

SEED WORKING PAPER No. 57

**Business Centres for Small Enterprise
Development**

Experiences and Lessons from Eastern Europe

by

Merten Sievers
Klaus Haftendorn
Astrid Bessler

InFocus Programme on Boosting Employment
through Small Enterprise Development
Job Creation and Enterprise Department



International Labour Office • Geneva

Copyright © International Labour Organization 2003
First published 2003

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Bureau (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1T 4LP [Fax: (+44) (0)20 7631 5500; e-mail: cla@cla.co.uk], in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 [Fax: (+1) (978) 750 4470; e-mail: info@copyright.com] or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

ILO
Business Centres for Small Enterprise Development: Experiences and Lessons from Eastern Europe
Geneva, International Labour Office, 2003

ISBN 92-2-114304-X

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our website: www.ilo.org/publns

Printed in Switzerland

Foreword

One of the ways to facilitate and provide business development services (BDS) to micro and small enterprises (MSEs) is setting up and managing business centres. While several researchers have documented how various development agencies have provided BDS through business centres, this publication is the first to compare different approaches and derive lessons on how to set up a financially sustainable business centre.

In order to increase the access of MSEs to BDS, the InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) has established several business centres in post-crisis regions (political conflict and transition economies) where private BDS provision was almost non-existent. This paper evaluates market-oriented Business Centres that were set up with the technical assistance of the International Labour Organization and compares them with those set up by other agencies.

The findings show that 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 clients are often micro entrepreneurs with scant resources, little awareness of how BDS can benefit them, and a low willingness to pay fees. This paper draws on a wide range of development agency experiences to show that if business centres develop accessible products – tailored to the specific needs of micro entrepreneurs – financial sustainability is achievable.

The target audience for this working paper are governments and development agencies looking at ways to support the setting up of business support structures, in particular in transition countries. The paper is co-authored by Merten Sievers, Klaus Haftendorn of IFP/SEED who have been widely involved in the implementation of business centre projects in various Balkan countries, and Ms. Astrid Bessler who contributed to chapters two and four during her internship in IFP/SEED in 2001.

Acknowledgement is due to Mr. Maurice Allal, who worked on the projects in Bosnia-Herzegovina and Kosovo and has contributed valuable information to the authors. Thanks also to Mr. Roel Hakemulder for his comments on the draft and to Ms. Geraldene Fitzgerald for editing the paper.

Kees van der Ree
Director a. i.
InFocus Programme on Boosting Employment
through Small Enterprise Development

Contents

Foreword.....	iii
Acronyms.....	vii
Executive Summary.....	ix
1. Introduction.....	1
2. The Business Centre approach of different donors and agencies.....	3
2.1 United Nations Industrial Development Programme (UNIDO).....	3
2.2 Swisscontact.....	5
2.3 United States Agency for International Development (USAID).....	7
2.4 Inter-American Development Bank (IADB).....	9
2.5 European Union: PHARE.....	11
3. The ILO approach to business centres.....	14
4. The ILO's technical cooperation experience in South East Europe.....	18
4.1 The context: South East Europe.....	18
4.2 The ILO's Business Centre programme in Bulgaria.....	20
4.3 The ILO's Business Centre programme in Bosnia-Herzegovina.....	26
4.4 The ILO's Business Centre programme in Kosovo.....	29
4.5 The ILO's combined BC and LED project in Serbia and Montenegro.....	32
5. Conclusions and lessons learned.....	35
Bibliography.....	43

Boxes

Box 1: Definition of terms.....	2
---------------------------------	---

Tables

Table 2.1: UNIDO: The estimated enterprise-level impact of the BCs, Romania, 1995-1998.....	4
Table 2.2: Swisscontact: Estimated number of clients per BC and per year, selected countries, 1996-1998.....	6
Table 2.3: USAID: Partners of the New Business Development Programme in the Russian Federation, 1998.....	8
Table 2.4: Inter-American Development Bank: Financing of EDC projects and contributions, 1995-1999.....	10
Table 2.5: Phare: Business support centres and business innovation centres established in five CEE countries by end of 1998.....	12
Table 4.1: Key indicators for business centres, Bulgaria, 1996-2000.....	25

Table 5.1: Comparison of three different types of business centre approaches, selected countries, 1990-1995	37
--	----

Figures

Figure 4.1: Relationship between the Local Economic Development Forum and the Business Centre	33
--	----

Acronyms

ALED	Agency for Local Economic Development (→ LEDA)
BARDA	Bulgarian Association of Regional Development Agencies
BC	Business Centre
BDS	Business Development Services
BI	Business Incubator
BIC	Business Innovation Centre
BiH	Bosnia and Herzegovina
BPSC	Business Promotion and Support Centre (→ Business Centre)
BSC	Business Support Centre (→ Business Centre)
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
CMU	Contract Management Unit
EDA	Enterprise Development Agency (→ Business Centre)
EDC	Enterprise Development Centre (→ Business Centre)
EU	European Union
GTZ	Gesellschaft fuer Technische Zusammenarbeit (German cooperation)
HQ	Headquarters
IADB	Inter-American Development Bank
ILO	International Labour Organization
LEA	Local Enterprise Agency (→ Business Centre)
LED	Local Economic Development
LEDA	Local Economic Development Agency
MIF	Multilateral Investment Fund (from the IADB)
MSE	Micro and Small Enterprises
MTU	Mobile Training Unit
NBDP	National Business Development Programme
NGO	Non-Governmental Organization
Phare	Poland and Hungary Action for the Restructuring of the Economy (EU assistance programme)
RDA	Regional Development Agency (→ LEDA) (→ Business Centre)
SC	Swisscontact
SED	Small Enterprise Development
SEDA	Sandzak Economic Development Agency
SEE	South East Europe
SME	Small and Medium Enterprises
TA	Technical assistance
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Program
USAID	United States Agency for International Development

Executive Summary

A number of donors and agencies have engaged in developing business centres that provide business development services (BDS) in a private-sector-like manner. The business centre (BC) is a structure set up to deliver services to entrepreneurs and business start-ups with the aim of strengthening the job creation potential, productivity and competitiveness of micro and small enterprises (MSEs). This paper explores the risks and benefits of several different business centres (including those established by the ILO) with particular regard to Eastern Europe. It attempts to answer the following questions:

- What makes a BC effective and how does it become sustainable? How is sustainability defined in the different BC approaches? How is sustainability achieved?
- What should a newly created BC concentrate on? What is the right mix of services?
- How does the BC approach compare to other MSE-development measures?
- Is the BC approach compatible with the “new BDS paradigm”?
- What are the future challenges for the BC approach?

After reviewing the BC approaches adopted by the United Nations Industrial Development Programme, Swisscontact, the United States Agency for International Development, the Inter-American Development Bank and the European Union Phare programme, the present paper evaluates the ILO experience in setting up BCs in South East Europe. By being more market-driven, some centres have been able to serve a large number of enterprises – ensuring an institutional sustainability based on a variety of income sources. The income generated by these BCs usually comes not only from MSEs, but also from local donors and authorities that contract the BC as consulting companies.

The experience of different agencies shows that some BCs have not achieved financial self-sustainability. Reasons for this vary. 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 income and address vital MSE needs at the same time. Success is shown to depend on a variety of factors including a thorough market assessment, the right mix of MSE services and a realistic exit strategy from external funding.

1. Introduction

Small enterprises usually create a high percentage of total employment in developing and transition countries. They play an essential role in securing income and employment for millions of people and in creating new jobs. Governments, donors, and technical agencies have been trying to overcome constraints on small enterprises to boost their employment creation and growth potential by applying various measures such as financial schemes, interventions to improve the business environment at local level and increasing access to Business Development Services (BDS). MSE support schemes have been around for a long time. However, many of the existing promotional activities, mainly delivered through government agencies or strongly subsidized programmes, were not achieving the outreach desired. Many entrepreneurs were not getting access to these services. It was recognized that a new approach to delivering Business Development Services (BDS) was needed. This paper evaluates market-oriented Business Centres that were set up with the technical assistance of the International Labour Organization and compares them with those set up by other agencies.

