-assessment of the service providers the offer is at hand.

In order to enhance the growth and competitiveness of MSMEs, and, as well, their potential to generate new quality jobs, the consideration must be given to the availability and accessibility of a wide range of direct and indirect support services related to different aspects of business needs regarding start-up and operation: preparing business plans, consultancy and information services, advisory services and support regarding modernization and technology transfer, market research and assistance, and proper access to required infrastructure.
Preface:

A paradigm shift is emerging in the approach of international donor and development agencies to promoting small enterprise development through the business development service (BDS) that support them.

Developing small enterprises is regarded as a means of promoting both economic growth and poverty alleviation objectives. Relatively high labor intensity and flexibility in adapting to changing markets give small enterprises the potential to leverage limited capital into high rates of output and employment growth.

For these reasons, governments and donor agencies have long sought to support the development of small enterprises through financial assistance and complementary business development services to raise the capacity of enterprises to use investment funds productively.

The new strategy has to focus on developing markets for BDS that are appropriate to and demanded by small enterprises (SE), rather than on the direct provision of BDS by governments and donors. The lessons of some recent experience show that facilitating the provision of services by private service providers and stimulating the demand for these services by SE clients is an effective way to raise the coverage, quality, and sustainability of these services and as well, increase their impact on small enterprise performance. (2)

The role and importance of business development services have not been fully visible owing to a lack of statistics and research covering the services sector. (3)

Their role in the economy and their potential for growth and employment creation was highlighted at the Lisbon European Council in March 2000. (4)

Business services are a dominant part of the European market economy and integrated into every stage of the value chain, whether in manufacturing or services, micro or large enterprises. There is increasing consumption of services by manufacturing industry, affecting the cost, price and quality of goods, but all enterprises need services to produce, sell or distribute and to stay competitive. (5)

The new approach attempts to facilitate transactions between small enterprise clients (as opposed to beneficiaries) and BDS providers seeking to develop profitable market niches.

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4 Challenges for Enterprise Policy in the Knowledge-driven Economy, Council of Europe, Lisbon, March 2000

5 Business related services constitute the largest sector of the European economy employing around 55 million persons in 2001 in the EU 15, or nearly 55% of total employment of the market economy.
1. Introduction

For a long time (more than 30 years), governments (both national and local), development organizations, international donor agencies and institutions, and, researches have recognized the importance of small business development in increasing employment and income among poor and low-income people. The same can be said for both developing and developed countries.

Small enterprises usually create a very high percentage of total employment in developing and transition countries, playing an essential role in securing income and employment, and in creating new jobs. (6)

It is evident that small businesses are constrained by both financial and non-financial factors such as little or no education, inadequate technical skills, poor access to markets, lack of information, and unreliable structure. These factors often prevent businesses from becoming more profitable, despite access to capital. Many development projects therefore include activities to promote small enterprise development such as credit, training and business advice. (7)

Governments, donors, and technical agencies try to overcome constraints on SMEs in order to boost their employment creation and growth potential by applying different measures such as financial schemes, interventions to improve the business environment at local level and increasing access to BDS. MSE support schemes were developed long time ago in order to foster development of entrepreneurial environment. However, many existing promotional activities, mainly delivered through government agencies or strongly subsidized programmes, have not achieved the desired results, because many entrepreneurs could not get access to these services. (8)

After experimenting for decades with small-scale, subsidized programmes, it became obvious that a new approach is needed in delivering Business Development Services. The field of BDS is now quickly moving to the new strategies of reaching large numbers of businesses in a sustainable manner. The current trend is towards developing BDS markets in which organizations providing BDS will compete for small enterprise clients.

In transition countries, micro, and small enterprises are faced with a distinct set of problems. In South East Europe, a long period of non-market economies and sudden and turbulent transition led to a situation in SMEs community, in general, characterized by;

- lack of management skills,
- insufficient access to finance

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- hostile business environment,
without having appropriate institutions able to support MSE development. The transition period, rapid, and, often unexpected, from centrally planned to free market economy has led most countries into high unemployment rates and has caused a serious economic and social crisis.

To overcome these problems, one of the main aims of transition countries has been to strengthen the small business sector, allowing it to grow and create employment.

The main task of Business Centres is designed to improve the capability of MSEs to access all kinds of different Business Development Services in geographical areas with little or no service provision. (9)

BCs usually take a private sector type approach to BDS provision. This approach is based on a market (demand) driven approach or so called „new paradigm“. This new approach points out a „fundamental belief in the principles of a market economy; the assumption that the majority of BDS are private goods; and the expectation that with appropriate product design, delivery and payment mechanisms, a BDS can be delivered an a commercial basis even for the lowest-income segment of the small business sector.“ (10)

This new paradigm, or better, demand driven approach, also stresses the necessity of implementing agencies to change the way they have been operating until now in small enterprise environments.

Instead of supporting direct service delivery, or using the old supply driven approach, meaning interventions with services provided or contracted directly by donor project or government agency, agencies working in a new way should rather stimulate a BDS market relying on existing commercial service providers, and try to avoid the shortcomings connected to the old approach, which are: (11)
- potential private providers are crowded out,
- services are not adapted to the real needs of clients,
- there is no sustainability when subsidies run out.

In order to overcome these constraints, BDS should be:
- demand driven
- sustainable
- affordable

The demand driven approach offers:
- a diverse range of services adapted to meet demands of a large share of MSEs by affordable prices

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10 The donor guidelines from the Committee of Donor Agencies for Small Enterprise Development (2001) were published with a blue cover and colloquially referred to as the „blue book“
- Decentralized, sustainable provision of services, largely by private service providers.
- Possibility of facilitation of both demand and supply of services.

The advantages of a demand driven BDS approach are:
- increased willingness of SMEs to pay,
- providers can adapt methods & contents to targeted clients
- services can be sustained and expanded with minimal subsidies.

The demand driven approach must take the client's point of view. Small enterprises are probably not interested in premium services, but rather ones built on existing channels and adapted to local circumstances.

A Business Centre is a BDS delivery mechanism. It is a structure set up to deliver services to entrepreneurs and business start-ups with the aim of strengthening the productivity and competitiveness of existing enterprises and to assist start-ups in creating new enterprises enabling them to generate income and new jobs.

The existing experiences of different agencies shows that some BCs have not achieved financial sustainability, some of them not even any kind of sustainability. Reasons for this are various. Very frequently, BCs have either not had the appropriate exit strategy from funding or have found it difficult to achieve the right mix of service products that would generate appropriate income and address vital Micro and Small Enterprise (MSE) needs at the same time.
Success depends on a variety of factors including a thorough market assessment, the right mix of MSE services and a realistic exit strategy from external funding dependency. (12)

By being more market driven, some BCs can serve a large number of enterprises ensuring an institutional sustainability based on a variety of income sources. The income generated by BC usually comes not only from MSEs, but also from local or international donors as well as from state authorities and institutions supporting local economic development that contract the BCs as consulting companies.

In order to improve their position on the market, because of outstanding diversity of the markets, BCs must understand existing BDS markets enabling them to plan interventions. If this understanding is reached by means of market assessment, it needs up-front investment. Market research can produce evidence that SMEs are more interested in those services delivered by commercial providers, and not the training courses traditionally delivered by donors.

The paper will be structured in 9 parts. The Introduction (Part 1) will be followed by a description of BDS and their role in supporting the SME sector (Part 2). Part 3 describes types of BDS, while the Part 4 explores possibilities of BDS Market Development. Part 5 will cover the very important area of institutional support to the development of BDS market,

fostering its sustainability. Part 6 gives a close look at what existing Italian experience does do regarding development of BC, and also reviews of efforts of selected donors. Part 7 gives some details about BDS in Croatia and the situation of the SME sector. Part 8 will investigate methods of achieving information about the real needs of SME business regarding BDS, while Part 9 deals with final conclusions.

2. BDS and their role in supporting SME economy

2.1 Background

Economic globalization and ever –increasing competitive pressures are compelling companies to strive to position themselves as effectively as possible on their fast-growing markets. Consequently, they are increasingly required to adapt and incorporate innovative approaches in their decision-making, production and marketing processes so as to be able to enhance their competitive positions and be as responsive as possible to the requirements of the growing markets demands. (13)

The EU has adopted a very wide set of documents outlining EU policy towards small and medium-sized enterprises, which provides a snapshot of recent progress in SME policy across Europe and points possible further policy actions. (14)

The increasingly complicated nature of the economy means that SME sector can no longer work in isolation. Major companies as well as SMEs both have to look towards strategic partnership as a key to their success in the constantly changing global market. Relationships between companies, cooperation and strategic alliances are becoming ever more important. They provide a number of key advantages because as well as offering mutual benefits to economic and industrial cooperation. They are also an integrating factor and one of the most effective ways of boosting their competitiveness. This kind of cooperation, which relies on mutual trust and interest, is in itself vital for promoting investments, transfer of technology, product and process innovation. (15)

SMEs are the cornerstone of state/region competitive position and job creation. They form a dynamic and heterogeneous community which is confronted by many challenges. These include increased competition resulting from the completion of the internal market and the growing demands of larger companies for which they often work as subcontractors. To meet

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14 At EU level, almost every policy has a SME dimension. SMEs special needs and concerns are incorporated into most EU policies and programmes. The report on the activities of the EU for SMEs gives more detailed description of all EU activities having an influence on SMEs, be it in the framework of enterprise policy or other EU policies.
15 Market of Support Services; Support Services to SMEs in Germany, Greece, Ireland, Italy and Sweden; A comparative study, Final Report, 2000, also at http://europa.eu.int/comm/enterprise/entrepreneurship/concerted_actions/index.htm
these challenges and to remain competitive SMEs need constantly to innovate. Among other things, this means developing new technologies in house or gaining access to them. Besides this, many SMEs both need and want to internationalize in search of new markets and business opportunities. (16)

2.2. Business Development Services

The role of services in the economy and their potential for growth and employment creation was highlighted at the Lisbon European Council in March 2000. (17)

Business-related services have been, by far, the main source of job creation in the EU, and, they are also, the most dynamic sector in the EU in terms of establishment of new enterprises, because entry barriers in many business-related services markets are low.(18)

Businesses typically make use of support services at critical stages of their development. The provision of information and advice that forms the core service of most support organizations is particularly important when an enterprise is starting up and at sensitive stages of subsequent development, such as when growth opportunities or problems present themselves, when exporting is first being contemplated or when arrangements have to be made to hand on a business to new owners.

Any enterprise needs and uses two major types of services: Financial and non-financial services that are more commonly referred to as business development services (BDS). Financial services help existing or would-be entrepreneurs to acquire the means for establishing or expanding a business. On the other hand, business development services refer to the transfer of knowledge, skills, information, offering advice on the various aspects of business activities, and special non-financial assistance. The beneficiaries are MSMEs.

There are two types of BDS; those intended to help the enterprise owners to get new ideas on how to improve their business increasing productivity, reducing the costs, accessing more profitable markets, etc.; and those required for establishment and operation of the enterprise (registration, equipment procurement or assistance for subcontracting arrangements).

All the types of services can be both informal and formal BDS. Informal BDS are those offered by relatives, friends and employees (information, advice), or in the context of commercial transactions with suppliers, clients and partners. These services are usually accessed free-of-charge and mainly used by Micro, Small and Medium-sized Enterprises (MSMEs).

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16 The EU Framework Programme for Research and Technological Development is an excellent instrument to realize both objectives at the same time. SME involvement into these processes is big due to special measures which the EU has set up to facilitate SME participation: the Technology Stimulation Measures for SMEs, Horizontal Programme for Innovation and Participation of SMEs.
17 Business related services constitute the largest sector of the economy employing around 55 million persons in 2001 – or nearly 55% of total employment in the EU market economy.
18 More than two-thirds of all new enterprises start-up within business related services.
In this paper we are going to focus on formal ones offered on a commercial or institutional basis, by public or private sector organizations, private consultants and consulting firms, through special arrangements, conditions or contracts. These services may be also offered free-of-charge or for a fee covering the full or part of the total service costs. MSMEs use these services less because they cannot afford the costs or do not realize the importance of the services offered.

BDS offered on a commercial basis include those made available by private consulting firms or consultants, as well as those offered, under contract, in the context of commercial business related transactions with suppliers or partners. The fees charged in these cases cover the full costs of services, and making profit in BDS provision is main motivation for these service providers. These services are demand driven and customer satisfaction plays an important role regarding the growth and profitability of BDS provider. (19)

BDS offered on an institutional basis are available through private sector organizations (Chamber of Commerce, etc.), government organizations and institutions, associations of MSMEs and NGOs, under different arrangements and conditions. The services are usually offered without charging a fee or at a subsidized fee, for non-profit motives, mainly as a part of an organization’s mandate to promote and support MSME sector. The services may or may not be classified as demand-driven, because there are no pressures on the providers to achieve any kind of sustainability, and they usually do not pay specific attention to issue of demand. (20)

### 2.2.1. Changing nature of support service provision

Helping enterprises to develop their business activities, particularly at important turning points over the course of their life cycle, is the central task of business support organizations. The services that they provide are many and various, but, in almost every case, they concern essentially the provision of information and advice to entrepreneurs and business managers.

There is evidence that good business support can make a measurable contribution to the competitiveness and dynamism of modern economy.

In the last few years, business support organizations across Europe have initiated a process of change that is radically transforming the nature of the services provided and the way that they are delivered.

These changes are being driven by major economic and political developments, which include the impact of the knowledge economy, with new applications of information and communications technology, and the continuously increasing pressures of globalization.

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It is important to say that changes in support services are also being driven by the dedication and professionalism of the staff that deliver them.

It has to be noticed that support for growing enterprises is nothing like as systematic as support for start-ups. But growing enterprises have needs that are different in important respects from those of businesses in other phases of their development. They need to identify and remedy weaknesses in established practices. They need, also, to identify new opportunities and the possibilities in new expanding markets. They often need to take much greater account of the pressures of the modern economy, the implications of changing technology, processes of global competition and the complexities of relationships with business partners as well as other influences on the environment in which they operate. They generally need to develop a much more strategic approach to their management. (21)

For BDS organizations there is the importance of providing consistent and coherent support focused on helping enterprises to build their capacity to manage their development and growth. In many respects this means that business advisers, working for, or with the support agencies, need to take on a role that is closer to that of a tutor or trainer than has been the case in the past. This also means, taking a broad view of the “health“ of an enterprise rather than exclusively concentrating on the immediate problem.

Clearly, with the major changes taking place in the nature and the structure of the modern „new“ economy, successful modern firms have to address many topical issues from effective use of ICT to more effective networking, effectively integrating core and specializing business development services.

Those changes strongly affect also the economy of transition countries, and have to be taken into account in establishing, organizing and structuring business development services for their SME sector.

Business support organizations have to restructure their activities in the context of general economic development, particularly at regional and local level. In some senses their role is certainly to promote economic development by cooperating effectively and getting closer to other local and regional development agencies. (22)

A business developing support services providing real help for growing enterprises begin with improvements in the core advice and information services of support agencies. Increasingly, advice is provided on the basis of a more systematic and consistent approach that aims to help enterprises to continuously strengthen their own management capacity. This is supported by information provision that takes advantage of the latest technology.

The next step is to ensure that enterprise development can be supported by appropriate training and that access to finance is facilitated on the right terms. Support agencies must then make certain that they are keeping abreast of the changing business environment in

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which enterprises operate and developing new aspects of their services that can help their clients to strengthen their competitive position in areas that are characteristic of modern economy, such as using information technology effectively, developing their network (clusters) or addressing the question of intangibles.

Finally effective support of growing enterprises increasingly requires recognition of the beneficial interdependence of enterprises, in supply chain relationship, or in activity clusters. There are a range of support measures for the MSME sector recognized and recommended by different European and international institutions dealing with BDS development and facilitation. (23)

Business support measures are promoted and supported as a response to structural disadvantages, particularly those that by their typology mainly and seriously affect the SME sector. (24)

1. Developing the core services of BSO
   a. Integrated support services: Support service providers are moving beyond the concept of so called „one-stop-shop“, to real and coherent integration of the full range of support services, based on a more strategic perception of clients needs and on the aim of offering global solutions to their problems. (25)
   b. Consistent application of the management capacity building approach: Upgrading management capacity has to be continued as an ongoing process.
   c. Targeted services for particular types of SMEs: A comprehensive provision of support does not mean a uniform provision. On the contrary, it allows better targeting of services to take account of the differing situations of different kinds of SME.
   d. The benefits to be derived from restructuring service: A coherent restructuring of support agencies can achieve greater focus in the services provided, raise their profile and take up and increase efficiency, but the process needs to be sustained with adequate resources for re-training staff.
   e. Business intelligence as a competitive tool: In the knowledge economy, business intelligence is highly important as a competitive tool, especially for rapidly growing enterprises. Support organizations need to promote its use and radically change the nature of their own services in this area.

23 The Competitiveness of Business-related Services and their Contribution to the Performance of European Enterprises; Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, COM(2003) 747 final, Brussels 4.12.2003
25 The One Stop Shop services rather than directions provide the community with easy access to not only business information and guidance but also services and specialized assistance related to the business start/up. Through provision of a variety of services over the counter and in one place, the One Stop Shop reduces opportunities for delay and corruption, increases accountability of personnel, thereby enhancing transparency.
At present in most European countries, entrepreneurs and firms have to undertake complex searches to identify precisely which regulations apply when they want to set up, expand, renew, move or close down production facilities or obtain business permits in general. They have to go through a series of bureaucratic hoops to get building permits, operating permits, business licenses, safety clearances, and so on. Facing this situation, One Stop Shop service aims to radically improve access to business regulations and the related administrative practices, and more generally, the quality of administration-business exchanges.
f. **Tailoring online information to meet SME needs**: Good information has to be delivered effectively and be well tailored to the individual needs of growing enterprises.

g. **The integration of new services**: In developing new services to meet the needs of enterprises in a modern economy, it is important that they should really be integrated into existing service provision.

h. **The evaluation of support services**: Building up top class business support services requires continuous evaluation.

2. **Assisting access to training and finance**

   Most training for SMEs focuses on the startup phase. A good start is clearly important, but there is also need for enterprise training geared to the needs of growing firms. This can be especially important in the early years after start-up when failure most threatens but equally where growth rates can be most dramatic.

   The development of entrepreneurial competencies, however, continues to be required throughout the entire life cycle of an enterprise. In short, a life-long learning approach has to be applied.

   a. **Starting early with training for growth**: Training for growth should start as soon as the enterprise is established

   b. **The considerable scope for improvement in training provision for growing enterprises**: Training for growing enterprises must move away from a system consisting largely of the occasional seminars. This requires innovative thinking and more tailor made provision.

   c. **Improving the visibility and competencies of trainers**: Developing trainer’s competencies and improving their facilities is a crucial part of improving the overall training provision for growing enterprises.

   d. **Ensuring access to venture capital**: Access to equity capital is vital for enterprises with an ambition to grow.

   e. **Online access to venture capital**: Problems with access to venture capital are widely regarded as a continuing issue for hi-tech enterprises. Innovative ways of facilitating this access can make an important contribution to addressing these problems.

3. **Helping SMEs operate in a modern economy**

   The aim of developing more coherent support services has to be reconciled with that of being able to help enterprises respond to the circumstances of the modern economy. This facilitates the integration of services promoting responses to an extraordinarily wide range of challenges, generated by modern economy.

   a. **A strategic approach to helping SMEs make use of ICT**: The effective application of ICT is an important part of any modern growth strategy. But it requires technical skills that many SMEs do not have and cannot afford to employ.
b. **Bridging the information gap between ICT service providers and their SME clients:** There is a role of public authorities in bridging the information gap between small businesses and ICT service providers, by defining a reference framework designed to ensure that SMEs get sound commercial advice.

c. **New ICT services from chambers of commerce:** The services offered by traditional support organizations such as chambers of commerce and industry are adjusting rapidly to ICT development.

d. **Hiving-off activities from an existing enterprise:** To hive-off an activity from an existing enterprise is to create a new business based on an innovative ideas, technology or product that has an identifiable development potential but has not yet been exploited commercially.

e. **Promoting networking among hi-tech firms:** Promoting networking among hi-tech firms encourages and enhances their efficiency and competitiveness, especially in international markets.

f. **Linking national technology markets:** National support for science and technology must be adapted to take account of the internationalization of research and the transnational networking of enterprises that exploit it.

g. **Dealing with intangibles:** Making intangibles more visible can be a very real problem for enterprises and especially for some of those that operate in the most dynamic sectors of the knowledge economy. Innovative responses are needed from support agencies to help smaller enterprises address this problem.

4. **Promoting economic development**

As well as helping individual enterprises to grow, support organizations are to increasingly to provide services to groups of enterprises and even whole sectors of the local economy.

a. **The benchmarking of small SMEs:** Support organizations can help even small SMEs to undertake benchmarking exercises and to improve their competitiveness.

b. **Promoting supply-chain development:** A consensus on methodology is emerging in supply chain development. The SME sector can be helped to achieve a strategic perception of the trends and developments in the sectors in which it operates, but it should also be assured that practical assistance is available to it to improve its competitive position.

c. **Cooperation and coordination in supply chain development:** Supply chain development must be coordinated with other economic development measures.

d. **Cluster development:** The development of clusters can help SMEs gain and retain competitive advantage in rapidly changing markets by encouraging them to develop cooperation in relation to technical development, marketing and distribution. The enterprises can develop a high degree of synergy in their activities and have succeeded in improving the quality and design of their products and gaining as well, an international profile as a result of combining their different areas of specialization.
e. **Responding to structural changes in the local/regional economy:** Public authorities can play a critical role in initiating a response to market and structural changes in economy, by bridging outsourcers and suppliers together and encouraging more strategic perception and in creating the opportunity for suppliers to group together and network.

f. **Supporting the revitalization of traditional industries:** The knowledge economy is not just a matter of developing new knowledge-based industries. Aspects of the knowledge economy can also help to reverse industrial decline and revitalize older industries, when brought into play by the coordinated implementation of support policies. This gives business support organizations an important role.

### 2.2.2. The new role of Business Support Organizations

A dynamic economy needs new inputs in the form of new ideas, new products and processes, as well as enthusiasm and skill of new entrepreneurs. Encouraging the creation of new businesses is therefore an important part of the enterprise policy of the European Union. (26)

The dynamic economy also requires the continuing and successful growth of these new businesses, together with consistent development of existing enterprises. There is need to use the accumulated experience and resources of existing enterprises to create new markets, introduce innovation in all its forms and make the organizational changes that are necessary in responding to the challenges of the modern economy.