In transition countries micro and small enterprises face a distinct set of problems. In South East Europe, a long period of non-market economies and a sudden and turbulent transition led to a situation characterized by a lack of management skills, insufficient access to finance and a hostile business environment without appropriate institutions to support MSE-development. The transition period and the rapid change from centrally planned to free market economies has driven most countries into high unemployment rates and has often 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 enterprises sector, allowing it to grow and to create employment.

Business Centres (BCs) are designed to improve the access of MSEs to all kinds of different Business Development Services in geographical areas with little or no service provision. BCs usually take a private-sector type approach to BDS provision. This approach is based on what has been called the “new paradigm” in BDS.

The “new paradigm” in Business Development Services

The emergence of this new paradigm is closely linked to a change of view on the small enterprise world. BDS-schemes, initially termed “non-financial services”, had already been running for several decades and were usually implemented through government agencies. Such approaches were found unsatisfying in terms of the numbers of small enterprises reached and their overall impact on small enterprise development. This fuelled a debate partly originating out of experiences in microfinance and partly out of dissatisfaction with existing service-delivery mechanisms. This debate led to a new approach for these “non-financial” services and to their positive redefinition as “business development” services.

This new way of conceptualizing non-financial services was labeled the “new paradigm” in BDS. According to the “blue book”¹ the new approach stresses 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, BDS can be delivered on a commercial basis even for the lowest-income segment of the entrepreneurial SE sector.” (Donor Committee, 2001)

¹ 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”.

The “new paradigm” also stresses the necessity of implementing agencies to change the way in which they have been operating in small enterprise development. Instead of supporting direct service delivery, agencies should rather try to stimulate a BDS market relying on existing commercial service providers. Similarly to microfinance, the financial sustainability of BDS providers in different types of BDS interventions is at the core of this ongoing debate. Although this new approach is presently being tested in different projects around the world, information on practical experiences is still relatively scarce. Box 1 defines the terms ‘Small Enterprises’ and ‘Business Centre’.

This working paper will reflect upon the experience of ILO and other agencies in setting up market-oriented BCs. 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 to enable them to generate jobs and income. This paper attempts to answer the following questions:

- What makes a BC effective and how does it become sustainable? How is sustainability defined in the different BC approaches?
- What should a newly created BC concentrate on? What is the right mix of services?
- How does the BC approach compare to other MSE-development measures?
- Do BCs promote decent work?
- Is the BC approach compatible with the “new paradigm”?
- What are the future challenges for the BC approach?

The paper is structured in 5 parts, the Introduction (Part 1) is followed by a close look at what five selected donors have been doing to develop business centres (Part 2). Part 3 investigates the ILO BC approach in general and Part 4 investigates the practical experiences of the ILO with BCs in various South East European countries. The paper describes the specific economic and political environment in which different BCs were set up. It then analyses the different strategies that were pursued for BCs in Bulgaria, Bosnia and Herzegovina, the province of Kosovo and Serbia and Montenegro. The main conclusions arising out of the different approaches are presented in Part 5.

Box 1: Definition of terms

Small Enterprises: This term will include micro-, small-, and medium enterprises of the manufacturing, agro-industrial, service, and trade sectors (excluding farming, forestry, and mining).

Business Centre (BC): Will usually be a NGO or private enterprise set up under an existing national legal framework that provides Business Development Services directly to Small Enterprises. There is a wide range of names for similar structures, including: Enterprise Development Agencies or centres (EDA, EDC), Business Support or Service Centres (BSC), Local Enterprise Agencies (LEA) and others.

2. The Business Centre approach of different donors and agencies

This section reviews the approaches taken by some major donors and agencies on Business Centres (BCs), focusing on the implementation strategy of the respective institutions. It is based on an analysis of the current literature.² Each donor or agency follows its own programme and strategy when building up BCs and each is differently documented, so the available reports are only partially comparable. The present authors have filtered out the most salient characteristics of each of these BCs as described below.

2.1 United Nations Industrial Development Programme (UNIDO)

More than 20 business service programmes have been implemented by UNIDO in the Commonwealth of Independent States countries and in Eastern Europe. The example reviewed here is Romania, where the first BC was established in Bucharest in 1991. In order to create a network of centres 16 additional BCs were created by UNIDO in smaller cities of Romania in 1994 and 1995.

Before a BC is set up, UNIDO organizes round table discussions that aim at bringing together local economic actors (business people, representatives of private sector institutions and representatives of government). The BC is modeled according to the local demand identified by these economic stakeholders. The usual focus is on small entrepreneurs from defined sectors and industries, but everybody who “is willing to pay” for services is served. From the outset, the BC’s clients are charged for the services offered at a subsidized price, although SMEs are charged less than larger companies.

The costs for the establishment and the running of a BC are primarily determined by the size of the programme, the equipment package, the range of services provided and the labour costs in the respective country. Estimated initial costs for a three-year BC project located in an urban area are between US\$ 400,000 and US\$ 700,000. This includes the start-up package of equipment and its establishment, cars, assistance in preparing the legal documents and also recruiting and training staff. Besides its financial contribution and technical assistance, UNIDO offers technical support, for example, by facilitating access to decision-makers. Apart from the financial resources, UNIDO supervises the BC’s operations and carries out further staff training. After the initial three-year period, UNIDO reduces its financial support to a minimum, with local government agencies and private sector institutions stepping in to support the running costs of the BCs.

Three of the 16 Romanian centres set up by UNIDO, in Brasov, Galati and in Buzau have been described by Kennedy, Scholtes, Sonesson, 2000. Each of these centres is registered as non-profit organization. Each has a manager, finance counsellors, marketing specialists, secretariats and business consultants. In 1998, the Brasov centre had a staff of 11 professionals; the Buzau centre 16 and 31 people were employed in the Galati centre.³ Originally, the centres concentrated on core services such as information, referral and technical assistance. In addition, workshops, seminars and training (management training) and business counselling (e.g. for market research, marketing, governmental regulations and

² Astrakhan, Stinger and Yanboukhtina (1999), Gibson and Hitchins (2000), Hagnauer, Rivera and Valcárcel (2001), Hitchins (1999), Kennedy, Scholtes and Sonesson (1999; 2000), Monck, Bateman and Kudela (2000), Tabuenca and Llisterri (1998 and 2000) and United Nations Development Programme (2000).

³ However, it is not clear if freelancers and consultants are also included in these figures or if they refer to part-time and full-time employees.

sourcing) were offered. Specially tailored to the needs of start-ups, a set of initial services that included guidelines for preparing feasibility studies and business plans, business manuals, business registration, as well as loan packaging were provided.

Over the years, the range of services offered by the BCs has expanded, depending to a high degree on the different programmes which have been implemented on behalf of the sponsoring organizations. Some programme-related services are provided only for a limited time. The Buzau Centre incorporated the administration of revolving loan guarantee funds, carried out work-safety staff training for the Romanian government, provided communication and negotiation skills training and training for local development. Furthermore, as it won a European Union (EU) tender, entrepreneurship training and counselling for the unemployed were conducted. Microfinance and more specialized services in human resource development, a programme on import and export consultancy, co-financed by the EU, and marketing research have been included by the Brasov centre. The Galati Centre has started services in marketing research, quality management (ISO 9000 business certifications) and asset appraisal. Other activities of the centre include staff training for the promotion of business partnerships within the EU and a social-oriented project giving support to families with small children, both financed by the EU.

Apart from the original target group of the BCs in the Buzau centre, the government staff and, in the case of the Galati Centre, larger companies have also been served.

Table 2.1 provides an estimate of BC impact at enterprise level.

After the sponsors reduced their financial support, the three BCs responded by offering more diversified services and targeting larger companies. This meant that sustainability was achieved by targeting larger enterprises and not the MSE clientele. As long as the centres focus solely on providing business development services to SMEs, full cost-recovery is recognized by UNIDO to be impossible. An alternative or complementary strategy is to attract other sources of income, besides the delivery of BDS.

Table 2.1: UNIDO: The estimated enterprise-level impact of the BCs, Romania, 1995-1998

City	Year			
	1995	1996	1997	1998
Brasov Centre				
No. of clients	158	290	370	360
No. of jobs created	117	190	110	125
No. of trainees	20	125	75	105
No. of loans	22	15	10	12
Buzau Centre				
No. of clients	331	513	1,119	859
No. of jobs created	242	465	94	35
No. of trainees	16	204	723	614
No. of loans	52	82	25	26
Galati Centre				
No. of clients	75	102	120	124
No. of jobs created	115	250	283	114
No. of trainees	0	0	0	0
No. of loans	19	22	30	25

Source: Kennedy, Scholtes and Sonesson, p. 148.

2.2 Swisscontact

In the early 1990s Swisscontact (SC), a Swiss consultancy company, started to implement a BC approach in Ecuador. Based on these experiences SC also started BC-programmes in Peru, the Philippines and in Indonesia. Prior to starting a new programme, SC selects local partner NGOs or private companies and supports them in setting up a BC. In Ecuador, the Philippines and initially in Indonesia, a relationship-based selection method was used. Meanwhile, the partners in Peru and those for the second term of BCs in Indonesia have been selected through a tendering process, under which applicants are invited to bid for SC support to form a BC. Both the information provided (in the form of business plans and other documentation supplied by the applicant) and qualitative assessments feed into the final decision by SC. The chosen partners are mainly NGOs, non-profit organizations and small private organizations with mixed or limited ownership.

SC's funding to BCs consists of start-up funds and a package of financial incentives, used as a tool to influence the BCs' ability to focus on the most profitable services. For some programmes, for example in the Philippines, the financial incentives are service-specific based on gross profit generated by the BCs. Apart from the conditional support; SC provides non-conditional payments as well as non-financial support, such as technical assistance and networking support. SC provides this technical assistance upon request on an ad hoc basis. In addition, staff training as well as individual coaching by SC staff is offered. Furthermore, general promotion and publicity for the BCs' product is part of the non-financial support. SC's BC approach is not based on a specific range of services: it is the tendering institution or enterprise that proposes the type of service they would like to provide.

The range of services offered by the BCs can be illustrated by the Peruvian example. Here, the BCs focus partly on general business services and training and partly on trade related services. The services offered include marketing techniques, strategic planning and secretarial support. The BC "Servicepi" supports SMEs to enable them to participate in tenders to win subcontracts from large companies and government institutions for office uniforms and working clothes. The centre also monitors the SMEs in their fulfilment of the contract.

The fees that centres charge for their services to clients cover direct costs and a part of the overheads. By envisaging cost recovery, the BCs tended to focus predominantly on higher value-added enterprises. "As a guideline, clients of business centres are expected to have a yearly turnover of US\$ 50,000 to US\$ 1.5 million, a workforce of between five and 200, and assets (excluding land and buildings) of below US\$0.5million."⁴ Subsistence micro enterprises could only be served as long as the provided services were subsidized by a funding organization. Besides enterprises, donors, associations, technical cooperation partners and the government have been targeted as clients by the BCs. Depending on the country some BCs are financed largely by the fees they charge for their services to entrepreneurs, but a part of the income still derives from donor/government contributions through direct contracts with the BCs.

Depending on the age of the BC and the range of services it offers, the BCs have reached out to differing client numbers. Centres that offer simple high-volume services (registration of businesses, promoting trade fairs, training) have reached more clients than those that are specialized on one-to-one services, in technical assistance or in consulting. A

⁴ Hagnauer, Rivera, Valcarcel, 2001, p. 109.

tendency observed in a few of the BCs, for example in Indonesia, is to serve intensively only a small number of clients.

In terms of financial sustainability,⁵ the centres have generally reached relatively high levels of cost recovery from 50 per cent up to 90 per cent after a few years, although the majority of the BCs have been adversely affected by the economic decline in Asia and Latin America. The first two BCs in Indonesia, initiated in 1996, achieved 60 to 80 per cent of financial sustainability in 1998. In late 1997, further BCs were started in Indonesia. Two were fully financially sustainable within less than 12 months. In the Philippines, the BCs have reached a lower level of financial sustainability than in Indonesia, with an average cost recovery of less than 50 per cent after the first year. The best results were achieved by the BC in Laguna (Philippines), with strong revenues from trade fair marketing and business registration fees. Another BC that organized the purchase of bulk materials for its members also performed well. However, in face of poor management and conflicting ownership, SC considered closing some of the BCs.

Table 2.2 estimates Swisscontact's number of clients per BC and per year in Ecuador, Indonesia, Peru and the Philippines from 1996-1998.

Table 2.2: Swisscontact: Estimated number of clients per BC and per year, selected countries, 1996-1998

Indicators	Ecuador ^a	Peru ^b	Indonesia ^c	Philippines ^d
Number of clients per BC and year (1)	94	230	38	132
Number of BCs (2)	11	10	7	18
Total number of clients per country and year, calculated on the basis of (1) and (2)	1,034	2,300	266	2,376

Note: ^a Annual average for 1996-1998; ^b annual average based on 1996 and 1998; ^c based on 1997 aggregate data; ^d average for 1998.

Source: Based on Hitchins (1999): p. 13.

An important aspect of the BC performance is cost-benefit analysis: "(...) in order to undertake a cost-benefit analysis slightly heroic assumptions would need to be made relating to the additional benefits being accrued to SMEs and the duration of these benefits. However it is certainly the case that over a 2-3 year period BC turnover exceeds SC input costs. Furthermore over a longer period it seems likely that value-added (defined as profits + wages) by BCs will also exceed SC inputs (assuming that BCs are sustainable and receive no further subsidy)."⁶ However, considerable unspecified non-financial support by SC has not been taken into account when calculating the cost effectiveness of BC interventions.

In sum, SC's approach reflects some of the key elements of the new BDS paradigm. By partly linking its financial support to the BCs' ability to sell its products, SC followed a demand-led strategy. From the commercial point of view of the BC, the most lucrative market segments are being served. Hence, this market includes institutional players (donors, governments), large enterprises and dynamic growing medium-sized enterprises. Since little profit can be raised from start-ups and micro enterprises, these are less targeted by the BCs.

⁵ SC notes that "[...] this indicator is slightly different for each country: in some cases it is total income against total expenditure. Elsewhere it is based on gross profit against overheads." (Hitchins, 1999, p. 9).

⁶ Hitchins (1999), p. 14.

2.3 United States Agency for International Development (USAID)

The case study reviewed here is the new business development programme (NBDP) that was funded by USAID for three and a half years, from 1993 to 1997 and implemented by Deloitte Touche Tohmatsu (DTT) in the Russian Federation. Sixteen BCs funded for two years had initially been envisaged but it was soon realized that setting up the BCs required more funding over a longer period of time. Thus, eight BCs located in geographically diverse areas of the Russian Federation were established. In addition, a Business Support Centres Foundation was registered as a non-profit umbrella organization, functioning as the BCs' national affiliate. Besides this foundation, a Contract Management Unit and a central NBDP office in Moscow accompanied the whole programme. Table 2.3 provides a list of the sites, number and main activities of the NBDP programme in the Russian Federation.

USAID started the project by organizing joint initiatives with the local administration 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. The Contract Management Unit in Moscow initiated the programme by selecting the sites, hiring staff and managing the funding of the BCs. After this start-up period, the CMU provided general contract management, project administration and finance as well as strategic guidance to the BCs.

After the BC sites had been selected, the central NBDP office hired expatriate directors. They launched the BCs and recruited Russian directors, who took over the management in 1995. Backed by the Moscow office, each BC was supposed to operate independently. The BCs' strategy to deliver services was based on a BDS market analysis. Strategic partners were chosen who provided complementary services, creating a network of service providers. In the early stages, the BCs assisted local governments to support business development initiatives. In the later stages the centres focused on revenue-generating services to achieve financial sustainability.