Achieving the objectives of the Lisbon Council requires many changes and improvements in the way that economy and society operate, but one of the areas where public authorities and agencies can have most impact is the improvement of the environment in which enterprises are created and develop their activities.

This means having the right regulatory framework, but it also means having the right support structures and organizations and operating them in an easily accessible and efficient way. (27)

Business support organizations have a vital role. If they provide the information and advice that their clients really need efficiently and effectively, they can make a crucial difference to the performance and success of a significant section of the enterprise population. It is for that reason that in the European charter for small enterprises there is a commitment to providing top class business support. (28)

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26 At the Lisbon European Council in March 2000, Europe's leaders set a very clear objective: that of making Europe the most competitive and dynamic knowledge based economy in the world over the course of the decade.


3. Types of BDS

Business development services vary widely, encompass many disciplines, and do not fit easily into a single category. BDS can be organized into categories that address issues SMEs commonly face. However, there may be significant overlap between categories with some services fitting into more than one. It should be also known, that BDS are often complementary and implementing strategies may use several of them to achieve desired results.

- **Market Access**: These services identify / establish new markets for SE products. They facilitate the creation of links between all the actors in a given market and enable buyers to expand their outreach to, and purchases from, SMEs. They also enable SMEs to develop new products and produce them to buyer specifications.

- **Input supply**: These services help SMEs improve their access to raw materials and production inputs. They facilitate the creation of links between SMEs and suppliers and enable the suppliers both to expand their outreach to SMEs and develop their capacity to offer better, less expensive inputs.

- **Technology & Product Development**: These services research and identify new technologies for SMEs and look at the capacity of local resource people to produce, market, and service those technologies on a sustainable basis. They also develop new and improved SME products that respond to market demands.

- **Training & Technical Assistance**: These services develop the capacity of enterprises to plan and manage their operations in a better ways, and to improve their technical expertise. They develop sustainable training and technical assistance products that SMEs are willing to pay for and they foster links between service providers and enterprises.

- **Infrastructure**: These services establish sustainable infrastructures that enable SMEs to increase sales and income. Examples include refrigeration, storage, processing facilities, transport systems, loading equipment, communication centers, and improved roads and market places.

- **Policy / Advocacy**: These services carry out sub-sector analyses and research to identify policy constraints and opportunities for SMEs. They also facilitate the organization of coalitions, trade organizations, or associations of business people, donors, government officials, academics, etc. to effect policies that promote the interests of SMEs.

- **Finance**: These services help SMEs identify and access funds through formal and alternative channels that include supplier or buyer credits, factoring companies, equity financing, venture capital, credit unions, banks, and the like. They also assist buyers in establishing links with commercial banks (letters of credit, etc.) to help them finance SME production directly.
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<th>Table 1. Illustrative Types of Business Services</th>
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<td><strong>Market Access</strong></td>
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<tr>
<td>• access to buyers and markets;</td>
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<td>• training on using customer feedback to develop new markets;</td>
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<td>• providing information to meet standards and specifications of new markets;</td>
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<td>• organizing SE producers to fill large orders;</td>
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<td>• advertising services;</td>
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<td>• market research services;</td>
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<td>• export services;</td>
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<td>• transportation services;</td>
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<td>• communication services;</td>
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<td>• information services.</td>
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<tr>
<td><strong>Technology and Product Development</strong></td>
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<td>• access to tools and equipment;</td>
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<td>• access to information on new technologies;</td>
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<td>• product research and development;</td>
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<td>• information on competitor’s products;</td>
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<td>• vocational training;</td>
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<td>• training in methods to reduce costs in production;</td>
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<td>• access to machine and equipment rental services;</td>
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<td><strong>Input Supply</strong></td>
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<td>• access to material inputs;</td>
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<td>• facilitation/brokerage of linkages with suppliers;</td>
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<td>• access to economies of scale in supply purchasing;</td>
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<td>• importation services for supplies</td>
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<td><strong>Management / Organization</strong></td>
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<td>• management and business skills development training;</td>
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<td>• development of business plans</td>
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<td>• accounting services;</td>
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<td>• secretarial support;</td>
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<td>• developing management information systems;</td>
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<td>• standard setting;</td>
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<td>• mentoring;</td>
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<td>• legal support.</td>
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<td><strong>Policy / Advocacy</strong></td>
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<td>• training in advocacy techniques</td>
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<td>• advocacy services</td>
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<td>• policy studies</td>
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<td><strong>Alternative Financing Mechanisms</strong></td>
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<td>• facilitating linkages with financial institutions,</td>
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<td>• training in procedures/requirements for accessing loans</td>
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<td>• supplier credit,</td>
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<td>• credit from invoicing companies</td>
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<td><strong>Infrastructure</strong></td>
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<td>• development of new roads,</td>
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<td>• access to communication systems,</td>
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<td>• storage and warehousing</td>
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<td>• transportation and delivery</td>
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The support services to SMEs are quite heterogeneous, in terms of both dimensions and characteristics. However, one important common trend has emerged: the service market is significantly growing, both in quantitative and qualitative terms.
A detailed definition of business services, listing all the activities is given in the Report on Industrial competitiveness and Business Services. (29)

Because of the need for greater coherence and consistency in service provision, and in order to improve quality standards, accessibility and transparency of services, a proposal for a classification of support services is made by the Working Group on the Visibility and Quality of Support Services established by the EU Commission’s Enterprise Directorate General. (30) These definition and classification are in accordance with the EU statistical activity nomenclature (31)

To make the outputs from the BDS providers sufficiently transparent (standards), valued and documented (quality) and ensure their efficiency and recognition in the SME world, the EU Commission, within the framework of the policy of promoting SME development and better coordination of support activities, underlined the necessity of Business Support Service classification. (32)

3.1. Selecting BDS services

Before choosing a particular form of intervention, a BDS provider should carry out a thorough needs assessment. An assessment provides insight into the constraints and opportunities in the targeted area of intervention and gives the provider the information needed to determine the appropriate BDS activities. There are variety of techniques and methodologies available for assessing small enterprise constraints and opportunities. They include:

- Sub-sector analysis
- Participatory Rapid Appraisal
- General Small Enterprise Survey
- BDS Market assessment Tools
- Needs Assessment through Clusters and Networks
- Action Research/Incremental Approach

These tools need not to be used exclusively—they can and should be combined to ensure that the situation is fully described and understood.

29 This definition is in accordance with the EUROSTAT publication “Business Services in Europe” from 1995. It should be noted that NACE classes 70 (real estate services), 73 (research & development), and subclass 74.15 (holding companies) are not included in this definition.

30 Analysis of the Market of Support Services with the View of Improving its Efficiency in Context of the Working Group on Visibility and Quality of Support Services; in Appendix 1 of comparative study; Market of Support Services; Support Services to SMEs in Germany, Greece, Ireland, Italy and Sweden; Final Report, 2000, also at http://europa.eu.int/comm/enterprise/entrepreneurship/concerted_actions/index.htm

31 Due to the magnitude and heterogeneity of the service sector, a horizontal approach covering all services is neither feasible, nor constructive. The proposed measures need to take sectoral market conditions into consideration. The range of market services directly affecting the competitiveness of enterprises, both manufacturers and other service providers, are collectively referred as business related services, and consist of 4 major groups of activities, namely business services, distributive trades, network services and financial services.

3.1.1. Sub-sector Analysis

Definition:
A sub-sector can be defined as all the firms that buy and sell from each other in order to supply a particular set of products or services to final consumers. A sub-sector includes producers, processors, input suppliers, wholesalers, and retailers and is defined by a particular finished product or service (wood furniture, dried tomatoes, clothing production, legal consulting, etc.). (33)

A preliminary stage to analysis is the selection of the sub-sector. Specific criteria must first be established. Illustrative criteria could include:

- Unmet demand in the market for the good or service
- Potential for increase in household incomes
- Number of SMEs in the sub-sector
- Potential for employment generation
- Existence of linkages conducive to market based approach

Once criteria are established, potential sub-sectors can be compared and ranked to identify those that merit more detailed analysis.

Sub-sector analysis looks at vertically integrated groups of enterprises (large and small) that deal with the same product. It is based on a growing consensus that BDS programs cannot be effective if they limit their focus to small-scale producers alone. These producers are part of a larger market system that includes input suppliers, producers using different technologies, distributors (wholesale and retail), transportation and finance companies, exporters, etc. There is a number of commercial relationships occurring between all of these actors in the process of transforming raw material into a finished product and delivering it to the consumer. Sub-sector analysis looks at all these actors and their relationships and this is what enables the BDS provider to identify the constraints and opportunities that can be addressed by particular BDS strategies. (34)

Sub-sector analyses can be conducted using different methodologies, including in-depth studies, workshops with sub-sector representatives, incremental applications in the field, and various combinations of all three.

A major tool used in sub-sector analysis is a map describing the links between firms that operate in the same industry, but use different market channels. By examining these different market channels, a BDS provider can identify constraints, opportunities, and the appropriate BDS strategies to use. (35)

33 Hagblade, Gamser; A Field Manual for Sub-sector Practitioners, GEMINI, 1991; www.pactpub.com
35 For example, a furniture map might show one set of links from a national forest to wood cutters, then to sawmills, wood wholesalers, small-scale carpenters, and finally to rural and urban low-income consumers. A branch of that marketing chain could lead from the small-scale carpenters to upholsterers, urban shops and, finally, high-income consumers. Another may go from sawmills to a large company that cures wood and makes furniture for export.
Table 2. Examples of Sub-sector Constraints/Opportunities

<table>
<thead>
<tr>
<th>Sub-sector</th>
<th>Constraints/Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technological / Product Development</strong></td>
<td>- inappropriate or nonexistent tools/ machinery/ technologies, lack of access to same, lack of technical skills to produce to buyer specification, lack of information on product demand</td>
</tr>
<tr>
<td><strong>Market Access</strong></td>
<td>lack of linkages to large buyers, inability of SEs to produce or supply to buyer specifications, lack of marketing organizations or brokers, lack of information on product demand, lack of marketing techniques or methods, lack of market, unmet market (opportunity), high transportation costs</td>
</tr>
<tr>
<td><strong>Organization and Management</strong></td>
<td>inability of SE producers to organize for economies of scale, lack of SE trade group specific training in specific areas (financial management, internal organization, production skills, marketing), poor organization of large buyers or suppliers, lack of communication and/or cooperation between different trade groups</td>
</tr>
<tr>
<td><strong>Regulatory (Policy)</strong></td>
<td>import taxes that penalize local producers, artificial price subsidies, lack of regulations, lack of govt. contracting procedures that favor SEs,</td>
</tr>
<tr>
<td><strong>Finance</strong></td>
<td>(not including MFIs) lack of supplier credit, lack of access of commercial funding, no alternatives to traditional bank lending, inability to provide adequate collateral</td>
</tr>
<tr>
<td><strong>Input and Supply (Procurement)</strong></td>
<td>high prices, poor quality of raw materials, lack of suppliers, existing suppliers have limited outreach, high transportation costs for SEs and/or large suppliers</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>poor road, electricity, refrigeration facilities, telephones, etc.</td>
</tr>
</tbody>
</table>

Source: Hagblade, Gamser; A Field Manual for Sub-sector Practitioners, GEMINI, 1991; www.pactpub.com

3.1.2. Participatory Rapid Appraisal

Participatory Rural Appraisal (PRA) offers a set of practical tools to help BDS providers to identify problems and assess and select relevant solutions. (36)

PRA is an exercise in communication and transfer of knowledge. Regardless of whether it is carried out as part of project identification or appraisal or as part of country economic and

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36 The most popularly recognized and widely used participatory approach, Participatory rural appraisal (PRA) is a label given to a growing family of participatory approaches and methods that emphasize local knowledge and enable local people to make their own appraisal, analysis, and plans. PRA uses group animation and exercises to facilitate information sharing, analysis, and action among stakeholders. Although originally developed for use in rural areas, PRA has been employed successfully in a variety of settings. The purpose of PRA is to enable development practitioners, government officials, and local people to work together to plan context appropriate programs. Participatory rural appraisal evolved from rapid rural appraisal—a set of informal techniques used by development practitioners in rural areas to collect and analyze data. Rapid rural appraisal developed in the 1970s and 1980s in response to the perceived problems of outsiders missing or miscommunicating with local people in the context of development work. In PRA, data collection and analysis are undertaken by local people, with outsiders facilitating rather than controlling. PRA is an approach for shared learning between local people and outsiders, but the term is somewhat misleading. PRA techniques are equally applicable in urban settings and are not limited to assessment only. The same approach can be employed at every stage of the project cycle and in country economic and sector work. Once a marginal practice, it has now become an instrument used by the most powerful of global development institutions.
sector work, the learning by doing and teamwork spirit of PRA requires transparent procedures. For that reason, a series of open meetings (an initial open meeting, final meeting, and follow-up meeting) generally frame the sequence of PRA activities. (37)

Other tools common in PRA are:
- Semi-structured interviewing
- Focus group discussions
- Preference ranking
  - Ranking exercises in which participants (MSMEs) rank their status, the importance of problems, or preferred solutions
- Mapping and modeling
  - Resource mapping (drawing community maps with relevant and available resources)
  - Network maps (drawing links between MSMEs and resources).
- Seasonal and historical diagramming.
  - Seasonal mapping (describing seasonal trends that affect the real situation on the field).

When targeted to MSEs in a given community these tools may be helpful in developing BDS programs. The underlying principle behind PRA is that local people possess more knowledge about their situation than external experts and that the role of the researcher is to bring that knowledge to bear on identifying and solving key problems. (38)

3.1.3. General Small Enterprise Surveys

These surveys provide useful background data on such areas as:
- The number of SEs in a country and the number of people employed.
- The geographic, sectoral, size, and gender distribution of firms.
- Growth trends in the sector and in different groups within the sector.
- Indications of major constraints affecting the growth of firms.

Although not specific enough for the selection and design of particular services, these surveys can help BDS providers to focus in on promising sectors. (39)

37 Theis, J. and H. Grady, Participatory Rapid Appraisal for Community Development: Save the Children Fund, London, 1991
39 It should be noted, however, that these surveys require a significant investment of time and resources (~$250,000 for a national survey in a small country). For good examples of general surveys, see the GEMINI series of micro enterprise surveys available from www.pactpub.com
3.1.4. Needs Assessment through Clusters and Networks

Clusters are composed of small enterprises that are in the same sector of activity, or share common characteristics such as geographic location, gender, and/or ethnicity. They may be groups of similar or varying sized firms.

Clusters can be used to identify BDS activities. A facilitator, usually a non-profit organization, identifies isolated businesses in high-potential markets and brings them together in meetings or offers some kind of initial service, such as training or a trade show. If groups or networks already exist, a facilitator may approach them about strengthening their capacity to produce more or better products, to market their products, etc.

The facilitator (BDS Provider), usually studies the strengths and weaknesses of the businesses and the opportunities and constraints of the marketplace, and then engages the entrepreneurs in a dialogue about their own perceptions regarding opportunities and constraints. The group identifies problems that can be resolved by joint action and/or the implementation of a particular BDS strategy. (40) (41)

3.1.5. Action Research / Incremental Approach

This approach puts less emphasis on preliminary analysis and more on a learning process approach. It is based on the premise that the best way to identify constraints and opportunities is to develop in-depth relationships with the enterprises one is working with and to learn from them in an incremental fashion. (42)

3.2. New types of BDS

New services or services for the modern economy are helping enterprises in facing the opportunities and stresses of the knowledge economy and global markets and the requirements for sustainable development. (43)

The European Union is faced with a great challenge coming from globalization and the new knowledge – driven economy. The necessity to make this quantum leap was the key message of the Lisbon European Council in year 2000, where was set a new strategic goal for the next decade for Europe to become the most competitive and dynamic knowledge-driven economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. (44)

40 Ceglie, G., Dini, M., SME Cluster and Network Development in Developing Countries: The Experience of UNIDO, Donors Committee Conference in Rio, Brazil, 1999
41 Clara, M., Russo, F., Gulati, M., Cluster Development and BDS Promotion: UNIDO’s Experience in India, Hanoi, 2000
The goal can be achieved only by making Europe more entrepreneurial and innovative, attaining sustainable development. This was a basis for Council decision regarding promotion, fostering and support of an innovative business environment and entrepreneurship. (45)

Most important measures recommended by the Council are:
- Stimulating new business models in e-economy
- Improving the competitiveness of SMEs in the knowledge-based economy
- Providing and coordinating business support networks and services to enterprises
- Encouraging entrepreneurship, research and innovation

3.2.1. Knowledge Intensive Services (KIS)

Innovation is traditionally associated with technological change and the development of new increasingly complex produced goods. The culture of change has itself encouraged the emergence of new economic sectors orientated towards supporting change. They consist of a new type of services, promoting new ways of doing things.

They are in the first place, profit making, private sector service providers or partnerships, and they do not include non-commercial information or advisory agencies supported by governments or donors. Because they are oriented towards organizations rather than consumer clients, the knowledge-intensive consumer services such as educational, information and cultural activities are excluded. (46)

Today, most business services are knowledge intensive services. They provide strategic information permitting businesses to adapt to technological development, internalization and increasingly complex society. They are, also, the key factor for technological innovation. At the same time, business services increase the effectiveness of technological input since advanced services like ICT services allow a better use of existing technology.

The growth of KIS consultancy is often explained in terms of the development of the „information economy“ , supporting a society in which the control and exchange of information has become the predominant source of value added. This, in turn, seems to reflect modern technological developments in storage, processing and transmission of information. Specialized KIS businesses make profits by offering expertise that assists clients to acquire, interpret and respond to appropriate information. Communication innovation has also enabled their expertise to be increasingly exchanged across different markets. (47)

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New technologies allow expansion of BDS markets by increasing their tradability. For these reasons, R&D, ICT and innovation policies need to focus on the building of a strong technological base for innovation in BS.

The significance of KIS in Europe arises from national and, more important, regional and European variability in both innovativeness and KIS development. The development of KIS is boosted also by implementation of ICT technologies and services.

Activities regarded as KIS, based on various types of consultancy, offer expertise on:

- **Management and administration**: including management consultancy, legal, accounting, financial strategy and fiscal advice, mergers and takeovers and, restructuring
- **Production**: including architectural and engineering consultancy, distribution logistics, operational leasing, repair and maintenance, and quality control
- **Research and Development**: including contract research, testing and specialist advice
- **Human resources**: including training, recruitment, job evaluation and temporary workers
- **Information and communication**: including data banks, information services, software services, technical computing, systems design and implementation, advanced communications and express mailing
- **Marketing**: including advertising, sales, promotion, market research, direct marketing, public relations, export promotion,

These activities are sometimes described as the professional services, because they strongly depend on the skills and expertise of individuals and, as well, on the establishment of client trust, supported by formal or informal regulation.

**3.2.1.1. Information and communication technology services**

Information and Communication Technologies (ICT) have significantly changed the ways in which enterprises work. ICT developments have also generated a demand for new services, and the most rapid innovations in services consumed by MSMEs occur in that field. They are changing both the scope and the nature of the services provided by support organizations. As all others, the small enterprises need to communicate in all aspects of their business operation using internet based technologies and mobile telephony, as well as more traditional forms of communication.

But the technology alone is not sufficient. Many other factors must also be included. One of the key aspects of ICT implementation is that governments in developing countries must allow a competitive environment, avoiding in particular the undue protection of traditional (often state owned) telecommunication providers. They play also a central role in creating good conditions for ICT adoption by fostering and supporting building an ICT infrastructure.
The EU developed countries have recognized the importance of developing and integrating the promotion of information and communication technologies in the European Community development policy. (48)

The current level of access to ICT technologies in developing countries is still very low, and they face many challenges in attempting to increase their capacity in this area. (49) They must adopt a global approach covering all the aspects linked to ICT access. There are also other constraints, particularly the lack of an appropriate, clear and coherent policy in developing countries that tackles all aspects of this field, the absence of an appropriate regulatory framework to reduce inequalities and resolve certain problems, as well as high tariffs on imported products, weaknesses in the availability of the necessary infrastructures and low level of human competencies. (50)

ICT technologies and related services to MSMEs, if correctly used for development, can be a major instrument to ensure future sustainable economic growth of developed as well as developing countries. The profound impact of these technologies and services on the economies and, inevitably, on the societies, will improve economic efficiency, competitiveness and profitability of the enterprises using them, and lead them, under the conditions of rapid globalization, towards the information society. ICT services, (internet, e-business, e-government, e-learning, etc.), affect the business environment at national and global levels, generating major opportunities and challenges for market growth, job creation, development of new services. (51)

In order to help member countries to recognize, describe and analyze future challenges in support of e-business for SMEs, the EU Commission issued recommendations about necessary policy approaches. (52)
It is also established the European e-Business Support Network (eSBN), which brings together governmental e-business experts, representatives from both regional and national e-business initiative, and public-private partnerships, and aims to stimulate the exchange of experiences. (53)

At EU level, there are also many other initiatives covering different, more specialized approaches to the provision of ICT BDS services, such as e-business w@tch function, European E-business Legal Portal, B2B Internet Trading Platform, MEDIA Pilot Project,

49 For example, in 1998, the rate of telecom access per 100 inhabitants was 72,1 for countries in the OECD and 7,8 for non-OECD countries. Uneven access to ICTs exacerbates inequalities between and within countries, as rural populations, for example, often has poorer access than urban populations.
50 Tanburn, J., Didar Singh, A., ICTs and Enterprises in Developing Countries: Hype or Opportunity?, Series on Innovation and Sustainability in Business Support Services (FII), InFocus Programme on Boosting Employment through Small Enterprise Development; Job Creation and Enterprise Department; SEED Working Paper No 17, ILO, Geneva, 2001
51 Information Technology Outlook, OECD, 2000, at www.oecd.org/dsti/sti/prod/IT2000Highlights_e.htm
53 Established in 2002 under the umbrella of the Europe 2005 Action Plan and building on the results of the Best Procedure project on national and regional policies in support business for SMEs; at http://europa.eu.int/comm/enterprise/ict/policy/e-bus-snfsme.htm
European forum “Female Entrepreneurship”, Ethnic Minority Entrepreneurs, and many others. (54)

Following the work on support services for MSMEs and proprietor businesses, and on top-class business support services, the Commission, through the Community Initiative EQUAL funded by European Social Fund (ESF), has also supported the testing of inclusive business support services for disadvantages groups in Europe. (55)

It is of crucial importance for developing and transition countries to develop and adopt their own strategies of ICT implementation, harmonized with current European trends, supported by technical assistance and financed or co-financed by various European funds.