Depending on the local business conditions, the BCs provided different types of services. Those ranged from business registration and business planning, short practical business skills-based courses and seminars, legal and regulatory compliance, trade and export development, to customer services, financial management and business linkages. Apart from the general training courses, more specialized training courses were launched and personnel management and marketing were incorporated into the activities. For example, the Vladivostok BC and Vladivostok local authorities jointly developed a leasing programme, business planning services and feasibility studies. In addition, the centre offered consulting and training services, especially in marketing and market research, and assisted foreign clients in finding local venture partners. In the initial stage, some centres offered business links services, trade information and partner search services for new entrepreneurs. They also provided recruitment and brokerage services as well as technology licensing links. Some BCs also started to organize partner search events, trade shows or exhibitions to link matching local and international companies. With the assistance of their Moscow counterparts, BC consultants also provided assistance to their strategic partners, for example by launching and sustaining fee-based training programmes and by co-funding the training activities.

Table 2.3: USAID: Partners of the New Business Development Programme in the Russian Federation, 1998

Site	Number	Example	Activities
National Partners	8	Morozov Project	Training
Ekaterinburg	16	Zarechny OZ	Incubator
Novosibirsk	16	Open University	Training
Tomsk	14	Technopark	Incubator, exhibitions
Voronezh	16	Agricultural University	Consulting, exhibitions
Smolensk	12	Caravan Plus	Information services
Zelenograd	11	Moscow College	Training
St. Petersburg	7	Loentief Centre	Training, policy, research
Vladivostok	8	High-tech Association	Consulting
Total	108		

Source: Astrakhan, Stinger, Yanboukhtina (1999), p. 9.

The target clients varied among the BCs. The targeted clients for direct assistance were new private enterprises not related to former state companies, growth-oriented businesses and potential creative entrepreneurs. Over time, the project emphasized targeting SMEs of certain sub-sectors, for example, bakeries, furniture makers, food processing and private medical clinics.

In terms of impact achieved by the USAID-funded programme, a selection of the results are cited here: “The NDBP: supported start-up of 2,606 new businesses and contributed to creating 37,098 new jobs, created over 50 new business and professional associations; [...] developed seminars and workshops in which 36,110 entrepreneurs participated [...], developed close to 180 new training programmes with partner organizations, 30 are still in use [...], trained in the U.S. 765 Russian entrepreneurs, association members and government officials; (...) contributed to 96 Russian organizations receiving grants from other international programmes worth over US\$2 million [...] helped Russian businesses contract investments worth over US\$7 million, distributed equipment worth US\$1 million to Russian organizations; managed the Innovative Project (IPI) Fund, which disbursed a total of US\$2 million to fund 12 projects”.⁷

However, it is difficult to compare these results with the results of other BC projects since the total amount of funding for the BC network was not specified in the available documents. At the end of the programme each centre had achieved a different degree of self-sustainability. The most self-sustainable centres received 70 to 90 per cent of their revenues from fees paid by clients; the less sustainable BCs relied on grants for up to 50 per cent and on sub-lease of premises for up to 30 per cent of their revenues.

The majority of BCs stopped delivering training courses, with the exception of highly specialized training courses that entrepreneurs paid for, and cross-subsidized training courses, used to extend the BCs client base and outreach. Most BCs stopped serving potential entrepreneurs, micro and small start-up enterprises, SMEs with liquidity problems, business associations, and NGOs. Instead the BCs focused primarily on SMEs with growth potential (usually engaged in services, construction, trade, food-processing), start-up businesses that were able to pay the fees for registration and advisory services, local administrations, foreign

⁷ Astrakhan, Stinger and Yanboukhtina (1999), p. 10.

companies and larger national companies that were restructured. Some BCs changed their organizational structures after external funding ended and reduced the number of core staff to 3-10 full-time employees. The Smolensk and Zelenograd BCs shared staff by being transformed into several small organizations that now cooperate closely with each other.

USAID built up a network of BCs and other complementary providers. The role of each BC changed after donor funding was withdrawn and the BCs often changed their target clientele to be financially viable. “As a rule, after transformation to self sustainability the spread of BSC (Business Support Centres) services narrowed, the number of client target groups and the diversity of clients decreased.”⁸

The BCs were also managing the Innovative Project Fund and disbursed grants or credits, a feature that surely increased the attractiveness of the programme for entrepreneurs.

2.4 Inter-American Development Bank (IADB)

Financed by the Multilateral Investment Fund (MIF), an Inter-American Development Bank (IADB) fund, several Enterprise Development Centres (EDCs) were initiated across Latin America. Given the project time frame of three to four years, a network of self-sustainable private centres, was the expected result. The IADB funded several projects, including EDCs in Argentina, Colombia, Costa Rica and El Salvador.

The organizational structure used by this approach involved national executive agencies, a national coordination office or unit, the EDCs and local enterprises. Private sector organizations, like the Chamber of Industry in Costa Rica and a corporate private sector association in El Salvador, functioned as executive agencies. Each executive agency is connected to a coordination office or unit, which is responsible for the drafting of annual plans and the coordination and monitoring of EDC activities. The coordination office also controls managerial procedures and encourages network activities.

In Costa Rica and El Salvador enterprise extension services were created that functioned as the EDCs’ extension. The institutional and strategic decisions for each EDC are handled by a steering committee. Each centre is staffed with some experts who work as internal consultants and with two to three professionals (i.e. engineers or economists), a managerial officer and the manager. The technical staff of the EDC is paid according to a service agreement based on the rate of target completion.

The EDCs target SMEs, which are characterized by IADB as manufacturing formal enterprises with 5 to 99 employees. By following its own marketing strategy, each centre offers its intermediary services via door-to-door visits. The EDCs usually play an intermediary role subcontracting external consultants or passing clients on to the co-executive agency that recruits full-time agents. First, several bids are asked for by the centres in terms of the services required by an enterprise. Finally, the enterprise itself selects the agency or consultant that fits best. All three actors agree on a contract. The charged price for the services does not cover the costs but is subsidized by MIF grants. During the project period, the enterprises are supposed to pay an increasingly higher portion of the costs and, finally, to pay fully the cost-covering fees.

⁸ Astrakhan, Stinger, Yanboukhtina (1999), p. 13.

Core activities provided by the EDCs are generally consultancy services and training courses for strategic planning, marketing and human resources, especially training for businesswomen. Besides this, technical assistance, including preliminary diagnosis and quality assurance (ISO 9000) is offered. Furthermore, the exchange of subcontracting as well as the promotion of foreign trade, assistance of fairs and the support of company networks are included in the range of the centres' activities. More advanced EDCs render to develop product designs and innovations and provide sectoral analysis. As a consequence to react to the changing markets, in all cases the centres' services arrangement changed strongly from the original provided services. The most successful services supplied by the centres have been training in business management skills, technical assistance through consultancy tools and marketing and export support services.

As Table 2.4 shows, the financing of the centres comprises income earned from paid services, IADB/MIF grants and the local partners' contribution. In El Salvador and Costa Rica a high percentage of the generated income is retained in a reserve or sustainability fund. This aims to promote a contributory thinking to programme continuity and EDC sustainability. Looking at financial sustainability, the Central American countries depend on grants for 75 per cent of total costs with local partners putting in the remaining 25 per cent. Two South American countries – Argentina and Colombia – are financed to about 56 per cent by the IADB/MIF while local entities and income-generating services provide the rest.

Table 2.4: Inter-American Development Bank: Financing of EDC projects and contributions, 1995-1999 (US\$)

Country	Total Project Cost ⁽²⁾	IADB/MIF ⁽³⁾	Local Ent. ⁽⁴⁾	EDC Income Service Sales ⁽⁵⁾	Reserve Fund (Sustainability)
Costa Rica	3,340,000	74.6%	21.0%	4.4%	913,000 (100.0%)
El Salvador	2,758,000	75.0%	25.0%	⁽¹⁾	1,195,200 (100.0%)
Argentina	15,254,660	55.6%	19.1%	25.3%	931,890 (20.0%)
Colombia	10,314,547	57.9%	11.9%	30.2%	936,000 (30.0%)

Note: ⁽¹⁾ All EDC income received from the enterprises is allocated to the Sustainability Fund. ⁽³⁾, ⁽⁴⁾, ⁽⁵⁾ contribution in % to the total project cost ⁽²⁾.

Source: Based on Tabuenca and Llisterri (2000), p. 125.

To date, the EDCs have promoted over 5,800 enterprises within these four countries. However, only 17 per cent of the services provided went to SMEs. Some centres focused on a smaller number of larger companies, which are more likely to pay for services and attended these clients intensively. Other centres rendered a broader range of services. By envisaging self-sustainability, BCs are forced to focus more on larger companies that belong to the more solvent demand segment and are able to pay cost-covering fees. If companies with more than 99 employees are served, they are ineligible for subsidies and allow for cross-subsidies towards smaller companies.

The conclusions drawn by the IADB Business Centre approach is that starting-up the centres has taken more time than originally planned – six to 18 months – because the initiative to boost the BDS market requires cautious procedures and a good design, tailored to local circumstances. By taking an intermediary role, using private sector entities and reacting to market changes, IADB integrates elements of the new paradigm of BDS delivery. It seems that in the post-funding period that the centres have focused mainly on larger companies to achieve financial self-sustainability.

2.5 European Union: PHARE⁹

The Phare programme financed by the European Union has massively financed BC programmes as the centrepiece of an overall institutional support instrument for SME development in 10 countries in Central and Eastern Europe. The Phare Business Centre programme is by far the biggest attempt to build up BC-networks using the approaches considered in this paper.¹⁰ Different SME programmes developed a BC-network but usually also included the support of national agencies, business innovation centres and business incubators. On a national level, SME strategies and their coordination have been developed and implemented by national agencies, which have tried to provide supplementary services to the BCs.

Across ten Central and Eastern Europe (CEE) countries,¹¹ 136 Phare-funded Business Support Centres were set up. According to the evaluation report of the Phare programme, the Phare BC approach followed the Local Enterprise Agencies (LEA) model of the United Kingdom in the 1980s. Based on a public-private partnership model, SME promotion from the State was transferred to various local self-help bodies, which were locally financed and driven by the private sector. In the United Kingdom the government initially channeled funds destined for SME support through Enterprise Councils, which in turn invited the LEAs to bid for the financial package to provide services for local small enterprises. Later, the LEAs were supposed to rely on funding from local private industry (large enterprises) and the government. However, private industry was not willing to provide the requisite financial resources so clients were charged in order to raise LEA revenues.

By adapting this model of public-private partnerships, Phare intended to provide funding of up to three years for establishing Business Centres in Central and Eastern Europe. At the beginning, the BCs were almost 100 per cent funded by Phare and other donors and to a small extent from local authorities (who often supplied rent-free premises).

Usually a foundation or a limited company was registered to create a public-private partnership. These partnerships included economic stakeholders such as government representatives, entrepreneurs associations and chambers of commerce, universities, banks and some private local entrepreneurs.

Services typically provided are illustrated by the Bulgarian Phare BC in Ruse. This example, established in 1996, has mainly provided SMEs with free and subsidized

⁹ PHARE originally stood for: Polish and Hungarian Action for the Restructuring of the Economy. However, PHARE has now evolved into one of the main assistance programmes of the EU for Central and Eastern Europe.

¹⁰ This chapter is based on Monck, J., Bateman, M. and Kudela, J. (2000), *An Evaluation of Phare-financed Programmes in Support of SMEs: Final Synthesis Report*, Vols. 1 and 2. http://europa.eu.int/comm/europeaid/evaluation/evinfo/cards/951508_ev.html (21.02.03).

¹¹ These are Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

consultancy services, such as legal advice, taxation, accounting and marketing services. Access to information and training activities and special courses provided by the Austrian Chamber of Commerce have been included. Access to credit schemes was also offered, by preparing business plans and by performing monitoring. The Ruse BC is staffed with one full-time director and several part-time administrative employees. Subcontracted by the BC, a whole network of associate consultants carries out the activities on request. Partly these consultants are paid for their services by Phare funding. A total of 68 per cent of the clients of Ruse BC received free services, 28 per cent partially free services and just 4 per cent of clients paid market prices.¹² Over the years, the centres have developed various initiatives, including a joint stock company with local companies to deliver Internet services. An exhibition centre was opened to present local products to a broad range of regional and foreign clients.

Table 2.5: Phare: Business support centres and business innovation centres established in five CEE countries by end of 1998

Country	Numbers of local BSCs supported by Phare	Extent of Phare support for the BSCs (euros)
Hungary	20 Local Enterprise Agencies, plus 153 sub-offices located in smaller towns, 1 Business Innovation Centres (BIC)	1991-1998 € 22.4 million directly, plus a management fee for operating a Phare Micro-credit scheme. National BIC supported with € 200,000 by Phare.
Poland	33 BSCs, 14 BICs	€11.16 million for BSCs, allocated 1991-1998.
Slovakia	12 Regional Advisory and Information Centres (RAICs) and 5 BICs	€ 3.7million for BSCs and BICs.
Czech Republic	23 RAICs, 5 BICs	€ 6.55 million for BSCs and BICs.
Slovenia	4 Local Business Advisory Centres, 4 BICs (2 were in fact Technology Parks).	Just under € 4.5 million, allocated 1992-1998.
Bulgaria	6 BSCs (2 were established as Regional Development Centres but operate <i>de facto</i> as BSCs).	€ 4.1 million up to 1997.
Romania	5 BSCs, 4 BICs	€ 3.27 million for National Agency (CRIMM) and BSCs + € 6.95 million for local initiatives projects.
Lithuania	6 Business Advisory and Support Centres	€ 4.91 million (includes some TA to National Agency and Ministry)
Latvia	6 BCs, 4 BICs (but only limited support given)	€ 4.9 million including TA to Ministry
Estonia	4 Business Advisory Centres	€ 5.3 million including TA to the Ministry

Source: Monck, Bateman and Kudela (2000), Vol. 2: 96.

After Phare withdrew its support and no other donor or the government stepped in, most BCs shifted towards offering paid consultancy services. According to the Phare evaluation report, only in a few cases did the centres develop significant fee-earning activities, and are therefore likely to remain in existence. Because some BCs concentrated on the more

¹² Monck, Bateman and Kudela (2000), Vol. 2: 27.

lucrative segment of the market and because others lost touch with the SME market and served anyone willing to pay for their services, such as large domestic enterprises, multinationals and commercial banks. The commercialized BCs offered almost the same range of services and started to compete directly with conventional private-sector consultancies and chambers of commerce. Consequently, according to the report, some private-sector competitors were crowded out by the Phare-funded BCs when the centres started focusing on services and on fee-paying clients to generate immediate revenue. “Overall the ongoing withdrawal of Phare financial support is leading to a situation where some BSC networks will inevitably collapse, or else become *de facto* or *de jure* private sector consultancy companies.”¹³

Some governments counted on the further commitment of Phare funding that would be extended under pressure. In Bulgaria, the government saw the Phare BCs as “ [...] a cash cow rather than something which requires their support [...] ”¹⁴ Indeed, in order to ensure that some of the centres continue to serve the target group, Phare, other donors or governments offered BCs further financial subventions until a longer-term solution was found. In Hungary and Slovakia, for example, where strong national agencies were established, there was a steady stream of funding for the national agencies’ activities and also for the BCs’ operations.

In sum, the Phare BC public-private partnership model was regarded by the evaluation report as an inappropriate approach to implement in regions under enormous change and restructuring. In addition, this private public partnership arrangement was assessed as being unsustainable. As a consequence of commercializing by offering fee-earning activities, the authors of the evaluation report deem that the BCs had a crowding-out effect on private-sector consultants.

Part 3 now assesses the ILO’s own strategies and approaches to business center implementation.

¹³ Monck, Bateman and Kudela (2000), p. 115.

¹⁴ *Ibid.*, p. 117.

3. The ILO approach to business centres

The ILO BC approach has evolved out of the implementation of BC projects in South East Europe. BCs were created in different circumstances in response to particular local specificities. This section presents an “ideal-type” BC model for consideration.

This ideal scenario does not necessarily reflect the body of ILO experience in South East Europe (described in Part 4). To date, the ILO has implemented its BC approach in Bulgaria, Bosnia-Herzegovina, the province of 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.