Unfortunately, enterprises in transition countries very slowly adopt ICT, and its usage is not as efficient as in developed countries. It is actually the fact that existing economic polarisation and inequality is increasing because of the different level of the implementation and higher grade of ICT usage in strong western economies. That leads to faster economic and social development and growth in countries with modern and better developed ICT infrastructure and related services.

3.2.1.2. Research & Development and Innovation services

Transition to a knowledge-driven economy, as already was pointed out, is at the heart of the Lisbon strategy. (56)

In that sense the European Initiative for Growth focuses more clearly on the research and technology needs of specific industrial sectors, and offers a framework for partnership and consensus between public and private research, industry, policy and entrepreneurs, as well as for creating appropriate R&D and Innovation BDS, satisfying needs of SMEs. (57)

At national and EU level measures are proposed to enable and support development of a friendly environment for starting and development of R&D and innovation activities:

- Integration of energy, telecom, and transport markets
- Investments in infrastructure (58)
- Broadband communication and related services
- Promoting investment in research, development and innovation (59)


57 For example, the Structural Funds are spending some € 16 billion on SME targeted projects in the period 2000-2006. In addition, this EU aid is triggering large matching support from national funds. SMEs are also an important target for Sixth Framework Programme for RTD. For 2002-2006, nearly € 2, 2 billion has been allocated to support SMEs research and innovation efforts.

58 GALILEO, which constitutes the first concrete element of a European space policy, is an example.

59 Thesaloniki conclusions focused on major R&D projects, roadmap for knowledge and networks.
Small enterprises depend very much on an environment that supports innovation. The development of suitable technology and technology & knowledge transfer initiatives are of crucial importance to most of them. Therefore, development of R&D, innovation and technology transfer business services is strongly recommended and supported by both EU community and member states.

Despite efforts in promoting and fostering innovation and technology transfer, lot of reports confirm that many small enterprises in Europe still encounter significant problems with the improvement of their innovation performance. The situation in developing countries is much worse because small businesses and their innovation needs are highly heterogeneous. This requires policy instruments that are equally differentiated and cover as well as local, regional, national and European level. (60)

In order to understand the innovation needs of small businesses, and create appropriate implementation strategy, it has been noticed that there are two types of innovation and technology dependency: (61)

- **high-tech start-ups enterprises** depend mainly on the availability of innovation finance, on intensive interaction with science institutions and on efficient systems for protection of intellectual property rights.
- **more traditional small businesses**, on the other hand, depend more on intensive interaction with innovative customers and technology providers, on their access to technology and market intelligence and on constantly upgrading their human resources.

The majority of SMEs have lack of competences and resources needed to carry out their own R&D, to introduce new technology and train their employees. They may even have problems in recognizing their own needs for technology or the innovation process.

Technology transfer, in terms of R&D and innovations, may generally be defined as the transfer and application of new processes, equipment or codified knowledge (results of R&D processes). It covers the shift of ideas from the science base and their uptake by industry, but also the transfer of knowledge between companies. The technology transfer procedure is usually extended and very complex, involving many actors as for example, staff of innovating enterprise, technology brokers, university experts, technology or innovation agencies, etc.

The main characteristic of RDI environment is a continuous learning process in technology transfer. Therefore, the first demand is uneven access to information, especially for SMEs, and the second is the need to overcome this through continuous (user-producer) operational interactions. (62)

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The role of services in the RDI area in satisfying the requirements of SMEs, is to identify and help to select appropriate technologies to serve client needs, find technology partner, or seek out key sources of knowledge. RDI services providers may also assist in financial appraisal and the search for funding, help to design a wider business strategy and training of staff, or be involved in implementing change by supporting project management and organizational development.

In recognizing the problems of small enterprises to identify select and adapt technologies, most EU member and some transition countries base their policies to a large extent on technology centres. However, SMEs are not always satisfied with the services such centres offer because they do not necessarily respond to their real needs. But some good innovation and technology transfer practices are described in the Commission’s report about implementation of the Charter for SMEs. (63)

Inter-company networking and clusters are important tools to foster small businesses innovation potential and competitiveness, and, also to disseminate innovation. (64) Developing clusters is necessarily a matter for local and regional authorities in the first instance but EU innovation policy has given significant assistance to their efforts. However, most policy initiatives remain experimental – there is still no established methodology for cluster creation. But it is already clear that cluster support measures must be carefully adapted to the industrial, cultural and economic profile of targeted local or regional community. (65)

Innovation clusters are useful frameworks to coordinate policies and reduce complexity of actions undertaken. The cluster approach provides an integrative knowledge and innovation management tool for facilitating innovation and customizing all policies affecting innovation in cluster. All the policies and strategies aimed at clusters should balance creating and sustaining innovative clusters.

As a very important platform and tool for fostering and promoting R&D and innovations within the SME world, the EU Council established the **Sixth Framework Programme for Research, technological Development and demonstration Activities** (2002-2006), known as **FP6**, supporting SMEs with respect to research, innovation and technology transfer by facilitating their collaboration with research institutions and other business partners, including large enterprises. The participation of SMEs in different thematic areas is strongly encouraged. (66)

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64 In June 2003, the Commission presented the outcome of a project, carried out with help of national experts from EU, acceding, candidate and EFTA/EEA countries, on Enterprise clusters and networks at a seminar in Copenhagen; [http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/cluster/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/cluster/index.htm).
Some important activities covered by FP6 are:

- Economic and Technological Intelligence
- Horizontal research activities involving SMEs
- SME National Contact Point (NCP), etc. \(^{(67)}\)

The Innovation Relay Centres (IRCs), established in 1995, form the largest network in Europe, with 68 regional IRCs in 31 countries, involving more than 220 organizations and 1500 professionals all over Europe, aimed at supporting innovation and transnational technological cooperation with a range of specialized business support services. \(^{(68)}\)

IRC services are primarily targeted at technology-oriented SMEs, but are also available to large enterprises, research institutes, universities, technology centres and innovation agencies. Its objective is also to promote innovation not only in the technological sense but also in the systemic way of innovating through new work methods, product presentation, etc. IRC Network co-operate with the EICCs and Business Innovation Centres (BICs) under the “EU business support networks” umbrella.

3.2.1.3. Business transfer services

After a business’s creation and growth, transfer is the third crucial and most critical phase in its life cycle. It involves many complex issues such as inheritance legislation and company law. However, the transfer of businesses is not only about technical issues linked with the transfer of ownership, but, also, about the transfer of the leadership of the company. It is a long process and sound preparation is very important. Unfortunately, too many business transfers fail, taking jobs, assets and opportunities with them. \(^{(69)}\)

Much attention has been given to encouraging the creation of new businesses, providing them with different support services, enabling their growth and sustainability, but, now, it is just as important to ensure the continuation and growth of existing MSM enterprises.

European countries have recognized the need of having the proper regulatory framework, as well as appropriate support structures and services. Considering both these areas, the European Commission passed its recommendation on the transfer of small and medium-sized enterprises, inviting the Member States to improve their legal and fiscal environment for business transfer and to provide support for business transfer. \(^{(70)}\)

Transfers of businesses can take place within the family, to employees or to third parties. Retirement is still the main reason for business transfers but transfers due to personal reasons

\(^{67}\) National Contact Point (NCP), for the Research and Development Framework Programme; see http://www.cordis.lu/fp5/support.htm

\(^{68}\) http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/cluster/index.htm

\(^{69}\) Approximately one third of European enterprises (ranging from 25-40% depending on the Member State), will need to be transferred to the next generation in the coming 10 years. This means that an average of 610 000 small and medium-sized enterprises will be changing hands each year, potentially affecting 2,4 million jobs. These are the estimates of the Enterprise DG's group on the transfer businesses made in summer 2002. Final report can be found at http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/best_project.htm

or decisions, (change of profession), change of competitive environment, (changing markets, new products or new channels of distribution), are increasing. (71)

**Transfer process**

First type of difficulty is psychological or emotional. Many entrepreneurs, creating and managing their own business are very reluctant to let go and to prepare the transfer at an early phase, which hinders transfer of skills and know-how.

The second type of difficulty is related to the complexity of the business transfer process and lack of knowledge and experience in handling the situation (who to contact for help, or where to find necessary information). One of the serious problems is the transfer of tacit knowledge to the next generation, or transfer of networks and relationships.

The third type of obstacle can be national legislation, in particular company law, taxation and administrative formalities (high heritance and gift taxes, preventing changes to the legal form, preventing continuity of partnership).

**Transfer support**

In order to help and improve transfer of businesses an expert group established by Enterprise DG, was identified and proposed support measures for business transfer and areas for future actions. (72)

Concerning the provision of support measures the following were proposed: (73)

- Creating a European business transfer centre, a virtual European platform to coordinate information gathering, share best practices across Europe, and facilitate cross-border cooperation. Similar centers should also be created at national level;
- creating an European marketplace in connection with business transfer centre, to link up existing national databases;
- holding regular events on specific transfer questions at European level to exchange best practices;
- developing alternative or additional tailor-made training and management tools for existing and future owner-managed businesses;

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71 Helping the transfer of businesses – A „good practice guide“ of measures for supporting the transfer of businesses to new ownership, European Commission, Luxemburg, 2003, and also at [http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/index.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/index.htm)

72 In December 2000, the European Commission's Enterprise Directorate General launched a "Best Procedure", project on the transfer of businesses. More information can be found at: [http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/best_project.htm](http://europa.eu.int/comm/enterprise/entrepreneurship/support_measures/transfer_business/best_project.htm)

73 With regard to implementing the Commission recommendation, the expert group found that barely half the 21 tax and legal measures set out by the Commission had been put into practice. In all, experts identified 53 support measures which have been included in the support measures and initiatives for enterprises database (SMIE), [http://europa.eu.int/comm/enterprise/smie](http://europa.eu.int/comm/enterprise/smie)
- launching publicly initiated support programmes and research on business transfer:
- giving as much attention to transfers as to start-ups.

As a consequence of the implementation of those measures, various forms of support services are created:

- Information for business transfer
- Knowledge based mentoring support in different succession situations
- Training and advice for business transfer
  - Training for family business
  - Providing a practical self assessment tool
  - Personalized support for enterprises
- Market place for business transfer
  - Internet based market places
  - Services on business succession
    - Technical aspects (financial, fiscal, legal, organizational, insurance, etc.)
    - Emotional, psychological/interpersonal
    - Leadership analysis
- Finance for business transfer
  - Loans
  - Loan guarantee schemes

Unfortunately, in transition countries, due to their undeveloped economies and weak MSME sector, these services are not yet recognized as important and a useful tool for social and economic stability of the SME sector. (74)

4. BDS Market Development

The Market Development Approach (MDA) proposes a new vision for success – a private sector business service market – numerous, competitive BDS suppliers who sell a wide range of services to large numbers and types of enterprises. Crucially important for successful implementation is understanding both the existing supply of BDS from the private sector, government and donor-supported programmes, as well as market failures that can lead to a gap between the supply and demand side of services. The goal of MDA is to overcome these market failures and take advantage of opportunities to expand the service market for SEs. (75)

The market development approach, (MDA), treats underserved groups (poor entrepreneurs, micro enterprises, women and disabled persons), as market segments with potential rather than beneficiaries in need of charity or subsidies. (76)

4.1. Principles of BDS market development

Central to the concept of developing BDS markets is the idea of building on indigenous initiative and demand within the private sector. But relatively little was known either about which services small enterprises really wanted and valued, or about which services were already being provided by the private sector, in whatever form. A variety of methodologies, several of which built on existing market research capacities, have been developed and used by agencies around the world, leading to rapid generation of knowledge about BDS market in many countries.

It also represents a move away from supply-driven state or donor subsidized services towards developing more effective market environments that permit the delivery of demand –led services to MSMEs. (77)

Basic principles of BDS market development are:

- **Impact centered programmes:** The focus of BDS programming is to create a positive impact. The delivery of BDS and development of service market are means toward that goal. Impact is measured by outreach, sustainability and cost-effectiveness.

- **Specific, focus tailored services:** BDS must address specific needs and wants, focus on high priority issues and be tailored to add high value to SE business.

- **Demand driven services:** Responds to the SE needs and wants. The services are paid by SEs or commercial sector with vested interest. They put immediate financial resource on the supplier to provide relevant services

- **Sustainable service delivery:** BDS should be made available to SEs over the long run through financially sustainable delivery mechanisms, institutions and markets, in sum, through private sector. Sustainability of services depends on:
  - Private sector financing (demand-driven services)
  - Cost structure in line with SE and market ability to pay
  - Independent, financially viable institutions and delivery mechanisms

Criteria for viable BDS suppliers are;

- Good capacity to deliver the services
- Close to SME culture, operating environment and geography
- Low cost structures
- Commercial focus on business culture

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76 Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions; SED Issue Paper No 5, IC-SED –Backstopping mandate, SDC, Bern, June 2000

77 Miehlbradt, A., Assessing Markets for Business Development Services: What have we learned so far?, Series on Innovation and Sustainability in Business Support Services (FTT), InFocus Programme on Boosting Employment through Small Enterprise Development; Job Creation and Enterprise Department; SEED Working Paper No 28, ILO, Geneva, 2002
- Commercial accountancy and management system
- Organizational independence, especially from donor funds
- Organizational stability
- Sufficient focus on services, SMEs or BDS

Institutional sustainability more likely when subsidized and commercial activities are separated;
- Supplier or provider delivers (commercial) services directly to SME
- Facilitator supports the (commercial) supply of BDS by other (sustainable) institutions

- **Development of competitive, vibrant BDS markets**: As a result a vibrant competitive BDS market exists with;
  - Clearly defined supply and demand (that match in price)
  - No (or few) market distortion
  - A sufficient degree of market competition
  - Market transparency
  - A range of SMEs accessing

### 4.1.1. Supply driven approach:

Traditionally, donors and governments have intervened in BDS markets at the level of the BDS transaction: directly providing services using public BDS providers, or permanently subsidizing services delivered by other service providers, allowing SMEs to acquire services free or at very low cost. In this, former approach, donors and governments tended to substitute for undeveloped BDS markets, possibly crowding out existing or potential commercial service providers. (78)

Traditional approaches have failed to achieve high outreach, since the numbers of SEs served was limited by the amount of subsidies available. In addition, institutional sustainability has been very low, since programmes often cease when public funds are exhausted.

One of key mistakes of past BDS programmes/projects were that they assumed which services MSMEs wanted or need.

Main characteristics of the supply-driven approach are:

- Donors support and few providers
- NGOs provide free and highly subsidized services
- Small number of SMEs gain access to services designed by donor/NGO
- Program/project lasts as long as funding is available

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78 Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions; SED Issue Paper No 5, IC-SED –Backstopping mandate, SDC, Bern, June 2000
4.1.2. Demand driven approach:

The new, BDS market development paradigm is driven by the belief that the objectives of outreach and sustainability can be only achieved in well-developed markets for BDS, and not by direct provision and subsidies by donors and governments. This shifts the focus of public and donor intervention away from direct provision and subsidies at the level of BDS transaction, toward the facilitation of a sustained increase in the demand and supply of services.

In the market development paradigm, subsidization of transactions should be replaced by private payment for services delivered. Similarly, donor and government support should be shifted away from direct support to particular service providers toward facilitation functions that make possible development of the BDS market in a sustainable way. The objective of BDS market development challenges donors to push commercial orientation of the BDS market through strategic, towards development directed investment (79) (80)

Main characteristics of demand-driven approach are:
- Donor or facilitator supports numerous suppliers with Technical Assistance (TA) rather than grants
- Suppliers are commercially oriented and competing to serve SMEs
- Suppliers provide services SMEs want to have and serves numerous SMEs
- Suppliers earn profits and provide services over the long term

4.1.3. Demand-side versus supply-side interventions

The choice of demand-side and supply-side interventions to develop BDS markets should correspond to the market development constraints and opportunities identified in the market assessment.

Demand side intervention option supplies information about potential benefits of BDS and incentives to use them such as vouchers and matching grants. Supply-side intervention include introducing new models of doing business and developing new products and services, as well as technical assistance (TA), training and other capacity-building for service providers. Some interventions can be applied on both sides (strengthening business linkages, quality assurance, etc.). (81)

The comparison between different approaches is clearly described by following table;

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79 The donor guidelines from the Committee of Donor Agencies for Small Enterprise Development (2001) were published with a blue cover and colloquially referred to as the „blue book”
81 Miehlbradt, A., O.; Assessing Markets for Business Development Services: What have we learned so far? SEED Working Paper No. 28, InFocus Programme on Boosting Employment through Small Enterprise Development; Job Creation and Enterprise Department, January, 2002
Table 3. Traditional vs Market oriented approach

<table>
<thead>
<tr>
<th>Vision</th>
<th>Traditional intervention</th>
<th>Market Development Option</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A non-profit or government organization provides quality BDS to SEs</td>
<td>A sustainable, primarily private sector market made up of competing suppliers selling a wide range of quality services to SEs</td>
</tr>
<tr>
<td>Objective</td>
<td>Provide quality services that SEs can afford</td>
<td>Encourage others to provide quality services to SEs on a commercial basis</td>
</tr>
<tr>
<td>Starting Point</td>
<td>Diagnosis of needs, surveys</td>
<td>Assessment of the market (demand, supply, potential)</td>
</tr>
<tr>
<td>Point of Intervention</td>
<td>“First tier”: direct provision through a single, local institution</td>
<td>“Second Tier”: facilitate, regulate, develop products for work with more than one supplier</td>
</tr>
<tr>
<td>Duration of Involvement</td>
<td>Permanent: donor-funded programs must continue if services are to be available to SEs</td>
<td>Temporary: withdraw as markets develop</td>
</tr>
<tr>
<td>Subsidies</td>
<td>Support free or low-cost services to SEs. Justified in long-run: SEs can’t be expected to pay full costs</td>
<td>Support assistance to suppliers or temporary grants to clients. Justified in the short run if market development impact outweighs market distortion</td>
</tr>
</tbody>
</table>

Source: Miehlbradt, A., O., McWay, M., Developing Commercial Markets for Business Development Services; Small Enterprise Development Programme of the ILO, BDS Primer, Annual BDS Seminar, Turin, Italy, September 2003

4.2. BDS market assessment

The basis for a sound and useful market assessment is a clear description of program decision, goals expected to achieve, and the information needed to make them. Before designing interventions to develop BDS markets, it is important to understand existing markets – in order to identify weaknesses and opportunities, the reasons behind the lack of demand for, or supply of services, and the extent of market distortion. This can help to identify local mechanisms of service delivery and payment, choose the intervention strategy and instrument, identify local institutions and networks to build upon, and provide a baseline for measuring progress in market development. (82)

Market assessment can also help to identify the service benefits and features that poor or underserved entrepreneur's need. It can also provide evidence to BDS suppliers that these

82 Miehlbradt, A., O., Assessing Markets for Business Development Services: What have we learned so far? SEED Working Paper No. 28, InFocus Programme on Boosting Employment through Small Enterprise Development; Job Creation and Enterprise Department, January, 2002
groups are a viable and growing market, as well as help find financially sustainable strategies and mechanisms for delivering of BDS to those groups. (83)

When doing a BDS market assessment, it is important to consider:

- what those in SEs currently want and are willing to pay for, and what might be successfully offered to them in future. While recognizing the difference between “perceived needs” and “real needs”, appropriate weight should be given to perceived needs
- differences in consumer segments; for example, which types of SEs are acquiring services, gender differences; differences in desired features of the services,
- informal and indigenous sources of supply
- services bundled with other goods or delivered as a part of business-to-business relationship
- the potential crowding out (displacement) effect of direct or subsidized provision of services by donors or governments
- the evolution of BDS over time

By aligning the process of service selection with the development of high-impact strategy, programmes are able to combine the strengths of impact-driven approach with those of demand driven services. (84)

The principles of BDS Market assessment are:

- Understand current supply and demand
- Pinpoint specific constraints and opportunities
- Investigate sustainable service delivery strategies

4.2.1. BDS Market Assessment Tools

The available sources of information for BDS market assessment are service consumers (SEs), service suppliers, business associations, government agencies, key informants and secondary sources.

The tools, evolving in conjunction with the promotion of the "Market Development Paradigm", are used to analyze existing markets for business development services and to identify services and service providers that can be targeted for development. (85)

Tools include the use of focus groups as well as more sophisticated applications of consumer market research.

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84 Lobbezoo, M.; Developing Commercial Market for BDS: BDS Seminar report from 2nd Annual Seminar on Business Development Services, Turin, Italy, September 2001
A selection of market assessment tools currently in use is: \(^{86}\) \(^{87}\)

- **Consumer Marketing Research**: The most important sources are consumers – SEs. Consumer surveys are commonly used in the private sector to get accurate and useful information to increase sale of BDS. They use both quantitative and qualitative tools in obtaining information. Quantitative tools offer statistically significant – and therefore reasonably accurate – data on the market, and they are best for providing a picture of reality in the market. Qualitative tools offer more in depth information about issues in the market.

- **Supplier Diagnostics**: A closer look at suppliers through supplier diagnostics is often an important compliment to consumer research. It enables the researcher to understand more about strength and weaknesses of current suppliers, what roles they are undertaking in product development and marketing processes and how well they are performing those roles.

- **Key Informant Interviews**: They are often an important first step to using the more formal market assessment tools. Key informants include:
  - Business service industry experts
  - Leading service suppliers
  - Government officials responsible for service industry
  - Government officials responsible for SE promotion
  - Donors involved in SE promotion
  - Key input suppliers
  - Industry associations

- **SE surveys**:
- **Sub-sector Analysis**: As already explained.
- **Market Testing**: Product concept and price sensitivity testing, and pilot testing of market development strategies

A major limitation of market assessment in general is that it provides a picture of the current and past market and some indications on trends, but it cannot predict future demand.

### 4.2.2. Categorizing BDS Markets

When designing an intervention program, or identifying where the potential is for intervention, it is helpful to know not just if a market is weak or strong, but also, if demand is weak or strong as well as supply. \(^{88}\)

The categorization of market may provide some suggestions for the types of intervention as shown on Table 4 that might be appropriate in the four different types of markets.