Starting up

The ILO BC is set up after undertaking an initial assessment of possible project regions. Existing demand and provision of BDS in the region selected for the BC site is estimated. The initial assessment also considers the general institutional background for MSE promotion and the existing sources of MSE-finance. This first assessment is a rough estimation of the regional capacity to support MSEs and is the basis for the decision on where to start a BC.

A BC is usually established as a local NGO or a not-for-profit company with a board of directors or management board. Ideally this board will be composed of representatives of the local authorities, business associations, financial institutions and successful entrepreneurs. The board will monitor and guide the management of BC and act as a control mechanism. Ideally its directors would have several meetings a year in which the board would revise the BC's business plans and financial management. It is important that board members are fully committed to the objectives of the project.

While setting up the legal structure, local staff members are hired; one becomes the manager of the BC and the other 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. They need to have a good knowledge of economics and small enterprise management or training and should be able to communicate in English with the international business community, international experts and donor agencies.

Running the agency

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. It should evaluate existing BDS providers and the types of product they are selling. It also should ascertain what types of product the MSEs are willing to pay for. 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 micro and small entrepreneurs. For this reason, a careful assessment of the market is crucial. The purpose of the BC is to offer BDS that can be provided to micro and small entrepreneurs for a fee and/or can be attractive for other donors or government agencies that want to finance programmes in the MSE sector or to hire the BC as a consultant. The BC should not offer services that are already on the market but should act as an innovative force offering new and improved products.

After thoroughly assessing the market, a business and marketing plan for the BC must be devised. Building on the knowledge gained from the BDS market, the BC team, guided by an international expert, decides on what MSE services to concentrate on and how best to deliver them to the market. This would typically include promotional leaflets, information sessions for micro and small entrepreneurs and, in a later stage, promotional services for selected enterprises, which afterwards can be shown as successful examples of BC intervention.

At the same time, local staff must be trained. The international expert does on-the-job training for at least 10-12 months. Additional external consultants are then hired to conduct “Start and Improve your Business”¹⁵ – training of trainers who will train the staff and a network of trainers who the BC can use as consultants. The trained staff will be the major resource of the BC. Services are provided either to groups of entrepreneurs (e.g. for management training), on a one-to-one basis in the office (e.g. information services) or on an individual basis in the enterprise of the client (e.g. consulting services).

The SIYB training can be delivered to start-ups and entrepreneurs shortly after this training and usually becomes a first BDS product of the BC. This training methodology is typically provided on a subsidized basis (for a few times) to promote the services of the BC, to demonstrate the effectiveness of the methodology and to adapt the materials to local conditions. The BC-team will then start to develop new BDS products based on its business plan and responding to the local market.

The BC usually will have three types of paying clients: small entrepreneurs, larger enterprises that pay for subcontracting arrangements and local donors or governments interested in small enterprise development. Services will usually include:

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

¹⁵ The “Start and Improve your Business” (SIYB) programme is a training methodology developed by the 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.

The international expert will be training the local staff but will also keep in contact with other donors and government agencies in the region, to ensure donor coordination and to investigate possible financial sources for the BC. The ILO project also contributes by sending other international consultants who can train the staff in specific services or can bring in foreign entrepreneurs to build up business linkages.

While the development of new BDS products to satisfy client demand needs to be continuous, after the first 12 months some saleable products should be on the market so that the BC can start generating its own income.

Costs and financial sustainability

The international expert who builds up the BC and does on-the-job staff training represents the main costs of a three-year project. Depending on the profile of the expert selected, salary and other costs are about US\$ 11,000 a month. This international expert can build up two Enterprise Development Agencies (business centres) at the same time, thus reducing costs. However, if local personnel are difficult to find and skill levels are low, the presence of an international expert might be required for longer periods. Backstopping costs from ILO Headquarters and the administrative costs for ILO HQ are usually calculated as 13 per cent of the total project costs. The initial investment for equipment is about US\$ 30,000. This includes a car, computer equipment, office furniture and training material (flip-charts etc. but not training methodologies). Running costs are between US\$ 25,000 to 30,000 a year depending on the country. This includes the salaries for at least three local professionals, the rent for office space and other running costs. Based on the analysis of the project region and the first months of project operation, the contribution of the project for the running costs of the business centre and the salaries of the staff will decrease over time. This will force the BC to develop its own funding sources in the region and allow the management board time to explore the market and try out different products. Usually, the project's contribution to salaries and running costs are decreased after the first 18 months of operation to 70 per cent for the following 6 months and 50 per cent for the subsequent 6 months. In the final 6 months, the BC still receives technical support but no financial support.

Apart from these costs the BC will initially promote its services by providing free-of-charge trial courses and some other services for very low costs. Thus, in an initial phase some services are directly subsidized to promote them. This amounts to US\$ 15,000 to 20,000 over the three-year running time of the project.

Financial sustainability of the BC has to be achieved in these three (sometimes up to 3.5) years – a short time frame to start up, viably run and become a provider of innovative BDS, particularly in a region in which entrepreneurs are not accustomed to a market economy or to purchasing BDS. The BC will need to focus rapidly on sources of income that can generate sufficient earnings, for example, services delivered for a fee to entrepreneurs and services delivered to entrepreneurs but subsidized by other donors/government that subcontract the BC as a consulting company. Entrepreneurs would still pay for these services but their fees would not cover all the costs. The BC might also start delivering services that are only partly related to enterprise development, for example, computer or language training (if necessary).

The long-term goal is to become a service provider that exclusively finances itself out of paid-for services by small entrepreneurs. Only this will ensure the long-term success of the business centre and create a long-term reliable partner for local small enterprises.

The inherent danger in this scenario is that BCs as private enterprises, might tend to move upmarket and serve medium-sized and larger enterprises in the long run, as providing services for larger enterprises can be more profitable. Here, it is the role of the management board to ensure that the BC remains continuously focused on the MSE sector. However, the continuous development of new products in interaction with their clients might lead some BCs to specialize in what they can do best. At the same time other suppliers of BDS can appear on the local market, which might also lead to specialization for certain MSE segments.

The above theoretical model notwithstanding, Part 4 describes the practical experience of the ILO in implementing BCs in South East Europe and identifies the factors that led to the success (and sometimes the failure) of these BCs.

4. The ILO's technical cooperation experience in South East Europe

The circumstances under which the ILO implemented business centre projects in South East Europe (SEE) share certain common ground. They are all in the same region and all countries – Bulgaria, Bosnia-Herzegovina (BiH) and Serbia and Montenegro (including Kosovo) – are transition economies with weakly developed private markets and a small number of commercial BDS providers. In addition BiH suffered a brutal civil war for almost 4 years (1992-1995), the province of Kosovo had a long a civil conflict and a three-month NATO military intervention in 1999, while Bulgaria's peaceful transition was followed by a severe economic crisis in the beginning of the 1990s. After coming out of war and an economic crisis, the common denominators for all these economies comprised: a small private sector, an unwieldy state or socially-owned¹⁶ sector in decline or broken down, very high unemployment rates, a low provision of services to enterprises and very little experience on how to run a market economy.

Section 4.1 describes the similar characteristics of these economies and small enterprise sectors in more detail below. Sections 4.2-4.5 then analyse the BC projects implemented by the ILO in these countries.

4.1 The context: South East Europe

In the beginning of the 1990s after the fall of the Berlin Wall, the countries that underwent the transition process had different patterns of transformation but also shared several common features. The transition process led to a massive economic crisis in all transition countries. The sudden change from a strongly regulated state-driven economy to an open market economy provoked major restructuring. Existing enterprises had low productivity rates and were not equipped to compete with Western enterprises. In some countries a laissez-faire capitalism emerged, because the necessary institutional background for a market economy did not exist and the old-system institutions were not prepared to take up the challenge. The rapid opening of markets led to de-industrialization on a major scale, accompanied by massive lay-offs in enterprises that were being restructured. The necessity to survive in new economic conditions forced enterprises to shed redundant labour and raise labour productivity, which often grew strongly. While some people were able to find employment in the small emerging private sector or to build up their own enterprise, unemployment hit workers disadvantaged by their low skills, lack of work experience, family obligations, poor health or low mobility. Even though in some countries economic growth picked up again in the mid-nineties, employment reduction continued for many countries in the region into 1998-99. Another effect of economic restructuring was the emergence of an informal economy. According to one observer,¹⁷ “The CIS/CEE region has seen some of the world's most dramatic societal changes within a very short time. (...) Most authors agree that rapid economic restructuring during transition has created massive social problems that have led to a search for informal income opportunities.”