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86 Miehlbradt, A., O., McWay, M., Developing Commercial Markets for Business Development Services; Seminar Reader; Small Enterprise Development Programme of the ILO, BDS PRIMER, 4th Annual BDS Seminar, Turin, Italy, September 2003
87 More information on these tools can be found at: [www.sedonors.org](http://www.sedonors.org)
Table - 4. - Intervention in different types of markets

<table>
<thead>
<tr>
<th>Demand</th>
<th>Supply</th>
<th>Strong</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>- No intervention needed</td>
<td>- Technical assistance to suppliers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Product development</td>
<td>- Help start new suppliers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Promote supplier franchising</td>
<td>- Promote embedded services</td>
</tr>
<tr>
<td>Weak</td>
<td>- Voucher program</td>
<td>- Multiple interventions on both supply and demand side</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Provision of information to consumers</td>
<td>- Promote customer referral marketing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Promote “third party paid for” services</td>
<td>- Promote “third party paid for” services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Promote trial inducing marketing (coupons, one free trial, demonstrations)</td>
<td>- Promote “third party paid for” services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Promote customer referral marketing</td>
<td>- Promote customer referral marketing</td>
<td></td>
</tr>
</tbody>
</table>

Source: Miehlbradt, A., O.; Assessing Markets for Business Development Services: What have we learned so far? SEED Working Paper No. 28, InFocus Programme on Boosting Employment through Small Enterprise Development; Job Creation and Enterprise Department, January, 2002

In the sense used here, “weak” demand means that only a few SEs are currently ready to purchase service. The reasons may be different in different markets. (89)

In the sense used here, “weak” supply means that supply is not responding to the demand, and that may be for a variety of reasons (not enough suppliers, no adequate service offered). The objective of analyzing the BDS market, identifying specific constraints to the availability of effective services is a basis for designing a focused intervention. (90)

4.2.3. Impact driven program design

An effective, high impact program combines a broad strategy – an understanding of how services contribute to impact – with good understanding of both SE demand for services and the systems that put financial pressure on providers to respond to those demands. These elements require programs to respond flexibly to markets and to adjust their strategies as they understand more closely what Small Enterprises (SEs) need.

There are several entry points for developing high-impact strategies;
- Objective assessment and analysis of SE market opportunities and constraints, followed by demand assessment and service field tests
- BDS demand assessment followed by assessment of SE constraints and opportunities associated with service and field tests
- Field test of services that seem to be in high demand, followed by analysis of market reaction to the services (demand assessment)

89 Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions; SED Issue Paper No 5, IC-SED –Backstopping mandate, SDC, Bern, June 2000
5. Institutional set up

The BDS market development approach defines two key roles in delivering services to SEs such as:

- **Provider/Supplier:** Delivers services directly to SMEs
- **Facilitator:** Supports service delivery to SMEs by developing a vibrant, competitive market for them

Central in these definitions is an attempt to separate the functions of service delivery – the costs of which should be covered by the market – from the temporary function of developing markets – which are considered appropriate to subsidize. Activities such as assessing demand, developing new services, training suppliers, and measuring intervention impact are seen as facilitation activities. (91)

It is thought that markets serving disadvantaged businesses are usually unable to pay all the costs for these functions. However, in BDS market development programs, the costs of delivering on-going services are created by the market. The vision that the function performed by facilitators will either not be needed in sustainably growing markets, or they will be commercialized – new service product development taken over by private providers, associations, and business networks. (92)

5.1. Types of Business Service Providers

Regarding the institutional set up, actors participating in BDS market development activities may be: individuals, private for-profit firms, NGOs or non-for-profit sector, parastatals, government agencies, business associations, small enterprises, business networks, firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship (intermediaries, exporters, etc.).

The BDS market development approach suggests that private sector businesses are the most appropriate suppliers of sustainable BS to SEs. However, in many situations, these suppliers may not be readily apparent, may not be engaged in commercial transactions, or, do not yet exist. In some situations, especially in transition countries, new BS supply businesses will have to be established to serve SEs. (93)

In the process of market assessment one could find some “hidden” BS providers existing in very informal markets. This expand the range of potential service suppliers from the typical,  

91 Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions; SED Issue Paper No 5, IC-SED-Backstopping mandate, SDC, Bern, June 2000
publicly funded institutions, NGOs, government agencies, universities, to a whole range of private sector BDS providers both formal and informal as shown in the Table 5. (94)

**Table – 5. Existing and potential BDS providers**

<table>
<thead>
<tr>
<th>Traditional publicly funded providers</th>
<th>“Hidden” private sector providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- National governments programs</td>
<td>- Large firms supplying inputs to SEs</td>
</tr>
<tr>
<td>- Local governments programs</td>
<td>- Large firms buying SE products</td>
</tr>
<tr>
<td>- Parastatal business development</td>
<td>- SEs supplying inputs or buying SE products</td>
</tr>
<tr>
<td>- Technical training institutes &amp; universities</td>
<td>- Advanced SEs in the same industry as target SEs</td>
</tr>
<tr>
<td>- NGOs (international, national and community based)</td>
<td>- Large service suppliers like telecoms for whom SEs make up a substantial part of their market</td>
</tr>
<tr>
<td>- Business associations &amp; cooperatives</td>
<td>- Informal full-time or part-time BDS providers</td>
</tr>
<tr>
<td>- Consulting firma serving SEs based on contract with donors, government and NGOs</td>
<td>- SE service suppliers</td>
</tr>
<tr>
<td>- Microfinance institutions</td>
<td></td>
</tr>
</tbody>
</table>

Source: Miehlbradt, A., O., McWay, M., Developing Commercial Markets for Business Development Services; Seminar Reader; Small Enterprise Development Programme of the ILO, BDS PRIMER, 4th Annual BDS Seminar, Turin, Italy, September 2003

From this analysis, a set of criteria has emerged for appropriate BDS providers: (95)

- Capacity to deliver services
- Close to SEs in culture, operating environment, geography
- Low cost structure
- Commercial focus, business culture, accounting and management systems
- Organizational independence, especially from donor funds
- Organizational stability
- Focus on services, SEs, or BDS

Using these criteria, it is possible to assess the capacity of both existing suppliers to expand/improve service delivery and potential providers to transform into viable service suppliers.

The basic approach of donors was that they would help develop public institutions to provide services for SMEs that would carry on with local staffing and funding after donor support came to end. A number of factors later influenced donors to question this approach of supporting these public government financed institutions. These institutions were generally poorly managed and staffed with inadequately qualified personnel. (96)

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94 Miehlbradt, A., O., McWay, M., Developing Commercial Markets for Business Development Services; Seminar Reader; Small Enterprise Development Programme of the ILO, BDS PRIMER, 4th Annual BDS Seminar, Turin, Italy, September 2003
For institutions that have been funded by donors, there are significant barriers to serving low income entrepreneurs sustainably: \(^{(97)}\)

- Overhead costs, including salaries, are too high to be covered by fees low-income SEs can afford
- The internal image of many organizations is one in which staff want to help the poor rather than operate a business
- The external image that many organizations have generated emphasizes donor funding which decreases SE willingness to pay for services

5.2. The role of government

Historically, governments have played a number of different roles in BDs creation, from policy maker to infrastructure developer, from facilitator to direct service provider. In many developed countries, governments provide free or highly subsidized services to SEs. This fact generates a lot of controversy when donors, coming from those countries, suggest an opposite approach in developing countries. \(^{(98)}\)

In fact, developed countries have often tried to avoid the creation of large comprehensive national public institutions and most government assistance has been channeled through private sector groups, business associations, consultants, and university or research institutions. The role of government has been seen more as a facilitator or provider of resources rather than implementing and offering services directly, although information services have been offered by public agencies and sometimes through ministries. \(^{(99)}\)

Improving the technological capacity of small businesses and promoting technology transfer from research institutions to SMEs has to become an integral part of the government policies to strengthen the overall competitiveness of the economy. But it is to be noted that governments are not appropriate providers of BDS.

Regarding the BDS market development, the activities the governments have to be strongly involved in are:

- Policy regulation,
- Enforcing competition and standards
- Co-ordination of SE development initiatives
- Information provision
- Investment in R&D
- Procurement
- Explicit BDS market facilitation

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\(^{(97)}\) Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention; prepared by Committee of Donor Agencies for Small Enterprise Development, Washington, USA, February 2001

\(^{(98)}\) In a study of SE initiatives in developing and more developed economies, Shorebank Advisory services confirmed the relevance of the BDS market development approach in the US environment, raising significant challenges to the traditional role of the US government in providing free, generic services to SEs.

\(^{(99)}\) Levitsky, J., Support Systems for SMEs in Developing Countries, A Review, Paper commissioned by the Small and Medium Industries Branch, UNIDO Small and Medium Enterprises Programme, UNIDO, Vienna, Austria, March 1996
Local governments also have to play a proactive role in coordinating BDS market development activities as a part of broader local economic development strategies.

5.3 The role of other institutional actors

The NGOs can be service providers, facilitators or both. One of the advantages of an NGO is that it can receive funding to subsidize the market development costs of a new service developed.

The role of national level NGOs in BDS market development, especially in transition countries is not very clear. In recent years, many of them have been working hard to achieve financial sustainability by delivering BDS, but, now, they have to choose to remain BDS providers delivering business services directly to SEs and register themselves as a private company or social enterprises, or become facilitators balancing income from donor contracts with fees charged to BDS providers. (100)

The majority of international NGOs being active in BDS market development consider themselves as facilitators. This type of institutions is not sustainable as a business one, and they play only temporarily BDS direct provider role. They are usually connected with national (local) NGOs educating them to determine their preferred role on the market, building hybrids between traditional mission-driven NGOs and private sector contractors who implement donor-driven initiatives.

One of the key problems faced by all private sector organizations in developing countries, which affect their ability to provide quality services, is a lack of finance. The private sector organization or NGOs in developing countries are either voluntary (in the Anglo-Saxon tradition) or compulsory ("French system"); but in any case, service fees have to be kept relatively low if they are not to deter enterprises from becoming clients (and from leaving the informal sector).

Donor agencies are also changing the way they structure their SE approach moving toward BDS market development initiatives. It causes then to change their traditional modes of operation typically characterized by granting large sums of money, and interacting directly with small-scale BDS providers, being in general slow to adjust their program parameters to new circumstances. They have to adapt and accept: (101)

- the private sector to deliver services
- a flexible response to changing BDS markets
- low profile, lower cost donor activities
- the provision of small amounts of technical assistance through contracts rather than grants

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100 Ruijter de Wildt de, M., Developing Commercial Markets for Business Development Services: Are “How to do it” Recipes Possible?, Seminar report from 3rd Annual Seminar, Turin, Italy, September 2002
101 Miehlbradt, A., O., McWay, M., Developing Commercial Markets for Business Development Services; Seminar Reader; Small Enterprise Development Programme of the ILO, BDS UPDATE, 4th Annual BDS Seminar, Turin, Italy, September 2003
Donors began to complain that some of these institutions were moving away from helping the really small enterprises of the “poor”, which donors, especially those involved in this field for social objectives, felt should be the real recipients of that aid. (102)

Many projects were also based on the optimistic assumption that they would be able to offer competent advice on management or technology to SME. Unfortunately, good, competent, experienced staff was either non-existent or difficult to recruit and the only staff available was young graduates with mainly theoretical knowledge regarding to SME needs.

5.4. Lessons learned

Despite the disappointing experience in establishing and strengthening institutions, all those who assessed the situation concluded that the SME sector does need some form of institutional support. Most reviews conclude that most institutions failed to develop along the lines defined because they were allowed to grow too big and too centralized. It seems that for institutions to be effective they have to be kept small and completely decentralized in their operations. They need to operate as smaller, local or regional centres or, if a national institution is warranted (as might be the case in smaller countries like Croatia), the operations, staffing and decision making must be decentralized. (103)

There is evidence to show that small promotional, advisory or assistance agencies or centres with small staffs operating locally or confined to a specific sector, perform better. They can avoid the bureaucratic weakness of large national organizations and of too many activities. Strong field links are essential to develop and promote SMEs and such links may only be sustained through local, decentralized organizations. This should involve close collaboration with the private sector, including business associations, chambers of commerce, management development and universities. (104)

When are well run, business associations and business networks can provide members with sustainable and valuable BDS in specific, but not all, situations.

Governments and private sector organizations considered to have the potential to develop quality support service, should work out, together with donor support, schedule for transferring and up-grading the SMEs’ services needed to the private sector organizations, and agree on how this can be financed.

103 Levitsky, J., Support Systems for SMEs in Developing Countries, A Review, Paper commissioned by the Small and Medium Industries Branch, UNIDO Small and Medium Enterprises Programme, UNIDO, Vienna, Austria, March 1996
6. Comparative analysis of existing experiences

For a long time has been acknowledged that the competitiveness of the small enterprises (SMEs) is a function of the resources they can draw at little or no cost from the surrounding business environment, regarding the availability of a wide range of semi-produced components for their own production, raw materials in relatively small amounts, customized machine tools, and, as well, highly trained human resources. (105)

In obtaining their production and market function, as well as enhancing the growth and competitiveness and their potential to generate new jobs, the SME producers need also corresponding private and public support enabling them access to a wide range of direct and indirect support services relating to the different aspects of business start-up and operation.

That business support is organized in the form of Business Service Centers (BSC), invariably publicly owned (by entrepreneurs-producers associations, local authorities, governmental institutions, SME support agencies or different forms of partnership among them). The role of these centres is to offer and supply a wide range of business services including credit guarantee support, export insurance and promotion, access to information about market/technology evolution, client rating consultancy, training and education, quality certification, innovation/technology transfer support, waste management, restructuring support, and many others. (106)

In developed countries, the BDS are, to a very large extent, offered by the private sector, playing a very active and important role providing services to the SME sector, but many countries also offer these services, through institutional channels. (107)

Equipment manufacturers are constantly developing more advanced equipment and use aggressive methods to approach SMEs, enabling them the use of the most important aspects of technology transfer. The same situation applies to marketing information and market transactions, because SMEs have access to them through membership in SME association, Chambers of Commerce, trade associations, etc.

The situation in the area of consulting services is quite different. The SMEs in both industrialized and developing countries are not keen in using business services and consultants.

The main similarity between developed and developing (transition) countries is that the large majority of SMEs do access business development services mostly from the private sector.

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105 SME Support Services in the Face of Globalization; Concerted Action Seminar; Danish Agency for Trade and Industry and European Commission, DG Enterprise, Copenhagen, January, 2000
Very important sources of these services for SMEs are also their suppliers, clients and customers and subcontracting relationships with larger companies. However, the main difference between them is that SMEs in industrialized countries, to a great extent, use formal business services, and in developing ones, SMEs make a great use of informal business services.

In fact, a very small percentage of SMEs use or have used services offered by consulting firms or BDS centers (both private and public ones). (108)

6.1. Italian experience

The Italian model of industrialization has been determined by the combination of evolution of the competitive environment, spontaneous adjustment mechanisms of local SMEs, (local business support services providers, consortia), and related policies at national and local levels. Italy is known because of its high concentration of small enterprises. (109)

The remarkable economic success of those huge numbers of Italian SMEs organized in numerous industrial districts for more than two decades raise a great interest around such an experience. Key features in that specific Italian experience were real service centers or business centers (BC) as providers of highly customized BDS, and also, an opportunity to enhance the governance potential at the district level.

Many case studies were made trying to explain and discuss the repeatability of such a peculiar mode of SMEs based industrialization. (110)

The question was: is it possible to achieve a competitiveness and social stability through these mechanisms elsewhere with special regard on transition countries?

Some key success factors enabling flourishing Italian SMEs and efficient activities of BCs were:

- Intermediate governance institutions are crucial to the promotion of the actions needed to make enterprises confident in their local environment and to reinforce cluster performance which requires:
  - Networking of relevant actors at the local level
  - Integration of local resources
  - Generating local leading institutions as “catalyzers” in developing strategic development guidelines
- The control of strategic business functions
- The promotion and diffusion of innovations
- Flexible institutional configuration

108 Approximately 5% only of SMEs access business services offered by government agencies and NGOs.
109 In fact, in manufacturing sectors, Italy registers the highest EU percentage of SMEs. It is interesting that it is among the largest economies in the world; in Italy still 98% of industrial enterprises have fewer than 100 employees. Almost 90% firms have fewer than 20 employees. The average size of Italian industrial firm is 7 workers.
110 Bianchi, P., Miller, M., L., Bertini, S., The Italian SME Experience and Possible Lessons for Emerging Countries; Nomisma, UNIDO, MARCH, 1997
It is a fact that the competitive advantage of SMEs in Italy is based on three main aspects: specialization, cooperation and flexibility.

Corresponding public policy instruments for SMEs and Inter-Firm Cooperation were also established in form of the different regulations of which the most important and most known is the Sabatini Law (No1329/1965), \(^{111}\), as well as Law 317, 1991, with the objective to promote development, innovation and competitiveness of small firms.\(^{112}\)

Table 6. – Italian Intermediate Governance Structure

| Levels of Local Government | - City  
|                           | - Province  
|                           | - Region  
| Other Local, Public Organizations | - Chambers of Commerce  
|                               | - Convention/Exhibition Centres  
| Research and Training structures | - Local branches of National Research Council (CNR)  
|                                 | - Local branches of New Technology & Environment Agency (ENEA)  
|                                 | - Technical Schools & Universities (Public)  
|                                 | - Professional Training Structures  
|                                 | - Research Consortia  
| Local Business Structure | - Business associations & organizations  
|                           | - Industry specific service centres  
|                           | - Business Innovation Centers and Technology/Industrial Parks  
|                           | - Public & Private Firms  
|                           | - Credit Institutions (Confidi)  

Source: Bianchi, P., Miller, M., L, Bertini, S., The Italian SME Experience and Possible Lessons for Emerging Countries; Nomisma, UNIDO, MARCH, 1997

Intermediate governance institutions are crucial to the promotion of trust relationships and make the SME sector confident in its local environment, as well as reinforce cluster performance.

Italian Business service centers are, in general, characterized by four features identifying effective policy initiative:

1. A clear guideline
2. Adaptation to the needs of the customers (beneficiaries)
3. Achievement of embedded autonomy
4. Capacity to strengthen the governance capacity of the cluster

Key factors of a successful Italian BC are:

- **An effective platform**: identification of a platform which balances long term developmental objectives with realistic prospects to impact upon the profitability of SME customers, identifying an area for the intervention, disclosing the opportunity for SMEs to strengthen their own business, as well as listing the priorities for public support

\(^{111}\) The Sabatini Law 1329, 1965 is the instrument most frequently used by Italian firms. In 30 years of its existence more than 200,000 subsidies for investment have been granted in total amount of ca 20 bilions Euro.

\(^{112}\) The Law 317, 1991, is not in force more, but numerous and complex implementation procedures have slowed, even blocked the Law efficiency.
- **Customer orientation**: customization includes uncovering the latent needs of the SMEs creating a solid and trust-based link with SME clients (cluster entrepreneurs), re-interpreting such needs involving the largest possible audience of potential BDS consumers, and as well, rallying a consensus within a district about collective initiative.

- **Embedded autonomy**: it is a mode of behavior (modus operandi), which includes capacity of a public/private institution (BC, consortia), to balance successfully the need to retain a developmental character, the need to maintain a dialogue with its customers (private counter parts) (113)

It is important to point out that not all the Italian business centers have achieved all the key features presented above, because achieving them is an incremental process and depends fully on the capacity of a Business Centre to impact upon the SME cluster or district structure. Once achieved, success has to be continuously reinvented.

Some most successful cases of Italian business support centres are shown, and their main features and activities are described:

**C.N.A. National Confederation of Artisans**
Modena Province has now 5 economic zones or clusters; textiles, biomedical field, mechanics and cars, food production and ceramics. In these clusters, not only are there many small and medium-sized enterprises, but there are also services and related activities like schools and research activities.

All these are independent structures. They convey knowledge and spread entrepreneurial culture around. In Modena there are 3 trade-unions, 4 associations of entrepreneurs, 2 associations for trade and 4 in food processing. The CNA is the biggest, but it is still only one of the associations that exist in this area. There are many different centers that provide public services, and there is a number of local authorities including the Chamber of Commerce that do a lot in the promotion of SMEs. Depending on size, and classification there are different tax regulations, legal frameworks, different credit schemes and terms, different contracts, different accident prevention rules, etc.

Since 1970 local authorities are responsible for the legal structure, therefore it is up to municipalities and local authorities to decide what is best for their SME sector. This is why the associations that represent the entrepreneurs are so important, because they have direct link to all the authorities.

The CNA started as political representative organizations and then they had to change completely into service delivery associations. As one of such private associations, CNA provides their fee-paying members the following services: Lobbing at local and national level, salary administration, Human resources development activities (contracting, labour unions issues, etc.), and consulting services. (114)

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113 Clara, M., Real Service Centres in Italian Industrial Districts, Lessons Learned form a Comparative Analysis, Case Study prepared for project US/GLO/95/144- UNIDO/Italy Programme for SME Development, UNIDO, 1999

114 Lobbezzo, M., Developing Commercial Markets for BDS; Business Development Service Series; BDS Seminar Report, 2nd Annual Seminar, Turin, Italy, 2001
For some of these services the members have to pay an additional fee. The CNA does not receive any public funding, so all the activities are financed by membership fees and fees charged for service delivered. The only exceptions are certain activities and research carried out with the assistance of the European Union. Regarding the system of incubators, the municipality assigns land to be used for industrial purposes, acquires part of that land and either sells or leases it to the SMEs below the commercial market price. Some services are also offered by the Chamber of Commerce. Given the fact that many SMEs do not know how to deal with an export market, PROMEC, a special agency owned by the Chamber of Commerce is specialised in supplying the SMEs with services in the field of export, covering all the world markets.

The activities cover three sectors:

- **Information**: (Information on national and international financial instruments for internationalisation, information on community directives and regulations, national implementation law, public bids in all countries, and answers to queries regarding international trade, customs regulations, international contract documents, market research, socio-economic legal information on various countries, trade fairs, information on ISO standards and certification),

- **Promotion**: (trade shows, country days, special economic and trade missions abroad)

- **Training**: (courses, seminars, environmental and quality management).

The majority of the courses are free, since they give social services as a non-profit organization.

**CITER**

(C115) is a service centre with the aim of supporting qualification and innovation processes of SMEs in the textile and clothing industry. It has been considered as the most effective real service centre in Italy. The success of such an institution was related to its capacity to respond effectively to the requests of the SME producers within the district concerning the evolution of fashion trends. The centre provides products as well as information and training services regarding fashion trends and customer preferences, evolutionary trends, modern computer and market technologies, company certification and professional up-dating. Innovative research also takes place in the field of fibre technology. Since competition from lower-income countries, they have found a niche in the market specialising in high quality products. The CITER gets part of their income from public funding, (35%), and has 430 member companies. (C116)

**The CARPI** municipality, in which the CITER centre was established as a limited viability consortium, contributes to SME development in that they give the land at subsidized prices. For micro enterprises, a national framework exists, in which the state grants credit at special interest rates.