In some of the former Yugoslav republics the restructuring of enterprises has just started and lay-offs of formerly socially owned companies are still to follow. At the same time regulatory and legal environment is still being built up. As the system of a market economy has been introduced only some years ago, the small enterprise sector and especially its

¹⁶ In contrast to other SEE countries, the former Yugoslavia had enterprises that were owned by their workers, referred to in the literature as ‘socially owned enterprises’.

¹⁷ Musiolek (2002), p. 2.

support structures are usually weakly developed. Low barriers of entry but at the same time little knowledge about market economies and about entrepreneurship lead to a massive spread of informal survivalist enterprises in trade but little manufacturing and agricultural processing. These informal enterprises suffer the typical weaknesses of micro enterprises (low skill, low productivity, producing for price-competition poverty markets in competition with large companies).¹⁸ The transition process also precipitated a massive deterioration in social security and job security.

In these economies the service markets were usually very weakly developed, particularly the BDS markets. The larger companies relied on consulting firms from Western Europe or the United States to help them in restructuring, while for micro and small enterprises the support structures were non-existent and other local private BDS were hard to find.

This difficult political and macro-economic background was matched with problems on the micro level, where enterprises and potential start-ups faced severe obstacles. At enterprise level, the main issues can be summarized as follows:

- *Lack of managerial skills:* Lack of management capacities, lack of marketing knowledge and lack of information about markets and how to access them.
- *Insufficient access to finance:* MSEs are often considered poor risks by financial institutions; usually only a small number of MSEs have access to loans with very high interest rates. The financial system itself is weak as a whole and, in most countries, banking is under-capitalized.
- *Hostile business environment:* Registration procedures are complex and burdensome for MSEs, the social costs are very high, the tax system is complicated, the potential workforce is untrained, markets are not readily accessible because of new political frontiers, and MSEs lack pressure groups that could speak in their favour.

To capture the differences in motivation and methods of smaller enterprises in transition economies, Scase (2000) distinguishes between entrepreneurship and proprietorship. While the former are driven by the entrepreneurial will to accumulate capital and take decisions based on business factors, the latter sustain an often survivalist enterprise that does not grow or increase its productivity. ‘Proprietorship’ entrepreneurs are in the market because of the necessity to earn an income. Some authors cite a “recession push factor” that has generated most so-called “entrepreneurs” – people who were unable to find employment and started their own enterprises to survive. According to Scase,¹⁹ “Rather, the growth of the small business sector in these economies is generating strata of proprietors which do, indeed, create some jobs but generally which are established for the purposes of creating cash flow that can be used for sustaining living standards.” This reflects the findings in other countries, where the informal economy comprises a few entrepreneurs and a large proportion of survivalist enterprises. This makes them important for job and income generation in the short term but in the medium and long term a critical mass of “ideal-type” entrepreneurs that accumulate capital and reinvest are necessary to sustain job creation.

¹⁸ Ibid., p. 2.

¹⁹ Ibid., p. 7.

4.2 The ILO's Business Centre programme in Bulgaria

The transition period in Bulgaria was marked by political standstill: in the beginning of the 1990s the same political actors remained in power. Introduction of a market economy and privatization of state-owned companies were not fully supported by successive and fast-changing governments. In 1995 when the project started, unemployment was at a high 11.1 per cent, not taking into account the unpaid workers who were still on the payroll of state-owned companies. The economic laws and rules were not adapted



Courtesy of the General Libraries, the University of Texas at Austin.

to the exigencies of a market economy and a weak State could not control either the economic situation or the economic actors. Hyperinflation and criminal business were the result. Opening up the bank sector to private banks led to a severe bank crash in late 1996 to which the state-owned banks had largely contributed. From 1997 the economic situation changed slowly with a new government that was more reform-oriented and put emphasis on monetary stability. This policy bore its fruits in 1998 with a sustained economic recovery. Bulgaria has 7.93 million inhabitants and with a per capita income of US\$ 1,759 per year (2001)²⁰ still rates among the poorer SEE countries.

Project-starting circumstances: The Mesta Valley region

In October 1993 the UNDP Division for Europe and CIS financed an ILO executed Local Economic Development Programme covering five countries (Poland, Lithuania, Belarus, Russian Federation and Bulgaria). In Bulgaria the two-year programme focused on four municipalities in the Mesta valley region. Local stakeholders agreed on an economic development strategy based on SME development and local economic actors identified a BC to promote start-ups and SMEs as the centrepiece of their local economic development strategies.

For the ILO-designed project BUL/95/001, UNDP Bulgaria received Dutch funding to support SME development in the region. The National Employment Service from the

²⁰ EIU Country Forecast 2002.

Ministry of Labour and Social Policy was the national counterpart and actively supported the project. The activities started in late 1995 when the ILO assisted local economic actors to concretize the strategy for the Mesta Valley, creating the Agency for Local Economic Development ALED (set up as an NGO) and the BC Mesta (set up as a private limited (Ltd.) company owned by the NGO). Initially four municipalities participated actively. After the first year four neighboring municipalities joined ALED and the BC extended its activities to these municipalities.

One international ILO project coordinator was placed in Sofia to link the project activities with the National Employment Service, UNDP and the project region. For the duration of the project, the international expert supported the ALED and the BC and linked them with the projects of other donors, investors and customers in Bulgaria and abroad.

Initially one Director and two consultants were recruited and financed from project funds as well as the centre's running costs. In addition to these project-funded staff, the project coordinator managed to obtain an American Peace Corps volunteer and the Centre director managed to recruit additional staff paid from BC income. The project ended after a period of 26 months in December 1998 and since then the BC has been operating on a fully sustainable basis.

The Business Promotion and Support Programme BUL/97/012

This project was a replication and extension of the BUL/95/001 project. Two Business Promotion and Support Centres were set up (one in Vidin in July 1997 and one in Blagoevgrad in January 1998). At the same time a Business Incubator was also put into operation in Gotze Dalchev (one of the eight municipalities served by the Mesta BC) by transforming a disaffected school building into office and workshop space to assist newly created small enterprises during their start-up phase.

The project set-up was similar to the Mesta project with an international ILO coordinator based in Sofia supported by two local staff and three nationals per Centre; in addition these centres could benefit from the American Peace Corps programme in Bulgaria. The BC expanded rapidly and hired more staff. The project ended in December 2002. All centres are financially sustainable and still in business as BDS providers.

Economic Empowerment of Women in Devin Region (BUL/97/013)

This UNDP funded project that started in 1997 was set up and technically supported from the Razlog BC, which received fees for services delivered to the project and helped to secure a US\$ 35,000 guarantee fund to supply businesswomen with collaterals for local credits. Project support ended in April 2000 and the BC continues to provide services to the target group and to generate the income for its activities.

BC-related activities of the Project Coordination Unit

The ILO introduced its Start and Improve Your Business training package, tested and adapted it to the local conditions and translated and printed the training material. A total of 15 local trainers were trained. The National Employment Service (NES) homologated the training methodology and uses it for NES-funded retraining courses. To have a greater outreach and a stronger impact on the labour market, the programme was made available to other BCs in Bulgaria.

As mentioned earlier in section 2.5, the EU-funded Phare programme extensively financed BCs in Eastern European Countries. In Bulgaria a number of Phare-funded BCs were already set-up when the UNDP/ILO BC projects started in 1995. Beside these, three GTZ-funded vocational training centres combined with business support services became operational at the same time. The ILO coordinator and the consulting company GOPA (that was executing the GTZ programme) and the Phare representative agreed to bring all BCs into a close cooperation. As a result, the Bulgarian Association of Regional Development Agencies (BARDA) was established on 1 July 1997 by six regional development agencies in Bulgaria to serve as an umbrella association of independent regional and local development entities with the assistance of EEC/ILO/GOPA-GTZ. Today BARDA includes 39 agencies and BCs, situated in all regions of Bulgaria. Among other tasks BARDA organized SIYB courses through the associated BCs.