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115 Centro di Informazione Tessile dell’Emilia Romagna, (Emilia Romagna Textile Information Centre
116 Clara, M., CITER, Info centre – Knitwear and Textile; Case Study prepared for project US/GLO/95/144-UNIDO/Italy Programme for SME Development, UNIDO, February, 1999
The case of CITER displays how effective a public-private partnership can be upon the willingness of a public institution to offer financial support, highly motivated and capable personnel and the continuous involvement of the entrepreneurs and their associations.

Very often the companies form the consortia supported and stimulated by associations (CNA) enabling them to combine and use skills in common interest (technology transfer, prototyping, materials characterization laboratory, fluid power laboratory, powder laboratory etc). For these researches they can use funding from the European Union, building a very complex system of service centres for specific industries.

PROMOSEDIA is an export import agency jointly owned by around 100 chair manufacturers from the cluster Manzano and by the local Chamber of Commerce. It was established 1983 as a limited liability company, to provide the district entrepreneurs with new opportunities to access export markets. A long term objective was to help the local SMEs to move upwards in the value-added chain. The agency is also heavily involved in supporting the participation of its members in major furniture exhibitions throughout the world. Promosedia doubtlessly supported a dramatic restructuring of the Manzano district. (117)

FIC (118) consortium founded in 1973, operates the waste treatment facility of the leather – manufacturing district of Arzignano. It was established with the purpose of reducing the environmental impact of polluting production processes. Over the decade, the hardest task of the FIC managers was to convince the local entrepreneurs to implement pollution-abating technologies and to upgrade their in-house water processing facilities. In a number of cases FIC also pioneered innovative entrepreneurial activities related to the recycling of chemicals to provide a further incentive to the district tanners to adopt a more environment friendly approach. (119)

QUALITY CONSORTIA, the Consorzio del Prosciutto di San Daniele was established in 1961 as a lobbying initiative aimed at enshrining the traditional ham-manufacturing procedures within the national legislation, and for protecting local entrepreneurs against unfair competition. Starting in 1987, the consortium decided to press forward the project of enforcing minimum quality standards for all the products of the district, strengthening its screening capacities on the entire production process with the prospect of introducing a production quota. In the later 1990s the Consortium spun off its entire product testing facilities to an outside body and could therefore focus more intensively on the definition of long-term strategies for the industrial district it belongs to. (120)

117 Clara, M., PROMOSEDIA – Marketing support - Furniture; Case Study prepared for project US/GLO/95/144-UNIDO7Italy Programme for SME Development, UNIDO, September, 1998
118 FIC (Fognature Industriali e Civili) is consortium originally established (and therefore only processed the water discharged by the producers) by three such towns, namely Arzignano, Chiampo and Montoroso, the areas where are located majority of leather processing firms.
119 Clara, M., Effluent Treatment Plants, Nove and Arzignano – Leather and Ceramics; Case Study prepared for project US/GLO/95/144-UNIDO7Italy Programme for SME Development, UNIDO, April, 1998
120 Clara, M., Quality Consortia; Parma and San Daniele – Food Processing; Case Study prepared for project US/GLO/95/144-UNIDO7Italy Programme for SME Development, UNIDO, April, 1999
The SPRINT project refers to the attempt made by a national technology diffusion agency (ENEA) to introduce a more advanced IT approach within the textile manufacturing industrial district of Prato. The project of introducing a rudimentary Internet protocol modelled along the French “Minitel” failed in realizing a first generation of on-line services, but several off-springs concerned more directly with product and process innovation generated much more sustainable results. The main reason for failure was in the institutional problems, (national TLC operator, local administration, bankruptcy of local bank). (122)

ENEA’s methodology and area of intervention towards BSC, consists of three major aspects:

- To act as a agency for technology transfer with intervention strongly connected to the socio economic territorial aspect (not as an external technology supplier)
- To supply real business services, not just financial incentives, involving enterprises in processes of finding the needs and providing the facilities to supply the services
- To support the production systems as a whole (not only single enterprises), encouraging collaboration in finding solutions for common problems using joint efforts and common resources. (123)

One of most successful achievements in providing real business services was project CITERA, an joint endeavour with CITER centre, Carpi, in developing a computerised system to browse a continually growing huge image database with initially more than 50,000 entries. That database integrated into a CAD workstation was offered to various textile SMEs operating within Emilia-Romagna, and also sold on Spanish and Portuguese markets.

6.2. Other approaches and regional BDS programmes

The approach of international donor organizations facilitated through different programmes and local institutions was, within the framework of a small enterprise development strategy, to promote business development services (BDS) and support them. The emerging strategy was focused on developing markets for BDS that are appropriate to that demanded by small enterprises trying to avoid direct provision of BDS by governments and donors. (124)

The shift toward market provision of BDS reflects a move toward a “systems approach” analogous to the micro-finance movement. (125)

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121 ENEA – Ente per le nuove tecnologie, l’energia e l’ambiente, (Organization for New Technologies, Energy and Environment), was established in 1982 as an off-spring of CNEN (Comitato Nazionale Energia Nucleare – National Committee for Nuclear Energy), and it was made responsible for R&D on alternative means of energy production.

122 Clara, M., ENEA; Programs of R&D Support to SMEs; Case Study prepared for project US/GLO/95/144-UNIDO, Italy Programme for SME Development, UNIDO, September, 1998

123 De Maria, R., The Approach of ENEA and the “Prato Case”; Case Study on Creativity and Innovation; Manual for Training in Research and Innovation Management, A. Fori, UNIDO, 1992

124 The term “small enterprise” is used to refer generally to the lower end of the range of firms in terms of size and capabilities, including micro-enterprises and medium-sized companies as well as small enterprises, however these may be defined in specific country.

As with micro-finance, it leads to an emphasis on being business run and demand driven at the institutional level.

6.2.1. United States Agency for International Development (USAID)

USAID is an independent federal government agency that receives overall foreign policy guidance from the Secretary of State. Their work supports long-term and equitable economic growth, and by supporting economic growth, agriculture and trade, global health; and, democracy, conflict prevention and humanitarian assistance. They provide assistance all over the world. (126)

In the Russian Federation, from 1993 to 1997, implemented a new business development programme (NBDP) funded by USAID for three and a half years realized through Deloitte Touche Tohmatsu (DTT). There were 16 BCs funded, under the umbrella of the Business Support Centres Foundation, registered as a non-profit organization, functioning as the BCs national affiliate. Besides this foundation, a USAID Contract Management Unit and a central NBDP office in Moscow accompanied all the activities.

USAID started the project by organizing joint initiatives with local administrations in each BC site. These initiatives included round table meetings, retraining schemes, assistance for the design of local economic development programmes and organizing business-government symposia.

Depending on local business conditions, the BCs provided different types of services, ranged from business registration and business planning, short practical business skills-based courses and workshops, to legal and regulatory compliance, trade and export development and management, customer services, financial management and business linkages. Other kinds of BD services were jointly developed with local authorities: leasing programmes, business planning services and feasibility studies. In addition, centres offered also consulting and training services related to marketing and market research, as well as assistance to foreign clients in finding local venture partners. It is obvious that there is a significantly wide range of different services offered.

The target clients differed among the BCs. The clients for direct assistance were new private enterprises not related or belonging to former state companies, growth oriented businesses and creative potential entrepreneurs. Various sub-sectors were emphasized, like bakeries, furniture makers, food processing industry, and private medical clinics.

In the Russian Federation, USAID built up a network of BCs and other complementary providers. The role of each BC changed after donor funding was withdrawn or substantially

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126 USAID is the principal U.S. agency extending assistance to countries implementing economic and democratic reforms to escape poverty and/or recover from disaster. USAID operates in over 100 countries around the world and manages a budget of approximately $9.5 billion. In the East European region, USAID is fully engaged in seven countries and it has graduated six other countries over the last five years.
reduced, and a number of BCs often changed their target customers to be financially sustainable.

“As a rule, after transformation to self sustainability the spread of BSC (Business Support Centres) services narrowed the number of client target groups and diversity of clients decreased” (127)

After external funding is stopped, and having financial obstacles, some BCs also changed their organizational structures usually reducing the number of core staff, or even, transforming into several small private organizations, cooperating with each other.

6.2.1.1. USAID programme in Croatia

In Croatia, like in other parts of the world, USAID implemented the same or very similar strategy as in the Russian case.

USAID/Croatia implemented a comprehensive transition program that includes economic and fiscal reform, democratic institution building, sustainable return and reintegration of war-affected populations, social transition reform and cross-cutting activities. (128)

The assistance program is structured around four Strategic Objectives:
- Growth of a dynamic and competitive private sector;
- More effective citizen participation and improved governance;
- Accelerated return and sustainable reintegration of war-affected populations;
- Mitigation of adverse social trends.

USAID intends to complete its assistance program in Croatia in 2008. (129)

The Croatian Enterprise Promotion Activity (CEPA) programme is designed to stimulate private enterprise productivity and profitability in Croatia by providing the best practice business tools, access to international quality standards and quality certification to enterprises. Croatia's long-term goal is to improve the quality and export of products and services of Croatian small and medium sized enterprises, leading to economic growth, increased employment and income levels.

128 USAID has been operating in Croatia since 1992. During this time USAID delivered more than $250 million in assistance to Croatia. Croatia's successful transition is integral to achieving the U.S. core policy goal of stability in the Balkan region and serves other important American interests such as fighting terrorism and trafficking in persons. USAID/Croatia's current portfolio is $160 million. In FY 2003 Croatia's program budget was $30 million.
129 The USAID assistance program is aimed to help Croatia continue progress toward a correspondent place within the community of democratic and market-oriented nations, and to become a force for stability, peace, cooperation and prosperity throughout Southeast Europe. Stronger economic and political institutions and social stability in Croatia, will further peace and stability throughout the region.
This USAID program provides business development services (BDS) to enterprises of all sizes, with emphasis on small and medium enterprises (SMEs), through an independent network of trained and certified consultants that operate on a fee-charging basis. It also addresses inefficiencies in the SME finance markets and other constraints to enterprise growth. (130)

Table 7. Croatian Enterprise Promotion Activity (CEPA)

<table>
<thead>
<tr>
<th>Program</th>
<th>Progress to Date</th>
<th>End Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training (increase competitiveness of manufacturing and service enterprises)</td>
<td>Nine training courses in quality management, finance, marketing, human resources and consulting skills, featuring software-based tools, were prepared and tested based on widely accepted management and analytical techniques to assist consultants and clients to improve enterprise performance and competitiveness. More than 200 consultants have been trained. Ten instructors have been trained through a train-the-trainer program. By end of 2003, eleven practicum assignments, designed to provide enhanced training and positive operational performance impact to enterprises, were completed or are underway.</td>
<td>Trained, skilled and certified consultants committed to continuing education and high standards of conduct and ethics providing quality services to the Croatian enterprises they serve. This enhances the operational performance and profitability of the enterprises, improving their competitive position in domestic and external markets.</td>
</tr>
<tr>
<td>Standards and Certification</td>
<td>Provisional certification of eight consultants as ISO Lead Auditors and 13 consultants in Basic Competency in Hazard Analysis and Critical Control Point (HACCP) Food Safety. High quality standardized training materials were developed for HACCP, necessary for any food processor placing processed foods and meat through large distribution channels.</td>
<td>More than 150 consultants certified by international certifying bodies, providing their skills domestically for the enterprises that are seeking accession to international certification.</td>
</tr>
<tr>
<td>Establishment of a self-regulating organization</td>
<td>A self-regulating organization, Association of Management Consultants (AMC) was established, and currently has a membership of 106 individuals and consulting firms.</td>
<td>A fully sustainable AMC for the consulting industry in Croatia providing best practices and internationally certified training to consultants, setting the standard for quality delivery of enterprise management support tools.</td>
</tr>
</tbody>
</table>


USAID provided strategic level technical assistance to Croatia's newly established Croatian Agency for Small Business Support (HAMAG) which became operational in 2003. HAMAG, modelled after Enterprise Ireland and the U.S. Small Business Administration, is mandated to provide technical and financial assistance to Croatian SMEs, thereby strengthening the fastest growing segment of the economy.

130 USAID supports the 5000-member Croatian Employer's Association (HUP) in establishing a sustainable association for business consulting service providers to ensure quality standards for consultants. USAID also helped this association develop internationally-accredited certification programs for ISO quality management, marketing and financial cost control to improve access to domestic and export markets for Croatian SMEs.
As usual, for all the USAID activities everywhere in the world, the implementer of programme was Deloitte Touche Tohmatsu, and Croatian partners Croatian SMEs, Croatian BDS providers (consultants), Ministry of SMEs, Bankers Association, Croatian Employers Association, the Association of Management Consultants.

USAID's objective in the economic sector is growth of a dynamic and competitive private sector, to be accomplished by improving the macroeconomic environment for private sector growth and delivering direct assistance to private organizations and enterprises.

The economic development program, designed by USAID, has three elements: (131) - To assist the Government of Croatia in implementing the structural reforms (132) - To assist Croatian businesses, especially small and medium enterprises (SMEs) to acquire the skills, tools, financing, and services needed for them to compete in local, regional and global markets. - To focus on accelerating the privatization process in order to move productive assets from state hands into the private sector through non-corrupt, transparent and competitive processes.

The USAID Competitiveness program also enabled industry "clusters", such as tourism and wood products to develop strategic approaches to improve their position in international markets. (133)

The local economic development component of the activity improved the capacity of selected cities to expand their economic activities by removing administrative barriers, creating a strong entrepreneurial environment, and attracting both domestic and foreign investors. Improving the competitiveness of Croatian businesses and the country as a whole will be critical as Croatia moves toward EU accession. (134) (135)

The public education initiative increased the understanding and knowledge of media professionals and the general public about the modern theories (and realities) of competitiveness. Improving the competitiveness of Croatian businesses and the country as a whole will be critical as Croatia moves toward EU accession.

131 While Croatia's general economic and financial conditions have been improving, it still falls behind other transition countries in critical areas. The Government of Croatia's control over the economy (40% of GDP) is much higher than other market economies, export competitiveness is falling relative to its GDP and unemployment remains very high.

132 It is necessary for Croatia to increase low levels of foreign and domestic investment, spur private sector growth, and reduce the high rate of unemployment (presently 15%). USAID advisors also support the development of strong financial sector regulatory systems and new independent regulatory authorities in the energy sector.

133 According to the Global Economic Forum in 2003, Croatia ranked 53rd in micro-competitiveness and 62nd in competitive growth among 102 participating countries worldwide. Croatia intends to improve both its microeconomic foundations and investment climate for both foreign and domestic investors to enhance its competitiveness in global and regional markets. USAID assists this effort through technical assistance to the National Competitiveness Council (NCC), direct enterprise support to wood and tourism clusters, economic development in secondary cities and public education.


Table 8  Improving International Competitiveness

<table>
<thead>
<tr>
<th>Program</th>
<th>Progress to Date</th>
<th>End Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to the selected clusters (wood, tourism, technology parks)</td>
<td>Sustained clusters (and associations) were formed and are ready to work in the wood and tourism sectors. Strategies were developed by the cluster members, implementation has started and the ability of the cluster members to compete in international market increased.</td>
<td>Clusters are functional and sustainable. Strategies are drafted by cluster members. Working groups within the clusters formed and active. Action agenda implemented as planned.</td>
</tr>
<tr>
<td>Assistance to the selected Secondary Cities</td>
<td>Local business councils were formed. Public-private dialogue on the local level was improved. Action initiatives were identified to increase local economic development. Industrial or technology parks were formed in selected cities.</td>
<td>Sustained local competitiveness councils actively implement action agenda. Infrastructure for business improved. More efficient private sector and increased employment.</td>
</tr>
</tbody>
</table>

Source: USAID programme report, Growth of a dynamic and Competitive Private Sector, 2003, [www.usembassy.hr/usaid](http://www.usembassy.hr/usaid)

The Economic and Community Revitalization Activity (ECRA) is another programme assisting Croatia to revitalize the local economies and community programs of eleven municipalities along the border with Bosnia and Herzegovina that were devastated by war. (136)

ECRA promotes the creation of new small and medium enterprises (SMEs) and agricultural initiatives essential for income generation and employment for economically active returnees in partner municipalities. ECRA activities are funded through competitive sub-grants to U.S. and a number of Croatian NGOs (Dalmatian Solidarity Center (DOS), Stope Nade, Center for Civil Initiatives (CCI), NUPZZ, Serb Democratic Forum (SDF), Local Economic Development Agency (LEDA WS), LEDA Krka, ZaMirNet, Center for Peace Osijek, OGI, CESI, Sunčokret), managed by Mercy Corps International. They implemented different programs regarding legal assistance to returnees, computer training for youth and women, micro-credit and related business services and training to entrepreneurs, cooperatives and individual farmers, support for the development of community-based organizations such as elected village boards, community committees and community initiative groups.(137)

136 The ECRA program focuses on: community-based economic programs that create jobs and output; increasing community reintegration in return areas; increasing the rate of returns from Bosnia and Herzegovina and Serbia and Montenegro; and improving access to housing for returnees, displaced persons and "settlers" using market-based approaches. Assistance under ECRA is closely coordinated with the Community Infrastructure Rehabilitation Program (CIRP) and both programs work with the same group of municipalities.

137 Community committees representing all segments of the municipality facilitated by USAID implementing partners are functioning in ten of USAID's partnership municipalities and almost 5,000 people of all ethnic groups have participated in ECRA-assisted community activities.
### Table 9  Economic Revitalization Activity

<table>
<thead>
<tr>
<th>Projects</th>
<th>Progress to Date</th>
<th>End Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Creation</td>
<td>ECRA activities created employment for almost 600 people. Supported family managed farms through SME/farm loans; technical assistance and training provided to improve production, productivity, profitability and development of a sustainable market; and sustainable market oriented business activities and product marketing in cooperation with private business sector and government extension services.</td>
<td>Approximately 1600 jobs will be created in enterprises and 1359 individuals will have sustained employment.</td>
</tr>
<tr>
<td>Micro-Credit:</td>
<td>Delivery of micro-finance loans, small and medium-size business loans strengthened market linkages for local businesses, and business advisory services enhanced business capacity. To date, ECRA activities generated 434 SME loans, 290 new contracts worth over $1,841,000 for assisted enterprises and leveraged $1,320,000 of funding from other sources including commercial bank loans.</td>
<td>Approximately 942 first time loans and 570 repeat loans will be delivered.</td>
</tr>
<tr>
<td>Legal Assistance</td>
<td>Facilitated return process through legal assistance for all community members that includes court representation, advocacy and education at the local and cross-border information activities, info-visits and “go-and-see” visits accompanied by legal counseling across border at the triangle level of Croatia-Serbia &amp; Montenegro-Bosnia. Over 5,000 people received legal assistance and 35% of these had their cases resolved.</td>
<td>17,600 people are provided legal assistance.</td>
</tr>
</tbody>
</table>

Source: USAID programme report, 2003 Economic and Community Revitalization Activity (ECRA), www.usembassy.hr/usaaid

### 6.2.2. International Labour Organization (ILO) approach

The ILO is well known in the field of BDS, with FIT and SIYB programmes active in many countries. (138) (139)

The ILO BC approach has evolved from the implementation of BC projects in South East Europe. BCs were created in different circumstances in response to particular local specificities. To date, ILO has implemented its BDS approach in Bulgaria, Bosnia-Herzegovina, Kosovo and Serbia and Montenegro, all transition countries in the aftermath of either a severe economic crisis or a war. In these economies the private provision of BDS was insubstantial in most areas and almost non-existent in others.

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138 The International Labour Organization is the UN specialized agency which seeks the promotion of social justice and internationally recognized human and labour rights. It was founded in 1919 and is the only surviving major creation of the Treaty of Versailles which brought the League of Nations into being and it became the first specialized agency of the UN in 1946. www.ilo.org

139 FIT stands for “Farm Implements and Tools”, the name of a small programme started by ILO in East Africa in the 1980s to bring micro-businesses and small workshops together with farmers to improve and extend production of implements for the agricultural community. The programme has blossomed into a much larger range of activities but the convenient acronym is still being used.
In order to increase the access of SMEs to BDS, ILO within the framework of technical assistance, (TA), using its InFocus Programe on Boosting Employment through Small Enterprise Development (IFP/SEED) has established a number of business centres (BC) in different countries, as well as in post crisis regions (political conflict and transition economies where private BDS provision was almost non-existent).

The initial assessment considered the general institutional background for MSE promotion and the existing sources of MSE finance. The first assessment is a rough estimation of the regional capacity to support MSEs and the basis for the decision on where starts a BC.

The BCs are usually established as a local NGO or a non-profit company with a management board composed of representatives of the local authorities, business associations, financial institutions and successful entrepreneurs. The role of the board is to monitor and guide the management of BC and act as a control mechanism. While setting-up the legal structure, local staff members are hired; one becomes the manager of the BC and the others will be specialized in business training and other BDS. It is crucial that the locally hired people are committed to the aims of the BC and want to make their own enterprise out of the BC.

After setting up the agency, an in-depth assessment of the existing BDS market is carried out, including the demand and the supply side of the local BDS market.(140)

The aim of the Business Centre is not to hinder any development of the private market for BDS in the area but to demonstrate that BDS can be sold locally to MSMEs. For this reason, a careful assessment of the market is crucial. ILO-established BCs should not offer services that already exist on the market but should act as an innovative force offering new and improved services.

They usually offer training called “Start and Improve Your Business”, designed by ILO methodology. (141)

This methodology is provided several times on the subsidized basis in order to promote the services of the BC, as well as demonstrate effectiveness of the methodology to became a self-financed service.

The services offered by these BC should usually include:

- **Business training:** by delivering start-up and management training with SIYB training methodology
- **Access to credit:** by networking with financial institutions, providing information about possible credit sources and helping with necessary documentation
- **Marketing advice and services:** by providing advice on marketing strategies, helping with product design, design of promotional materials, etc

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141 The “Start and Improve Your Business” (SIYB) programme is a training methodology developed by ILO for start-ups and existing entrepreneurs. It is an “easy to understand” methodology that trains basic business and management skills. It has now been introduced in more than 85 countries worldwide.
- **Access to markets**: information about foreign markets and contacts to foreign and local entrepreneurs, organizing producer groups, organizing business travel to national or international fairs
- **Privatization advice**: by helping small entrepreneurs to participate in bidding processes for the privatization of SMEs
- **Advice on technology**: by providing information on machines for certain sectors and advice on what to buy
- **Consulting services**: In-firm consulting on specific issues (production process, machinery, financial management, human resources etc)

With the ILO approach, financial sustainability of the BC has to be achieved in three years which is a very short time frame to start-up, viably run and become a provider of innovative BDS particularly in regions in which entrepreneurs are not accustomed to a market economy or to purchasing BDS. That means, the BDS provider must focus rapidly on sources of income generating sufficient earnings, either charge entrepreneurs for the services delivered or get subsidized by donors/governments as a subcontracting consulting company. (142)

The problem caused by pushing BCs to become self sustainable is that usually they start spending the time searching for donors, decreasing quality and quantity of BDS they offer, and very often having not enough educated, skilled, and competent staff to develop new services. Usually, by ILO practice one BC (LEDA) hires 3 people responsible for management, administration, communication, marketing, BDS delivering, financing, relations with donors and local authorities, so they have no time and knowledge to develop their organization to become reliable, professional BDS provider. Their BDS activities are always combined with those related to other Local Economic Development issues

### 6.2.3. United Nations Industrial Development Programme (UNIDO)

During its 30 years long activity, UNIDO has implemented more than 20 business service programmes in Commonwealth of Independent States countries and South East Europe. (143) (144)

In transition countries, the first BDS center was established in Romania, 1991, and then a network of 16 centres in smaller cities across the country was created. (145)

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143 UNIDO was set up in 1966 and became a specialized agency of the United Nations in 1985. As part of the United Nations common system, UNIDO has responsibility for promoting industrialization throughout the developing world, in cooperation with its 171 Member States. The (UNIDO) helps developing countries and countries with economies in transition in their fight against marginalization in today's globalized world. It mobilizes knowledge, skills, information and technology to promote productive employment, a competitive economy and a sound environment. (www.unido.org)
144 UNIDO also provided legal statutes and standard terms of reference for setting up SPXs to be operated as non-profit private sector organizations. As part of this programme, UNNIDO has surveyed and developed standard instruments and methods for the further development of industrial subcontract.
Before setting up a BC, UNIDO organizes round table discussions bringing together local economic actors (business people, government representatives, local authorities and private sector institutions). After that, a BC will be designed according to the local needs identified by these economic stakeholders. All the BCs are registered as non-profit-organizations which are different from ILO practice. (146)

The main focus of activities of BCs is on small entrepreneurs from defined sectors and industries, but all the customers willing to pay are served. From the outset, the BCs clients are charged for the services delivered at a subsidized price, although SMEs are charged less than larger companies. The costs of setting-up and running of BCs are primarily determined by the size of the programme, the equipment package, as well as the range of services provided.

Besides its financial contribution and technical assistance, UNIDO offers technical support by facilitating access to decision makers, etc. Apart from the financial resources, UNIDO supervises BCs operations and carries out further staff training. After a three-year initial period, financial contribution becomes significantly reduced, expecting local government agencies and private sector institutions to take over financial support, as well as running costs of BCs. (147)

Originally, the business centres are concentrated on core services covering needs for information, referral and technical assistance. In addition, workshops, seminars and training, and business counselling (market research, marketing, governmental regulations and sourcing) were offered. (147)

The same as in the ILO case, after reducing financial support, some BCs could not achieve self sustainability and were closed. Other BCs responded by offering more diversified services and target larger companies. This means that sustainability was achieved by implementing an alternative or complementary strategy to attract other sources of income, besides the delivery of BDS, respectively, targeting larger enterprises and not MSE clients.

The conclusion drawn from studying many case studies is that starting-up the centres has taken or required more time than originally planned because the initiative to boost the BDS market requires carefully led procedures and good design, tailored to local circumstances. It is also obvious that ILO and UNIDO approaches are very similar. The difference is in the staff number. ILO BCs usually have 3 employees, but UNIDO business centres are much larger (11 to 31 employees). (148)

148 Of the UN Agencies, ILO and UNIDO were among the first ones to promote SME development. ILO’s interest in assisting small enterprise development stemmed from its desire to promote employment and to foster artisanal and craft activities, and its early efforts to assist in small enterprise development laid heavy emphasis on training.
6.2.4. European Union: PHARE Programme

The PHARE programme financed by the European Union has financed a large number of BC programmes as a focal point of an overall institutional support instrument for SME development in 10 countries in Central and Eastern Europe.\(^{149}\)

The Phare Business Centre programme is one of the biggest attempts to build up BC-networks.

Across 10 Transition countries in Central and Eastern Europe (CEE), 136 PHARE funded Business Centres were set up. The PHARE BC approach was followed the Local Enterprise Agency (LEA) model used in the United Kingdom in the 1980s.\(^{150}\)

In the United Kingdom, the government initially channelled funds dedicated for SME support through Enterprise Councils, using a bid procedure for financial packages, inviting LEA to provide services for local small enterprises. In a later phase, the LEAs were supposed to earn their income from local private industry and governmental institutions. The private industry was not willing to provide financial resources, so LEA clients were charged for services delivered.

Based on a public-private partnership model, SME promotion was transferred from the state to various self help bodies, locally financed and led by private sector. Different SME programmes have developed a BC network, including usually the support of national agencies, business innovation centres and business incubators.

By adapting this model of public-private partnership, the Phare program provided funding for establishing Business Centres in CEE countries, at the beginning financed totally by the Phare, and to a small extent by local authorities.

Administratively, there were registered limited companies or foundations to satisfy the PPP model. That model also included economic stakeholders as entrepreneurs association, chambers of commerce, government representatives, banks, universities, as well as some private local entrepreneurs.

Those centres typically provided SMEs with free or strongly subsidized consultancy services (legal advice, taxation, accounting and marketing). Access to credit schemes, access to information and training activities were also offered as well as business plan preparation. All the BCs were staffed with managers and several administrative employees.

\(^{149}\) The Phare programme is one of the three pre-accession instruments financed by the European Union to assist the applicant countries of Central and Eastern Europe in their preparations for joining the European Union. Originally created in 1989 to assist Poland and Hungary, the PHARE programme currently covers 10 countries: the 8 new Member States: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia, as well as Bulgaria and Romania, assisting them in a period of massive economic restructuring and political change. Until 2000 the countries of the Western Balkans (Albania, Bosnia-Herzegovina, and the Former Yugoslav Republic of Macedonia) were also beneficiaries of Phare. However, as of 2001 the CARDS programme (Community Assistance for Reconstruction, Development and Stability in the Balkans) has provided financial assistance to these countries. Following the 1993 Copenhagen Council’s invitation to Central and Eastern European countries to apply for membership, Phare support was reoriented to this aim, including a marked expansion of support for infrastructure investment.

After the Phare has stopped financial support and no other donors or government continued to provide financial resources, according to the Phare evaluation report, only some of BCs developed significant self-financed activities, focusing themselves on the more lucrative segments of the market, and as a consequence losing touch with SME BDS market. Those commercialised BCs offered almost the same range of services and started to compete with conventional private sector consultancy companies and chambers of commerce. (151)

6.2.5. Swisscontact and SDC (152) (153)

In the early 1990s Swisscontact (SC), a Swiss consultancy company started BSC programmes in Far East and Latin America. Its approach is similar to the approaches of other big BDS development programmes.

Before it starts a new programme, SC selects local partners (NGOs, private companies) and supports them in setting up the BC. The selection methods used are both relationship-based selection and tendering procedure (the applicants are invited to bid for SC support to create a BC). The final decision is made related to both the information provided (in the form of a business plan and other documentation supplied by the applicant), and qualitative assessment. (154)

SC funding consists of start-up funds and a package of financial incentives used as a tool to influence the BC’s activities to concentrate on the most profitable services. For some programmes, the financial incentives are service-specific, based on BC’s gross profit generated.

Apart from the conditional support, SC provides non-conditional payments as well as non-financial support in form of technical assistance and networking support, (promotion and publicity, staff training and individual coaching).

152 Swisscontact is a politically and denominationally neutral organization founded in 1959 by personalities from the Swiss private business and university sectors. Three hundred staff members are active for Swisscontact in project countries as well as in Switzerland. The foundation is tax-exempt and recognized as a non-profit organization. The objective of Swisscontact’s activity is to promote sustainable development - i.e. economically, socially and ecologically compatible development - in selected countries of the South and East in cooperation with local partners. Swisscontact’s activities are financed by the Swiss private sector, by municipalities and cantons and by the Swiss government. As a service provider Swisscontact undertakes management contracts for the Swiss Agency for Development and Cooperation (SDC), for the State Secretariat for Economic Affairs (Seco) and for international development banks. Swisscontact offers Swiss companies which are working in developing countries, or propose to do so, services in the fields of training and finding partners.
153 The Swiss Agency for Development and Cooperation (SDC) is Switzerland’s international cooperation agency within the Swiss ministry of foreign affairs. Together with other federal offices, SDC is responsible for overall coordination of development activities and cooperation with Eastern Europe, as well as humanitarian aid. SDC employs a staff of 500 people to carry out its activities in Switzerland and abroad, with an annual budget of CHF 1.2 billion (2002). The agency undertakes direct actions, supports the programmes of multilateral organisations, and helps to finance programmes run by Swiss and international aid organisations in the following areas: Bilateral and multilateral development cooperation, Humanitarian aid, including the Swiss Humanitarian Relief Unit (SHA), Cooperation with Eastern Europe
The SC’s approach regarding setting up and activity of BSC is not based on a specific range of services; it is the tendering institution (NGO or small private enterprise) that proposes the type of service it would like to offer.

The range of services provided by BCs established through SC support is from general business services and training activities, trade related services offering marketing techniques, strategic planning and secretarial support, to support services for SMEs in getting subcontracts from larger companies. (155)

Besides enterprises, also donors, associations, technical cooperation partners and governments are targeted as clients of such a BC. Depending on the country the BCs are financed by the fees they charged for services, but part of their income still comes from donor/government contributions.

At the end, the approach made by SC reflects some of the key elements of the new BDS paradigm. Linking its financial support partly to BCs ability to sell its service products, SC follows a demand driven strategy. Commercially, BCs serve most financially viable institutions like institutional players (donors, governments), large and dynamic growing medium-sized enterprises. (156)

That means that, because of little profit they can earn from start-ups and micro enterprises, these are not served. Performing their activities on such a manner, BCs do not fulfil their role regarding the necessity of small enterprises to have access to valuable business development services.

The Swiss Agency for Development and Cooperation uses existing institutional channels to donor or finance different BDS development programmes (UNDP, ILO, etc). It is very active in the area of Small Enterprise Development.

6.2.6. Conclusion

Analysing the existing Italian experience is to say that real (business) services are aimed at satisfying a demand which is initially the potential one and rarely disclosed. Therefore, a great deal of uncertainty characterises the feasibility of supplying such a type of services. An even greater uncertainty surrounds the willingness of the SMs to perform radical internal restructuring successfully. However, in the Italian case, the creation of a real service centre requires significant initial investment not only in terms of financial resources but also in terms of trust based relationships to be established with potential clients.

This analysis has indicated a paradigm for action, useful to be implemented in transition countries, but, with the exception that the experience of Italian real business service centres cannot be simply transplanted to the transition country reality. It is necessary to clearly define what could be most effectively implemented within the settings of a local SME.

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155 The fees that BCs charge their clients for services provided cover direct costs and a part of the overheads. As a guideline, clients of BC are expected to have turnover of $50,000 to $1.5 million, and workforce between 5 and 200, and assets of below $0.5 million”

156 Bissegger, P., Developing BDS – the Indonesian Experience; Swisscontact Indonesia; A paper presented on 3rd Annual Seminar on Developing Commercial Markets for Business Development Services, Turin, Italy, September 2002
environment and how to support adaptation to the local institutional approach allowing significant customisation of the business services to local circumstances.

The clearest “limit” of the Italian experience with BS centres, as well as clusters/districts, is the endogeneity of the policy initiative, which means that the majority of initiatives come from actors within the local environment.

The approaches of other BDS development programme suppliers in setting up the BCs differ widely, but, at the same time are very similar. Most of the BCs deliver similar services, but, they use various ways to achieve sustainability. That is to say that sustainability is defined differently among different reports (authors). The two main definitions are:

- The BC sustainability is achieved if commercially motivated revenues are at least as high as the full costs provision. Income should not include transfers or budgetary support by the donor setting up the BC. It also not includes those funds received from the public sector or any non-commercial source.
- Sustainability of BCs includes revenues that are generated out of contracts for specific services with donors or governments (excluding budgetary support for the BC). The BC acts as a commercially motivated social entrepreneur being the private actor focused on the chances that the market delivers, including also, those arising from donors or governments.\(^{157}\)\(^{158}\)

When addressing BC sustainability, for both definitions are essential how BC income is generated and how the institutional set up secures sustainability.

It has been pointed out that BCs need to be market driven but it is not clear enough what is “the market” for BCs.

Common to all BCs is that, practically, measurement of their impact on micro and small enterprises is limited to the number of enterprises served, and, especially, to their willingness to pay for services.

It seems that in the post-funding period, the business centres are focused mainly on larger companies or governmental institutions in order to achieve financial self-sustainability. As a consequence of commercializing by offering fee-paying services, the BCs have a crowding-out effect on private sector consultancy agencies.

Over years, the range of services offered by BCs has changed or expanded, depending to a high degree on the different programmes which have been implemented on behalf of the different sponsor organizations.

Some centres incorporate specific services like administration of revolving loan guarantee funds, work-safety staff training, communication and negotiation skills training for local or central authorities, entrepreneurship training and counselling for unemployed, microfinance and more specialised services in human resource development, programme on import-export management, quality management

\(^{157}\) Guiding Principles of Donor Intervention I BDS. Often is referred to as the “Blue Book”.

\(^{158}\) This means that a BC will consider financially viable even if it works on programmes that include subsidies for delivery if the social return is higher than the investment. A similar argument is made for the microfinance industry.
Other activities of the centres include staff training for the promotion of business partnership within the EU and socially oriented projects giving support to families with small children, both financed by the EU. (159)

It is also noticed in the above mentioned evaluation, that Phare BC public-private partnership model was an inappropriate approach to be implemented in regions under enormous change and restructuring, and was assessed as being unsustainable. (160)

However, it is difficult to compare the results of these different approaches as well as a big number of different programmes related to setting up and funding either BCs or BCs networks since the total amount of funding for these BCs was not clearly specified in the available documents.

But, apparently, at the end of the programme each BDS centre had achieved a different degree of self-sustainability. It is also clear that the majority of BCs stopped delivering training courses, with the exception of highly specialized ones, entrepreneurs will pay for, and as well, cross-subsidized training courses, used to extend the BCs customer base and outreach.

Most BCs stopped serving potential entrepreneurs, micro and small start-up enterprises, SMEs with liquidity problems, business associations and NGOs. Instead, BCs concentrated primarily on SMEs with growth potential, local administrations, foreign companies, and larger national companies in the area.

7. Existing experience in Croatia

Following recommendations made by the European Commission in its second annual report on Stabilization and Association Process for South Eastern Europe, and its recent Communication on the Western Balkan and European Integration, the countries of the Western Balkans, as well as Croatia have endorsed the European Charter for Small Enterprises at the European Union – Western Balkans Summit of Thessaloniki (Greece) on 21st of June 2003. (161)

In that document the countries have committed themselves to the 10 principles and the implementation of the Charter. Implementation of these principles will help to develop a business environment and promote and support growth of local entrepreneurship.

The charter area 9 (Business support) as well as areas 4 (availability of skills), 9 (e-business models), 5 (on-line access), area 8 (technological capacity), covering the area of ICT are pointed out as very important areas considering the situation in Croatia.

Regarding some services as, for example, entrepreneurship education, it can be said, that it is not widely spread in the Western Balkans. The international donor supported Junior Achievement / Young Enterprise (JA/YE) programmes are optional and extracurricular. Croatia has a special teacher training programme for junior company management.

Other initiatives to stimulate entrepreneurship or help enterprises providing business services are:
- Networks of local /regional business centres provide training courses to entrepreneurs
- TV programmes promote notions an good practice of entrepreneurship
- Magazines, fairs, exhibitions, round tables disseminate information regarding business development

In Croatia, the government, as well as the Chamber of Commerce, the Chamber of Crafts and the Employers Association, conduct surveys to identify the skill development needs of entrepreneurs. (162)

In order to promote development of SME sector there are several support programmes established, facilitating the operation and adjustment of entrepreneurial market:
- **Development of supporting institutions**: promoting establishment and development of entrepreneurial zones, entrepreneurial centres and incubators
- **ISO norms 9001/14001**: a part of costs of introducing and certifying the quality and environment system pursuant to ISO9001 2000 and ISO 14001 is co-financed
- **Innovation-technological development**: for the purpose of promoting the development of new products and technologies, supports are intended for the protection of patents, promotion of innovations and technology transfer
- **Training of entrepreneurs and entrepreneurship consultants**: in the development of SME sector, training of entrepreneurs and consultants are implemented comprising entrepreneurship programmes providing technical assistance

Croatia has a Loan Programmes for Export by SMEs, and there is also financial support for certification with the aim of breaking into new markets (ISO, HCCP, HRN, etc.). The Croatian Bank for Reconstruction and Development, (HABOR), also supports export (loans, insurances). (163)

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163 Several programmes have been initiated with favorable terms and entrepreneurs: providing loans to entrepreneurs in cooperation with counties and municipalities and uniting of state and local budgets funds with commercial banks, entrepreneurs are given access to cheaper development and investments. By providing loans for development and introduction of new technologies in business, the technological development has been enabled. By providing loans for export and export preparation under favorable conditions, loans for the tourism the promotion of this strategic branch of the economy has been strengthened.
Information and training on exporting and foreign markets is provided by the Chambers of Commerce. The Chamber of Commerce also boasts a Centre for Quality, which aims to improve management systems. (164)

Regarding taxation and financial matters, Croatia has the longest experience among Balkan countries, because the Agency for SMEs (HAMAG), has been issuing guarantees since its establishment in 1995. (165)

Non-traditional financial instruments, (venture capital, business angels, etc.), are not present in a significant measure. Croatia has 4 venture capital funds but these cover a limited number of technologically advanced companies. The co-ownership issues inherent to venture capital funds create reluctance in companies to consider applying to such funds. The business angel’s philosophy lacks a national network to help realize the idea.

Strengthening the technological capacity of SMEs; Technology parks exist to a limited extent. Croatia has 4 of them. There are some institutional initiatives to facilitate technology transfer processes: The Croatian Innovation Technology Development Programme (HITRA), under the Ministry for Science & Technology, is a dedicated effort to set up technology transfer instruments and institutions, as well as to support the process with various financial and non-financial incentives. (166)

The former Ministry for Crafts and SMEs, has launched two projects: the New Technology Project, a loan instrument to support technology intake in SMEs, and the Innovations Development Programme for the promotion of new products and innovations, which provides support for patent protection, building prototypes and promotions of innovations.

Some obstacles to a dedicated technology transfer are:

- Managerial, technical and innovative capabilities are still modest
- Awareness is low both within academic and entrepreneurial circles
- FDI is low, which is usually one of the main forms of actual know-how transfer
- Home-grown technology is hampered by limited venture capital
- Lack of time to invest in the process on the side of small enterprises
- Lack of financial resources to buy technology
- Unregulated way of financing research, lack of input in choices and priorities on the side of entrepreneurs

164 The Educational System in the Republic of Croatia, a bulletin issued by Business Education Department of Croatian Chamber of Economy, describing different types of services for business and entrepreneur education like: business in international environment, specialized seminars for managers, programs of personal and professional development, etc.
165 HAMAG has accumulated 3400 guarantees with a value of €87 million at a default interest rate of 1.6% only.
166 Technological development and innovations have been promoted via three groups of promotional measures: loans for innovators and introduction of new technologies, grants for innovators and grants for introduction of ISO quality standards and environmental protection. The programme for supporting innovators has been developed for the purpose of supporting development of technical and other necessary documentation, protection of intellectual property, testing and developing prototypes and for exhibiting innovations in fairs.
Concerning clusters as a more systematic approach to the technology transfer, in Croatia a public tender has recently been issued to promote clustering. (167)

Barriers in this field are:
- distrust between entrepreneurs
- perceived lack of potentially competitive products
- lack of business tradition in this area and therefore a lack of good practice
- lack of well defined government support programmes

Regarding ICT business services, Croatia has passed e-signature law. The level of computer and internet use is 28.5% in the last year. Apart from advice by e-mail, there is no on-line communication for enterprises with the public sector (making applications, filling out forms, tax returns, etc.).

Other factors which are perceived as a barrier to improving on-line access:
- cost perceived as higher than the potential benefits
- lack of ICT education, training and knowledge
- underdeveloped telecommunication infrastructure (some areas only)
- data security concerns

The e-government framework policy initiatives in Croatia are aimed to help the country and the public sector in particular to “go digital”. In that sense a special Agency for the Development of Internet and Informatics was set up.

Recognizing the vital role of the small business sector in the economic restructuring and job creation in Croatia, the Government was established a separate Ministry for Crafts and SMEs in the year 2000. (168) (169)

The Ministry’s vision for the growth and SME development is described in its “Small Business Development Programme”. (170)

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167 The tender provides grants between € 400 and € 10.000 to encourage clustering activities covering costs items as a business plan, studies, joint market approaches, development of ICT and databases to facilitate clustering, etc.
168 Under new legislation (after elections in the year 2003), the Ministry is now transformed into a Directorate within the Ministry for Economy
169 The Croatian Small and Medium Business sector is comprised of around 55000 SME businesses collectively employing approximately 410.000 persons and 93.000 Craft and Trade businesses collectively employing approximately 220.000 persons. Thus out of one million employees in Croatia, 63% are engaged in the SME sector.
170 Small Business Development Programme 2003-2006: Until 2004 it envisages the measures representing the small business promotion system, whose implementation will enable its stable growth and development. First of all, this presumes an increased number of entities (SMEs craft businesses and co-operatives) and employees in the small business, increased efficiency and competitiveness, as well as the increase in exports and better adjustment to the world market. The fundamental goal of the SBDP is to encourage and support counties, cities and municipalities in the development and implementation of their own programmes for the promotion of entrepreneurship within SME sector.
7.1. The Croatian Agency for Small Business (HAMAG) (171)

The Agency should assume the role of a principal coordinating agency to eliminate duplication of SME assistance programmes by establishment of an effective network of various government and non-government SME support and assistance initiatives that will maximize national benefits by complementing and leveraging their inputs and efforts. (172)

The role of the agency is to provide the guarantees and non-repayable financial supports, credit financing subsidizing loan interests, lease and selling of real estates in state ownership, education and counseling, coordination of all supporting institutions, employment support, professional training, new technologies, innovations and fairs as well as the participation of the entrepreneurship for the sake of faster development of small scale industry. HAMAG is the main agent of pragmatic ordinance and pursues the SME development policy. (173)

An important part of HAMAG’s activities, in the framework of the Small Business Development Programme, should be also, development of an SME enabling environment, business consulting for the SMEs, entrepreneur promotion, monitoring, evaluation, analysis and reporting of the proper use of the benefits and incentive measures issued. (174)

Consistent with the strategy for national economic development and defined long-term strategic goals, suggested immediate strategies and activities are as follows: (175)

- Establish efficient and effective structures and processes to assure that emerging and existing SMEs nationwide receive cost-effective and appropriate business support services to SMEs including start-up assistance, business skills training, business advisory/counseling services, timely access to business information, quality business development assistance, appropriate assistance, and needs based subsidies and grants
- Establish a central information bank of demand driven business information (e.g. laws and regulations, new products and processes, new/appropriate technology, market trends and business opportunities, new market and customers, financial assistance programs, SME success stories, etc) that is readily available to emerging and existing SMEs nationwide, Business Support/Service Providers, business incubators, technology centres, business associations, banks and

171 The government of Republic of Croatia passed a new law on 13th March, 2002, entitled “Law For Encouraging Small Business Sector”, enabling Ministry for Craft, Small and Medium Enterprises to establish a new Agency titled “Croatian Agency for Small business (HAMAG). It has been established as the successor of Croatian Guarantee Agency (HGA) and is one of the agents of Development Program for SM industry.

172 The Mission Statement from HAMAG’s statute reads as follows: “The Agency is founded for encouraging small business sector development and increasing SMEs share in Croatian economy. The objective is to create a friendly environment, establish an effective network of support institutions at the national, regional and local levels, and to ensure direct supports in financing, technology development, quality improvement, competition strengthening, market building up, new employment and to link entrepreneurs, institutions and supports into an efficient system”.


174 Activities and tasks defined by Law For Encouraging Small Business Sector

175 The Croatian Agency for Small Business (HAMAG) and the Scope of Long Term Assistance for its Realization: Report, Recommendation for Strategic Framework and Implementation Process for the Operationalisation, Croatian Enterprise Promotion Activity, USAID, Zagreb, April 2003
financial institutions, policy makers and all such other national and international entities that may have a need for such information

- Influence and catalyze and/or establish sources of finance/credit to assure that emerging and existing high growth potential, export/import-substitution oriented and technology based SMEs receive needed finance coordinated with HAMAG’s Guarantee and subsidy/grant providing activities

- Create an on-going process to assess and enhance the competitiveness of SMEs in specific sectors that are especially relevant to Croatian export and import substitution goals

- Create an on-going structured process to periodically identify, assess, evaluate and provide inputs to policy makers reality based data on constraints and barriers to entry and growth of SMEs that will help the policy makers to create and further develop an SME enabling environment

Regarding the SME business support services and successful e-business model (Area 5 of European Charter for Small Enterprises), the Croatian Agency for Small Business (HAMAG) is considered as national SME Agency but, in practice, limits itself to deal with financial instruments to SMEs. (176)

Within the framework of the Croatian Enterprise Promotion Activity (CEPA), with collaboration with Croatian Employer’s Association (HUP), in order to provide business development services (BDS) to Croatian SMEs, the Association of Management Consultants (AMC) was established. (177)

AMC is a voluntary, independent association of individuals and companies. Its primary aim is to promote professionalism in the delivery of management and business consulting services by qualified practitioners. The AMC is also defining professional standards for Croatian management consultants, training against these standards and, in some cases, administering certifications in accordance with international principles and practices. (178)

Providing strategic level technical assistance to the SMEs, under the CEP Project, the AMC as a business support service provider started with its new activity named Paid Consulting Practicum Assignments. Consulting practicum assignments are designed to achieve two co-equal objectives:

- Provide direct, sustainable and near-term benefit to enterprises that will demonstrably lead to increased profitability and employment.
- Provide a practical, supervised and enhanced learning experience for the consultants.

176 HAMAG is modeled after Enterprise Ireland and the US Small Business Administration, and mandated to provide technical and not only financial assistance to Croatian SME sector.

177 The purpose of the program is to provide technical assistance to remove constraints impeding the smooth and affordable provision of expert business consulting services available to Croatian enterprises.

178 It counts at the moment 125 members, of which 42 are Croatian consulting companies and 83 freelance consultants. The AMC members all have a University degree and their areas of expertise are Marketing, Finances, Quality Management, Human Resources Management and IT Consulting.
A consulting practicum assignment under CEP Project consists of placing a small team of trained consultants in an enterprise needing specific assistance in a defined area. The assignments will most of the time be 20 working weeks in duration. The team typically consists of three Croatian consultants with guidance provided by an international consultant or industry expert. Before the consultants are placed in an enterprise they undergo an intensive two week training covering various relevant topics to the assignments in enterprises, (SME Financing, ISO 9000, HACCP, Human Resources, Cost Reduction, Applied Marketing and Market Research and Consulting Skills). (179)

As it is the case in other transition countries, Euro Info Correspondence Centre (EICC) have been set up also in Croatia. (180)

Most countries have developed local/regional business centres which have usually been donor supported, but Croatian BCs have been largely self-financed, and now they are faced with the question of sustainability. Business incubators are less common but in Croatia, 18 such centres have been established.

The supply-side approach (developing services thought to be needed) of such institutions proved to be flawed and, it is generally acknowledged, achieved far less than anticipated. A major problem was that these agencies were unable to win the confidence of the SMEs that they were supposed to serve. The inadequate competence and experience of professional staff and management of these institutions has already been mentioned, but generally, very few of them really provide business support services and, if they do so, these are low level business services: (introduction to business planning, introduction to marketing and information gathering, marketing strategy, business operations, management and legal questions, introduction to financial planning, financial management, request for lease, overview of preparations for business plan)

A private sector market for BDS is underdeveloped and often limited to the capital and has difficulties in providing more sophisticated services. The uptake as well as impact of business services is still limited. Main obstacles are believed to be short-term of entrepreneurs and a reluctance to pay for “intangible” services. (181)

Despite all their weaknesses as a group, private BDS providers can become a significant source of help for SMEs.

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179 CEP Project till now, has organized 4 sets of Paid Practicums, 2 in Slavonia and 2 in Dalmatia with the last one (in Dalmatia) finishing in August of 2004. Each set of Paid Practicums will typically involve assisting 4 enterprises in the same or similar industry (e.g. agriculture and food and beverage industry). That way CEP Project will altogether assist 16 companies and train 48 consultants through the Association of Management Consultants (AMC). The enterprise does not pay for the time or expenses of the consultants, but is expected to provide logistical support.  

180 The Euro Info Correspondence Centre (EICC) network was set up in 1987 to provide enterprises with information and advice on matters related to the international market and Community programmes. The network has developed highly specialized competence on a wide range of business support services and has become the backbone of the feedback mechanisms to the Commission on the problems posed by implementation of internal market regulations. The EICC network counts 278 centres in EU and SEE countries, along with 13 EICC centres in Western Balkan countries, Switzerland, Egypt, Israel, Jordan, Lebanon, Syria, Tunisia and Chile.  

181 A survey on the (non)-use of services in Croatia reveals that the services on offer were not what SMEs wanted (23%), were too expensive (21%). In 21% of the cases, no fruitful contact with consultants was ever established.
8. Survey of real needs of SMEs

In order to explore the possibilities for growth of Croatian BDS industry, as well as identify their potential market, the survey of BDS needs and supply was organized and conducted with help of CEP. (182)

The intent of the survey was to undertake the first-of-its-kind market research on the consulting services industry in Croatia, by directly asking potential end users about their views and plans.

The same procedure was used in supply side survey performed in interviewing of service providers. The survey was performed by me with great help of Association of Management consultants.

The primary objective of this survey was to determine the business service needs and supply in Croatian small business environment. The objective of supply as well as needs analysis was to make a complete picture of different elements of the BDS that exists in Croatia.

The purpose of assessment was not primarily to be critical of the existing BDS players but to be objective and use the analysis to activate the possible potentials in the BDS area.

Specifically, the purpose of the survey was to determine what types of training and technical assistance products Croatian service providers should offer their clients, and how best to market business services to these clients. To this end the survey questions were designed to allow an analysis with the following components: (183)

- Identify SME sectors that will be most important end users of business consulting services and segment the market accordingly
- Determine the types of business development services and products that will be in demand, and the decision criteria that will be applied in selecting providers of those services
- Determine how to improve the BDS industry’s ability to market its services and commercialize new products and software
- Ascertain the views of providers and users of SME financing to determine the means to increase the volume of loans

**Respondent profiles:** Respondents in SME sector were drawn from 16 major industry branches in Croatia, comprising both manufacturing and service sector, but specifically did not include trading companies or those fewer than 25 employees, as these are not typically significant users of consulting services.

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182 In early 2002, CEP surveyed the market for consulting services and has subsequently been creating demanded consulting products. The survey was administered by GfK, a Croatian marketing research firm. GfK was contracted to create the questionnaire, develop the sample frame and final sample (with input from CEP), conduct the in-person interviews and, finally, provide cleaned and processed data to CEP for analysis.

183 Consulting Needs Survey; Report: USAID Croatian Enterprise Promotion Activity, Zagreb, July 2002
A quota sample ensured respondents were obtained with desired sector and size criteria, (16 sectors in two sizes). The respondents from service providers sector were drawn from existing local development agencies, business centres, private consulting companies and entrepreneur incubators. Questionnaire was designed according to survey performed in demand side (SME sector). (184)

**Questionnaire:** The respondents were asked questions from five categories: (185)
- Basic company data (to create respondent profiles)
- Management issues and vision
- Experience with business services
- Plans for future use of consultants and
- Use of financing past and projected.

The questionnaire for the respondents from service provider sector was basically the same with addition regarding to business services’ offer:
- Objectives of the institution
- Organization and resources
- Existing offer of the institution (target groups, focus of offer, important projects)
- Marketing and success criteria

**Results:** The survey has shown that the mostly demanded services have been: quality assurance systems, information technology assistance, marketing and sales assistance and, management and HR development. These essentially identify for service providers where to focus their energies. Some other services, important for SMEs development and growth, such as technological marketing and consulting, project management, contact building, organizational consulting, trade fair, intellectual property protection, etc., were not considered by respondents as important and useful for their future use (not clear/well written)

Importance of services for both demand and supply side of BDS is shown in the table below:

<table>
<thead>
<tr>
<th>Services</th>
<th>Demand side</th>
<th>Supply side</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISO 9000 2000</td>
<td>62%</td>
<td>56%</td>
</tr>
<tr>
<td>Marketing research</td>
<td>42%</td>
<td>81%</td>
</tr>
<tr>
<td>HR Management</td>
<td>37%</td>
<td>65%</td>
</tr>
<tr>
<td>Export management</td>
<td>21%</td>
<td>78%</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>26%</td>
<td>45%</td>
</tr>
<tr>
<td>Finance services</td>
<td>18%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: AF Barisic and data from Consulting Needs Survey; Report: USAID Croatian Enterprise Promotion Activity, Zagreb, July 2002

Croatia's small enterprises, first and foremost, require assistance in identifying - and then meeting - the various international and domestic quality and safety standards in their particular product or service industry. Croatian SMEs also require training and capacity-

184 Questions were mostly close-ended, i.e., answer categories were disclosed; however there were also open-ended questions to ensure respondents had the opportunity to raise issues otherwise not directly addressed.
185 Consulting Needs Survey; Report: USAID Croatian Enterprise Promotion Activity, Zagreb, July 2002
enhancing consulting assistance in market development, cost-based financial planning, and analysis of efficiency and productivity. (186)

**Figure 1. Offer portfolio (self-assessment by the service providers)**

As can be seen in this survey, more detailed knowledge about the service providers’ side from the offer analysis is necessary to understand the results of the SME need analysis and in order to identify reasons for unsatisfied needs. There is clearly shown how important is systematic identification of the SMEs needs. (187)

**Figure 2. Demand portfolio (self-assessment by the SMEs)**

186 The Croatian Agency for Small Business (HAMAG) and the Scope of Long Term Assistance for its Realization: Report, Recommendation for Strategic Framework and Implementation Process for the Operationalisation, Croatian Enterprise Promotion Activity, USAID, Zagreb, April 2003

187 Consulting Needs Survey; Report: USAID Croatian Enterprise Promotion Activity, Zagreb, July 2002
The diagram in figure 2 shows lack of need orientation on the service providers’ side. It comes because these often did not dispose of sufficient and up-to-date information about SMEs.

The comparison of the service provider side and SME side analyses’ results illustrates existing dysfunctions and facilitates the deduction of necessary measures.

Figure 3. Comparison of demand and supply side analyses

When comparing these two portfolios, considerable deviations can be determined. Thus the demand for market related services such as HR Management, Finance assistance service and Export Management is very low, although in the demand portfolio, the companies do have a considerable need for these services and, according to the self-assessment of the service providers the offer is at hand.

The reasons for this discrepancy are on the one hand the lack of transparency of the offer, on the other hand, however, an offer, which does not exist or is not demand –oriented, and which is therefore not utilized. According to the results, these services are offered, but in most cases there are limited to general consulting. (188)

Main survey findings to key on for communication of survey results: (189)

188 Consulting Needs Survey; Report: USAID Croatian Enterprise Promotion Activity, Zagreb, July 2002

189 Consulting Needs Survey; Report: USAID Croatian Enterprise Promotion Activity, Zagreb, July 2002
- The most needed service products for enterprises are:
  - Quality management
  - Marketing assistance
  - HR management
  - Export development
  - Information technology assistance
  - Cost reduction & management
  - Preparation of bank financing requests

- **Service providers are not effective marketers**: Survey shows only 19% of consulting assignments are sold as a result of proactive marketing.

- **Service providers do not adequately target different services to specific market segments**: Of enterprises not using consultants, 23% don’t believe services are what they need and 21% believe services are too expensive for value received.

- **Consultants lack basic business acumen**: Most potential consulting clients do not want to pay daily rates for services, but instead a fixed price for services, which is often not an option proposed by consultants.

- **The main attribute enterprises look for when choosing a consultant is industry specialization**: Consultants need to understand the business, their clients are in as well as their clients do.

- **Service providers don’t leave in place enough software**: Less than 50% of assignments result in software being left with clients. This lessens consultants’ ability to create tangible value with clients and reduces follow-on training and system maintenance services.

- **The survey identified no impenetrable demand side barriers preventing consulting industry growth**: In fact, enterprise manager responded they were likely to use at least one type of services offered, and 39% stated their budgets for consulting services will increase in next period.

- **Banks and enterprises need products to understand each other’s needs better to increase the flow of financing**: This means that banks need to be more client-focused. More importantly, enterprises need to learn to integrate systematic planning with bank financial requests.

**In general, Croatian business service providers, as a rule, are not customer focused.** However, service providers must learn how to better position themselves to take advantage of market needs.

Most commonly identified unsatisfied needs in Croatia are: (190)

- Lack of financing of innovation and risk capital
- Lack of skilled staff in firms dealing with innovation, but it is also acknowledged that SMEs do not make use of the knowledge of their staff
- Lack of marketing skills
- Lack of managerial skills
- Low level of innovative start-ups

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190 Preveden, V., Perspectives of Leadership in CEE; Summary of Results of the Leadership Study: Roland Berger, Bled, Slovenia, June 2003
- Low level of innovation in firms
- Low level of cooperation between firms, even though it is acknowledged that innovation often comes from client and suppliers. Subcontracting firms have often a low level of innovation

And, to lesser extent:
- Negative attitude in SMEs towards change and innovation
- Need for technological information/intelligence
- Difficulty of SMEs in expressing need for innovation
- Need to review intellectual property rights
- Low contribution of SMEs to the design of R&D programmes and policies
- Lack of relevant technical support in specific sectors

Despite the fact that they are vital for growth, development and greater competitiveness, there are a number of services, the SME sector do not consider them, yet, as important ones like:
- Access to support programme
- Organizational Consulting
- Information services
- Trade fair
- Continuing education
- Intellectual property rights
- Technological marketing
- R&D projects
- Project management
- Contact building

As a conclusion drawn from survey and analysis of supply and demand side, it can be said that:
- Firms have a limited knowledge of the service supply offered and make little use of external support. They lack information about possibilities of BDS market.
- There is also a lack of co-ordination of the supply side, which is fragmented and, very often, overlapping
- Service providers and support organization do not speak the language of SMEs. There is a cultural gap between supply and demand side.
- It is very often expressed that “Firms needs have not much to do with the supply, which is not sufficiently demand oriented”. Technology transfer is not priority for R&D and technical education organizations
- There is too much bureaucracy and not enough flexibility in the supply regarding to public service providers. The reactivity of suppliers and support organizations is too weak.
- There is a lack of relevant information on SME’ needs and visits to enterprises is too rare
- Support organizations for SMEs concentrate mostly on subsidies and not enough on adequate services to firms.
- There is no real business service market developed
The Croatian market for business development services lacks definition, depth and dynamism because of service providers' failure to assure a consistently high quality and effective products. This combined with Croatian enterprises' substantial burden of payment arrears (the internal debt problem) presently make it impossible for consulting enterprises to make the investment to develop their capacity to meet fundamental needs of their clients.

9. Conclusion

Small and micro enterprises form the bedrock of most economies. They are frequently the prime source of new jobs and play a crucial role in income generation, especially for the poor. Many governments and international donor agencies seek to promote the development of small and micro enterprises through establishing support agencies and enterprise development projects. These organizations provide business development services (BDS) such as training, advice, information, business planning, marketing, technology, communications and other services. BDS are often perceived as being useful in complementing credit and micro-finance programmes, and in assisting small enterprises with growth potential to become medium-sized enterprises.

The role and importance of Business development services have not been fully visible owing to a lack of statistics and research covering the services sector. (191)

There is increasing consumption of business services by manufacturing industry, affecting the costs, price and quality of manufactured goods, but all enterprises need services to produce, sell or distribute and to stay competitive.

In order to enhance the growth and competitiveness of MSMEs, and, as well, their potential to generate new quality jobs, the consideration must be given to the availability and accessibility of a wide range of direct and indirect support services related to different aspects of business needs regarding start-up and operation: preparing business plans, consultancy and information services, advisory services and support regarding modernization and technology transfer, market research and assistance, proper access to required infrastructure (energy, water, telecommunication, transport…). (192)

Business or enterprise support services, is a growing sector across the industrialized world. With increasing interdependency of enterprises and other actors, flexible specialization,

191 The role of BDS in the economy and their potential for growth and employment creation was highlighted at the Lisbon European Council in March 2000. Business related services are a dominant part of European market economy and integrated into every stage of the value chain, whether in manufacturing or services, micro or large enterprises.

division of labor and complexity of economy, there is a constant growth in demand for business services. (193)

The enterprise support services should be designed and provided to ensure optimal relevance and efficiency by:

- Adapting the services and their delivery to the specific needs of MSMEs
- Ensuring the active involvement of MSMEs in determining the services to be offered
- Involving both public and private sectors in the delivery of those services
- Decentralizing the delivery of services, and bring them as close as possible to the MSMEs
- Aiming towards sustainability for service providers allowing them a reasonable degree of cost recovery from MSMEs and other sources with regards on enhancing employment creation potential of MSMEs without distorting the BDS markets
- Ensuring professionalism and accountability in the management of service delivery
- Establishing mechanisms for continuous monitoring and evaluation as well as updating of services

Many BDS providers were set up with donor subsidies and therefore needed little cost recovery from clients. In recent years, subsidies have been reduced or withdrawn, and there has been much greater focus on achieving sustainability of BDS providers through generating income from services. The new emphasis is to assist BDS providers to become client oriented and market driven. This change to a market development approach presents BDS providers with a host of challenges and new opportunities. How to manage BDS organizations to carry out their mission of employment creation and poverty alleviation effectively, whilst being commercially run organizations? (194)

Knowing business environment BDS provider must be able to:

- Select which BDS products to offer, based on an assessment of the market for BDS;
- Devise a coherent marketing and service delivery strategy;
- Determine when intervention in BDS markets, such as vouchers, may be appropriate;
- Establish systems to monitor staff and organizational performance.

The BDS provider must address the following topics:

- Market development approach to BDS
- BDS facilitators and providers activities and inter-relationships
- Market assessment for BDS programs design (including surveys & focus groups);


194 Managing Business Development Services for Increased Impact: How to Improve the Outreach, Impact and Sustainability of Organizations Providing Business Development Services, ILO International Training Course, Arusha, Tanzania, December, 2004
- BDS approaches according to the state of BDS market development;
- Market segmentation: sub-sector versus cross-sector approaches;
- Selecting which services to offer through establishing appropriate criteria;
- Sustainable delivery strategies for BDS providers;
- Human resources management as a critical component to success in BDS
- Costing and pricing of BDS products (including cross-subsidy);
- Selling techniques for BDS providers (including taster sessions and client records);
- BDS market development interventions;
- Performance measurement for BDS providers.

BDS must not only improve enterprise performance, income and employment, but reach also, into environmental issues and gender.

The Croatian market for business consulting services, as well as market of other transition countries, lacks definition, depth and dynamism because of service providers' failure to assure a consistently high quality and effective product. This, combined with enterprises' substantial burden of payment arrears (the internal debt problem) presently make it impossible for consulting enterprises to make the investment to develop their capacity to meet fundamental needs of their clients.

Impact upon BDS provider activities is:
- As the survey has shown, primary marketing consulting product should be export development. Another should be customer focus/customer service (also usable for BDS provider community itself).
- A primary financial consulting product should be a hands-on approach to address cost competitiveness.
- Consulting skills training for consultants is clearly needed in:
  - determining client needs and using market segmentation
  - specializing foremost by industry and second most by function, e.g. cost reduction
  - using and installing tangible tools, templates and software
- There is a need for a consulting product that enables SMEs to integrate regular and systematic planning with well supported bank financing requests
- Last but not the least, one of important points came out from survey is the need to improve professionalism of consultants.

Despite the disappointing experience in establishing and strengthening institutions, all those who assessed the situation concluded that the SME sector does need some form of institutional support. Most reviews conclude that most institutions failed to develop along the lines defined because they were allowed to grow too big and too centralized. It seems that for institutions to be effective they have to be kept small and completely decentralized in their operations. They need to operate as smaller, local or regional centres or, if a national institution is warranted (as might be the case in smaller countries like Croatia), the operations, staffing and decision making must be decentralized.

Regarding the BDS market development, the activities in which governments have to be strongly involved in are:
- Policy regulation,
- Enforcing competition and standards
- Co-ordination of SE development initiatives
- Information provision
- Investment in R&D
- Procurement
- Explicit BDS market facilitation

Local governments also have to play a proactive role in coordinating BDS market development activities as a part of broader local economic development strategies.

Governments and private sector organizations considered to have the potential to develop quality support service, should work out, together with donor support, schedule for transferring and up-grading the SMEs’ services needed to the private sector organizations, and agree on how this can be financed.

Easy access to business services can give SMEs or regions a significant competitive advantage. However, these services tend to cluster around cities and towns, often to detriment of less developed regions. Supporting the development of regional BDS markets, in particular those related to services that can facilitate innovation in SMEs, can be an important factor for regional competitiveness and development in transition countries, as well as an important driver of inward investment and new jobs.

To address challenges in BDS market is necessary to attain:

- **The market for BDS needs to be better integrated and more competitive in order to boost overall competitiveness**: The removal of continuing obstacles to trade in services both in the internal and internationally will open up opportunities and will enable SMEs to use best available services. Overcoming market barriers should also strengthen price competition and encourage innovative specialized services. Many services traditionally provided by public authorities can also be delivered by businesses.

- **Better skills, greater use of ICTs and more innovation are needed to drive the business related services sector forward**: Enterprises must make better use of ICTs within their business processes. Market must enable and improve the supply of a high-skilled workforce and invest more in the knowledge-based economy.

- **The greater availability and use of BDS in less developed industry branches and regions** can be crucial to its competitiveness, and will help to support productivity and competitiveness throughout the whole of the economy.
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Appendix A

LINKS TO OTHER BDS WEBSITES

Committee of Donor Agencies for Small Enterprises Development
www.sedonors.org

Developing Markets for BDS - Inter-agency information exchange
www.iло.org/dyn/bds

Directory of Development Organizations
www.devdir.org

EnterWeb: The Enterprise Development Website
www.enterweb.org

Inter-American Development Bank (IDB) Sustainable Development Department
www.iadb.org/sds/ifm_e.htm

Intermediate Technology Publications
www.itdgpublishing.org.uk

International Labour Organization: SEED Programme
www.ilo.org/seed

Micro-enterprise Innovation Project: Micro-enterprise Best Practices Project
http://www.usaidmicro.org/default.asp

Pact Publications
www.pactpub.com

SDC Small Enterprise Development Website
www.intercoop.ch/sed/index.htm

SEEP: Small Enterprise Education and Promotion Network
www.seepnetwork.org
Appendix B

BDS RESOURCES

General BDS resources

SEEP Guide to Business Development Services and Resources
http://www.seepnetwork.org/bdsguide.html SEEP's practitioner-developed web-based guide to the wide range of services also includes frequently asked questions about BDS.

Committee of Donor Agencies on Small Enterprise Development
www.sedonors.org This site hosts more than 50 case studies of BDS programs around the world. Published between 1998 and 2000, it also includes the Donor Guidelines and analytical papers.

ILO BDS Turin Reader by Mary McVay and Alexandra Overy Miehlbrandt
http://training.itcilo.it/bsdsseminar A good, basic overview of the latest thinking in the BDS field.

Directory of Development Organizations
www.devdir.org A global directory of development organizations, including micro-enterprise development institutions.

Competency based Economies through Formation of Enterprise (CEFE)
http://cefe.gtz.de/ CEFE uses a comprehensive set of training instruments designed to stimulate positive interventions in the small and medium enterprise development process. It uses experiential learning methods to develop and enhance the competence of existing and potential entrepreneurs. The site presents CEFE's courses and learning activity packages.

EnterWEB
www.enterweb.org Reviews, rates, and provides links to websites on entrepreneurship and small enterprise development.

Inter-American Development Bank (IADB), Sustainable Development Department
http://www.iadb.org/sds/publication_area_SME_e.htm

Intermediate Technology Publications

ILO SEED Programme
www.ilo.org/seed
Boosting employment through small enterprise development, SEED seeks to unlock the potential for creating more and better jobs in the small enterprise sector. The website describes the SEED approach and links to relevant publications.
USAID's Micro-enterprise Best Practices Project

The World Bank: Small- and Medium-Scale Enterprise Development

BDS working group member websites

Action for Enterprise: http://www.actionforenterprise.org/
Aid to Artisans: http://www.aidtoartisans.org
ACDI/VOCA: http://www.acdivoca.org/
CARE International: http://www.care.org/programs/economic/small_eco.html
Conservation International: http://www.conservation.org/
Counterpart International, Inc.: www.counterpart.org
Enterprise Works Worldwide: http://www.entreripworks.org/
Freedom from Hunger: http://www.freefromhunger.org/
International Rescue Committee: http://www.theirc.org/
Making Cents www.makingcents.com
Mennonite Economic Development Agency: http://www.meda.org/
Opportunity International: http://www.opportunity.org/
The Crafts Center: www.craftscenter.org
Virtue Ventures : www.virtueventures.com
World Education: www.worlded.org/

Enterprise assessment & survey tools

Sub-sector Analysis

Participatory Rapid Appraisal, www.itdgpublishing.org.uk

General Small Enterprise Surveys
See GEMINI baseline surveys published by PACT, www.pactpub.com
MARKET ACCESS

General

American Marketing Association:  
http://www.ama.org/pubs/catalog/ Sells useful basic publications on marketing and offers mainstream, American marketing training.

Fair Trade Federation:  
http://www.fairtradefederation.com/  
An association of not-for-profit marketing organizations. Contains useful background on Fair Trade.

FinTrac:  
www.fintrac.com  
FinTrac is an agricultural marketing research organization and its site contains useful ag marketing information.

Artisan Enterprise Network:  
www.craftscenter.org  
The network brings together professionals, private corporations, public agencies, and non-governmental organizations to pool their business experiences and knowledge and make them available, both in person and via the Internet, to artisan entrepreneurs worldwide.

Specific

Producer Associations

National Association of Small Scale Farmers of Malawi (NASFAM), case presented in the SEEP study on Microenterprise Marketing http://www.seepnetwork.org/marketing.htm. For more information, especially on NASFAM, go to www.acdivoca.org and for general information about cooperatives and the international cooperative movement see www.coop.org

UNIDO cluster development programs:  
Market Linkages through Private Sector Intermediaries

Manicaland Business Linkages Project: [www.sedonors.org](http://www.sedonors.org)
Aid to Artisans: [www.aidtoartisans.org](http://www.aidtoartisans.org)

Marketing Businesses

Proarte: See also IADB case studies by Lara Goldmark
[http://www.iadb.org/sds/MIC/publication/publication_159_1104_e.htm](http://www.iadb.org/sds/MIC/publication/publication_159_1104_e.htm)
Lene, Mikkelsen:
[http://www.iadb.org/sds/MIC/publication/publication_159_1386_e.htm](http://www.iadb.org/sds/MIC/publication/publication_159_1386_e.htm)
MEDA’s website: [www.meda.org](http://www.meda.org)

Alternative Markets

Organics:

US:
- Organic Crop Improvement Association (OCIA) [www.ocia.on.ca](http://www.ocia.on.ca)
- Organic Trade Association [www.ota.com](http://www.ota.com)
- Oregon Tilth [www.tilth.org](http://www.tilth.org)

Europe:
- Naturland, [www.naturland.de](http://www.naturland.de)

Fair-Trade:
- Conservation International: [www.conservation.org](http://www.conservation.org)
- US fair-trade labeling (coffee and tea) TransFair [www.transfairusa.org](http://www.transfairusa.org)
- European markets and fair-trade history and definitions: International Federation for Alternative Trade (IFAT) [www.ifat.org](http://www.ifat.org)
- Fair-trade labeling organizations: Fair Trade Labeling Organizations International (FLO) [http://www.fairtrade.net/](http://www.fairtrade.net/)
- “Social Responsibility in the Global Market” and “Fair Trade of Cultural Products”, Mary Ann Littrell and Marsha Ann Dickson, Sage Publications [www.sagepub.com](http://www.sagepub.com)

Market Links
- Database Market Links [m.morgan@telus.net](mailto:m.morgan@telus.net)

Market Festivals / Crafts Fairs
- Gram Shree Mela in India—see the SEEP Microenterprise Marketing Study at [http://www.seepnetwork.org/marketing.htm](http://www.seepnetwork.org/marketing.htm)

Samples for Buyers & New Marketing Business
- For examples of products developed with assistance from international product designers: [http://www.tenthousandvillages.org](http://www.tenthousandvillages.org)
- ZIWA Creations: [www.sedonors.org](http://www.sedonors.org)
- INDEPCO (Uniform manufacturing by urban garment markets, selling to the government in Haiti) – see “Microenterprise Marketing: Issues and Lessons Learned” [www.seepnetwork.org](http://www.seepnetwork.org) or [franklusby@actionforenterprise.org](mailto:franklusby@actionforenterprise.org)
- ASOMEX (Bean export marketing from rural Bolivia) – see “Preliminary Survey Results and Case Studies on BDS for Microenterprise, Part III: Anatomy of a
Additional Resources

- Crucifix, D. (1998) *Organic Agriculture and Sustainable Rural Livelihoods in Developing Countries*; Chatham, Natural Resources Institute
- EFTA (1998) Studies about Fair Trade; Maastricht, European Fair Trade Association
BDS & THE ENVIRONMENT

www.alianzaverde.org, Alianza Verde (Green Alliance) in Petén, Guatemala is a non-profit organization specializing in tourism and providing business services—market development, business training, and certification—to its members.

www.ifat.org, International Federation for Alternative Trade (IFAT)

Web sites of organizations and companies practicing or supporting environmental businesses:

International Social and Environmental Accreditation and Labeling Alliance (ISEAL), www.isealalliance.org

Consortium for Sustainable Village Based Development, http://www.villageearth.org/ATLlibrary

Food and Agriculture Organization (FAO) http://www.fao.org/forestry/FOP/FOPW/NWFP/nwfp-e.stm, FAO’s community forestry department has a wealth of information on forest products.

The International Ecotourism Society (TIES), http://www.ecotourism.org, provides information on research, conservation and business.

International Federation of Organic Agricultural Movement is the most important international body in organic agriculture. http://www.ifoam.org

The Tellus Institute is a research organization specializing in business and the environment. Its web site lists resources and publications in this field. www.tellus.org

In addition, five organizations with a special interest in the conservation of biodiversity—Conservation International, Smithsonian Migratory Bird Center, Rainforest Alliance, Summit Foundation, and Consumer’s Choice Council—produced the “Conservation Principles for Coffee Production.” The Starbucks Coffee Company purchases all coffee produced according to the Principles.

FINANCE

http://www.microfinancegateway.org/

SEWA, India www.sewa.org

BRAC, Bangladesh http: //www.brac.net/

Grameen Bank, Bangladesh, http://www.grameen-info.org – Grameen Bank in Bangladesh, a leading MFI, invests in marketing firms and a cellular phone company that offer BDS to its microfinance clients and other poor people in Bangladesh.
CARE Bosnia – CARE established an independent MFI and then developed a market information service and linking business (see Market Information Links) with the potential to become viable. Contact Mary Morgan at m.morgan@telus.net.

TECHNOLOGY & PRODUCT DEVELOPMENT

www.enterpriseworks.org
http://www.approtec.org
www.oneworld.net
www.idrinfo.idrc.ca
www.itdg.org
www.unicef.org
www.unifem.org
www.volasia.org
www.fao.org
www.ideorg.org
www.ilo.org

Animal Feeds in India

Treadle Water Pumps in Bangladesh

Poultry in Bangladesh

For examples of products developed with assistance from international product designers:
http://www.tenthousandvillages.org
www.actionforenterprise.org [click on “Mali program”]

For additional product development strategies:


LITTRELL, Mary Ann and Marsha Ann Dickson; *Social Responsibility in the Global Market: Fair Trade of Cultural Products*; Sage Publications, [www.sagepub.com](http://www.sagepub.com) or intcentre@icenet.net. The web site is [www.icecd.com](http://www.icecd.com)


TRAINING

Making Cents, [www.makingcents.org](http://www.makingcents.org)

An international organization specializing in developing the capacity of organizations to offer effective SE business skills training, by providing experiential methodology curricula and training-of-trainer courses. Curricula are available in English, Spanish, French, Russian, Portuguese, Arabic and Kirywandan.

Freedom From Hunger, [www.freefromhunger.org](http://www.freefromhunger.org)

An international development organization working in fourteen countries, FFH is a nonprofit, nongovernmental, non-sectarian organization that brings innovative and sustainable self-help solutions to the fight against chronic hunger and poverty.

International Labor Organization (ILO) SEEDS/FIT

FIT Uganda, with support from the ILO and others, developed two marketing and product development courses to help very informal sector producers improve interaction with customers, develop improved products and reach new markets. FIT then trained informal sector trainers to deliver the courses to SE clients.
POLICY / ADVOCACY


http://www.grassrootsfreemarket.org, Provides information about the importance of developing effective free markets for small enterprises. Provides up-to-date articles and in-depth analyses of the challenges facing business sector information.

http://www.sewa.org, The website of the Self-Employed Women’s Association in India offers a history of one of the largest informal sector associations in the world and a publications page that contains guides for establishing grassroots business groups.

http://www.wiego.org, The website of Women in Informal Employment Globalizing and Organizing, an international movement founded in collaboration with SEWA.

http://www.ild.org.pe, The Institute for Liberation and Democracy in Lima, Peru. Founded by Hernando de Soto, the Institute’s website contains information on the strategy to legalize and legitimize informal sector businesses.

http://www.cipe.org This policy affiliate of the U.S. Chamber of Commerce is a capacity building organization focused on policy issues affecting small businesses around the world. The site contains toolkits and examples of policy advocacy strategies.

http://www.juakaliweekly.com An example of a newsletter focused on informal sector policy issues.

www.acdivoca.org The website for ACDI/VOCA, a not-for-profit organization that develops and builds the capacity of grassroots business organizations around the world.

PERFORMANCE ASSESSMENT / IMPACT

AIMS: A USAID and SEEP partnership to develop client and community level assessment tools, primarily geared toward microfinance clients. www.seepnetwork.org Case studies, examples, and analytical work about impact assessment can be found at www.mip.org

EDAIS: Enterprise Development Impact Assessment Information Service, of the British Development Fund for International Development (DFID). This website offers information about impact assessment for enterprise development programs. www.enterprise-impact.org.uk

Committee of Donor Agencies on Small Enterprise Development is conducting impact measurement that examines the causal links between BDS and a range of impacts. It plans to look into tools and strategies for assessing impact. www.sedonors.org

ILO is investing in methodologies for assessing the link between enterprise development and job creation, www.ilo.org/seed
Appendix C

COMMITTEE OF DONOR AGENCIES
FOR SMALL ENTERPRISE DEVELOPMENT

AUSTRIA:
International Corporation
Austrian Ministry of Foreign Affairs
Minoritenplaz 9
A-1010 Vienna
AUSTRIA

AUSTRALIA:
Policy Officer, Governance Group
Australian Agency for International Dev.
GPO Box 887
Canberra ACT 2601
AUSTRALIA

BELGIUM:
General Director
Belgian Administration for Development Cooperation (BADC)
6 Brederoda Street
1050 Brussels
BELGIUM

CANADA:
Canadian International Development Agency (CIDA)
200 Promenade du Portage
Hull, Quebec K1A 0G4
CANADA

DENMARK:
Ministry of Foreign Affairs (DANIDA)
Department. S-2
2 Asiatis Plads
DK 1448, Copenhagen K
DENMARK
FINLAND:

Unit for Sector Policy and Advice
Ministry for Foreign Affairs of Finland
P.O. Box 127
00161 Helsinki
FINLAND

FRANCE:

Ministère des Affaires Étrangères
20, rue Monsieur
75700 Paris, 07 SP
FRANCE

GERMANY:

Federal Ministry for Economic Cooperation and Development (BMZ)
Referat 410
Friedrich-Ebert-Allee 40
D-53113 Bonn
Federal Republic of GERMANY

German Agency for Technical Cooperation (GTZ)
P.O. Box 5180
D-65726 Eschborn
Federal Republic of GERMANY

Kreditanstalt für Wiederaufbau (KfW)
Palmengarten Str. 5-9
D-60325 Frankfurt am Main
Federal Republic of GERMANY

ITALY:

Directorate General for Development and Cooperation (D.G.C.S.) - Office XVI
Ministry of Foreign Affairs
Square La Farnesina, 1
00194 Rome
ITALY

JAPAN:

Japan International Cooperation Agency (JICA)
P.O. Box 216
4th Floor, Shinjuku Mitsui Building
1-1, 2-Chome, Nishi Shinjuku
Shinjuku-ku, Tokyo 163, JAPAN
Director General
Overseas Investment Consulting Office
Export-Import Bank of Japan
4-1 Ohtemachi, 1-Chome
Chiyoda-Ku, Tokyo 100, JAPAN

Director, Institutional Analysis Division
Japan Bank for International Cooperation (JBIC)
Ohtemachi, 1-Chiome Chiyoda-Ku
100-8144 Tokyo, JAPAN

THE NETHERLANDS:

Advisor, Financial Services & Enterprise Development
Urban Development and Economy Division (DRU/SE)
Ministry of Foreign Affairs
Bezuidenhoutseweg 67
P.O. Box 20061
2500 EB, The Hague, THE NETHERLANDS

NORWAY:

Deputy Director, Industrial Cooperation Department
Norwegian Agency for Development Coop. (NORAD)
P. B. 8034 Dep 0030
Oslo, NORWAY

SWEDEN:

Head, Private Sector Development Division
SIDA/ INEC (Swedish International Dev. Agency)
S-105 25 Stockholm
SWEDEN

SWITZERLAND:

Head, Industry, Vocational Education & Urban
Development Division
Swiss Agency for Development and Cooperation, SDC
Freiburgstrasse 130
CH-3003, Berne, SWITZERLAND

UNITED KINGDOM:

Enterprise Development Group
Department for International Development (DFID)
94 Victoria Street
London SW1E 5JL
UNITED KINGDOM
UNITED STATES:

www.mip.org

Assessing Impact of Microenterprise Services (AIMS);
Implementation Grant Program (IGP);
Technical Assistance to USAID Missions (MicroServe);
Program for Innovation in Microenterprise (PRIME Fund);

Director, Office of Microenterprise Development
U.S. Agency for International Development (USAID)
1300 Pennsylvania Ave., NW, Room 2.11-.11
Washington, D.C. 20523-0230, USA

MULTILATERAL AGENCIES

AFRICAN DEVELOPMENT BANK:

Vice President, Operations
African Development Bank
01 B.P. 1387
Abidjan 01,
COTE D’IVOIRE

ASIAN DEVELOPMENT BANK:

Asian Development Bank
No. 6 ADB Ave., Mandaluyong City
P.O. Box 789
0980, Manila
THE PHILIPPINES

EBRD:

European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2EH
UNITED KINGDOM

EC:

Private Sector Development & Financial Institutions European Commission
General Directorate DG VIII – Development
200 rue de la Loi
1049 Brussels
BELGIUM
FOOD AND AGRICULTURE ORGANIZATION:
Agricultural Support Systems Division, FAO
Viale Delle Terme di Caracalla
00100 Rome
ITALY

THE FORD FOUNDATION:
Deputy Director, Economic Development Unit
The Ford Foundation
320 East 43rd Street
New York, NY 10017, U.S.A.

IFAD:
IFAD
107 via del Serafico
00142 Rome
ITALY

ILO:
Entrepreneurship & Management Development Branch
International Labour Office (ILO)
4, route des Morillons
CH-1211 Geneva 22
SWITZERLAND

INTER-AMERICAN DEVELOPMENT BANK:
Microenterprise Unit
Inter-American Development Bank (IADB)
Social Programs & Sustainable Development Dept.
1300 New York Avenue, NW
Washington, D.C. 20577
U.S.A.

INTERNATIONAL DEVELOPMENT RESEARCH CENTRE:
International Development Research Centre
P. O. Box 8500
Ottawa, Ontario K1G 3H9
CANADA

International Development Research Centre
P. O. Box 62084
Nairobi
KENYA
OECD:
Resource Mobilisation and Private Sector Development
2, rue André-Pascal
75775 Paris Cedex 16
FRANCE

ORGANIZATION OF AMERICAN STATES:
Director
Department of Scientific and Technological Affairs
OAS
1889 F Street, N.W.
Washington, D.C. 20006,
U.S.A.

SOROS FOUNDATION:
Executive Director
P.O. Box 34
H-1525 Budapest,
HUNGARY
Regional Program Director
Open Society, Economic and Business Development
400 West 59th Street, 4th Floor
New York, NY 10019,
U.S.A

UNCTAD:
Enterprise Development
United Nations Conference on Trade and Development (UNCTAD)
Palais des Nations
CH-1211 Geneva 10
SWITZERLAND

UNDP:
Director
Private Sector Development Programme
UNDP, Room UH-811
One United Nations Plaza
New York, New York 10017
U.S.A
UNIDO:
Director, Private Sector Development Branch
United Nations Industrial Dev. Organization (UNIDO)
Vienna International Centre
P.O. Box 300
A-1400 Vienna
AUSTRIA

UNIFEM:
Small Enterprise Development
United Nations Development Fund for Women (UNIFEM)
304 East 45th Street, 16th Floor
New York, NY 10017,
U.S.A

UNITED NATIONS:
Regional Coordinator
Latin America & the Caribbean Cluster
Division for Public Economics & Public Admin.
United Nations, Room DC1-942
New York, New York 10017
U.S.A
Director
Division for Trade Support Services
International Trade Centre (ITC)
54-56 rue de Montbrillant
1202 Geneva
SWITZERLAND

WORLD BANK:
Private Sector Development Department
The World Bank
1818 H Street, N.W., Room Q 4-037
Washington, D.C. 20433,
U.S.A.
BDS Manager, Mekong Project Development Facility
IFC - Vietnam Mission Hanoi
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.
OTHER DONOR GROUPS:

Royal Danish Embassy
Secretary of Embassy (Economic)
3200 Whitehaven St., N.W.
Washington, D.C. 20008
U.S.A.

Secretariat, Working Group for International Cooperation in Vocational and Technical Skills Development
c/o Swiss Agency for Development and Cooperation
Eigerstrasse 73
CH-3003, Berne
SWITZERLAND

Director, The SEEP Network
(Small Enterprise Education and Promotion)
1825 Connecticut Ave., N.W.
Washington, D.C. 20009
U.S.A.