Services provided by Bulgarian business centres

Business Centre Mesta

BC Mesta played a key role in attracting direct foreign investment to the Mesta Valley region by facilitating cooperation between foreign investors and local authorities. The BC published a comprehensive Investment Guide for the Mesta region in order to attract foreign investors. BC Mesta also brought in foreign consultants, who helped local companies to develop new product lines, improve quality, find new markets, and source used equipment. BC Mesta also operated a local radio station where companies and business people could advertise their products and services. BC Mesta was selected as a Secretariat for the CREDO Programme (East-East Phare funded cross-border initiative) and was hired by UNDP as a consultant for the Centre for Women Entrepreneurship in Devin. BC Mesta assisted in the development of local associations and cooperatives and annually organizes the “Produced in Mesta” exhibition – as a result of which, several joint ventures were established in the region.

In November 1998, the BC Mesta started working as an intermediary in the pine wood furniture business. It is the commercial link between local furniture manufacturers and international furniture buyers. Through Mesta Mebel, a company established and owned by BC Mesta, it coordinates local production to meet orders, assembles and finishes production, controls quality, and organizes transport to the EU. In April 2000, a joint venture between a Dutch contractor and Mesta Mebel resulted in the establishment of Hamefa Mesta Mebel, the largest furniture exporter in the region. It directly employs 66 people and subcontracts 36 local wood furniture producers. Growth in the sector has resulted in approximately 600 additional jobs as a result of this commercial initiative. Hamefa Mesta Mebel now also finishes furniture from Romania, Slovenia, and Italy.

BC Mesta also worked with local producers to expand their production capacity. In November 2000, based on a needs assessment conducted by a foreign expert, the BC Mesta started a wood-drying service for local wood producers. Utilizing Centre funds plus financial support from the Regional Initiatives Fund, the Centre hired a Bulgarian company to build a wood-drying kiln and trained five staff to operate the kiln.

Business Centre Vidin

The Vidin RDA/BPSC was presented with a major challenge, when, in 1998, a local furniture producer, Vidachim, was liquidated with the loss of 4,000 jobs. In the first half of 1999, the RDA/BPSC provided a fee-based consultation service to help with the development of 396 business plans for some of those who were made redundant. In conjunction with this,

the State offered conditional grants each equivalent to US\$ 1,000 (2 million old leva) to finance the start-up of approved businesses. As a result of the assistance provided by the Vidin BPSC, all 396 assisted individuals received grants. In addition, 179 people were trained in business planning offered through the BPSC. Another 120 individuals received training in the use of computers and other fields related to business development.

The Vidin BPSC cooperated with Catholic Relief Services (CRS) to develop a pilot group-lending micro-credit scheme (the first of its kind in Bulgaria). A total of 187 Vidin enterprises received loans, of which 72 were Roma enterprises. The programme claims to maintain a 98 per cent repayment rate.

The Vidin BPSC offers Internet access for the community and “Internet for Businesses” courses. It broadcasts a weekly, 30-minute radio programme called “Business Week” which includes case studies, discussion on new initiatives and trends, interviews with business consultants and successful local entrepreneurs and information on business legislation.

The Vidin BPSC participated in the group that developed the Strategic Plan for Regional Development of the Vidin Region. In its capacity as the local representative of the national Foreign Investment Agency, the Vidin BPSC promotes foreign investment in the region. The Vidin BPSC revived a local fair and exhibition that was held annually prior to transition. More than 50 companies from Bulgaria and neighbouring countries exposed their products.

Business Incubator (BI) Gotze Dalchev

The BI provides 1,000 m² divided into 18 rooms. This facility can house 8 to 10 companies for a limited period of time in the former school building made available by the municipality for an initial rent-free period of five years.

To help unemployed women in the region the old tradition of kilim weaving was revived. The local museum provided old patterns of kilims and identified an older woman who knew the weaving techniques and trained other women. The advisory team of the BI developed a marketing strategy.

Business Centre Devin: Targeting women entrepreneurs

This BC is the only one in Bulgaria that focuses on women entrepreneurs. UNDP initially established a Loan Guarantee Fund (LGF) in cooperation with the United Bulgarian Bank (UBB) in Devin. Through this scheme, which is managed by the BC Devin, loans of between US\$ 500 to \$3,000 are being disbursed to micro and small enterprises, favouring those managed by women or employing women. A total of 12 businesses in Devin, including two women-managed start-ups, received loans as a result of the LGF, directly contributing to the creation of 64 jobs and indirectly creating an additional 200 jobs (80 per cent women workers). Business Centre Devin provides support to the enterprises before and after they receive the funds.

Common characteristics of BCs in Bulgaria

All centres combine a Local Economic Development component executed through the set-up of a Forum (without any legal form) or an NGO with the simultaneously created BC.

The staff of each BC is locally recruited, full-time employed and consists of 5 to 10 people: the executive director, marketing specialist, technical specialist, IT-specialist, administrative assistant, accountant. Consultants are hired for training courses and consultancy services.

The ILO/UNDP-supported projects have emphasized BPSC self-sustainability following expiration of funding. The NGOs have used income earned from commercial services to subsidize other activities, thereby ensuring that the most needy in their target clientele continue to benefit from free or low-cost assistance when funding ends.

The project coordination unit provided all input and support to the BCs during the whole project period and assured the transfer of know-how from BC to BC as well as cross-fertilization among them. The BCs benefited from close contacts with the ILO HQ, UNDP and other donors, to the national counterpart NES and private sector organizations.

Project budget inputs

The resources for the above-described projects were mainly provided through UNDP funding that in turn could also draw on cost-sharing arrangements with bilateral donors. Budget and time frame were as follows:

BUL 95/001	US\$ 532,050	Duration	26 months
BUL 97/01	US\$ 442,072	Duration	42 months
BUL 97/013	US\$ 191,000	Duration	30 months

The overall funding of the project of US\$ 1,165,122 was split into the following main cost categories:

- 1. Investments and subsidies for running costs of 5 centres approx. US\$ 400,000
- 2. Staff training, seminars, printing materials and missions approx. US\$ 217,200
- 3. International staff for the coordination unit and int. experts approx. US\$ 459,000
- 4. ILO support costs approx. US\$ 88,800

Impact

Table 4.1 shows the cumulative results of the activities of all centres set up under the UNDP/ILO programme over the time span of four and a half years up to June 2000. Table 4.1 also provides a gender perspective on women’s BC participation.

Table 4.1: Key indicators for business centres, Bulgaria, 1996-2000

		2000 ¹⁾	1999	1998	1997	1996	Total
1	Total number of long-term jobs created	234	551	400	200	50	1,435
	Filled by women	126	124	100	100	20	470
2	Temporary jobs created	32	170	100			302
	Filled by women	4	126	60			190
3	Total number of MSEs established	1	35	20	5	2	63
	Owned by women	1	19	8	0	0	28
4	Number of people trained in various business-related fields	310	1,012	1,033	500	200	3,055
	Women	193	450	390	0	0	1,033
	SYB	100	180	630			950
5	Number of consultancies provided to firms and individual entrepreneurs	318	568	823	350	150	2,209
	Women	138	498	200	0	0	836
6	Number of companies helped in credit negotiations with banks and financial institutions	3	113	47	15	0	178
8	Business links between Bulgarian and foreign companies	5	57	15	0	0	77
9	Number of joint ventures between Bulgarian and foreign companies	0	0	1	5	0	6

¹⁾ Six months.

Sustainability of the BCs

The UNDP/ILO provided both the investment capital and the operational costs for BC Mesta at 100 per cent for the first year and 50 per cent for the second year. However, these very tough conditions were softened for the other centres, with the period of subsidizing the operational expenditures extended to three years and a smoother decrease of funding that was adapted to the income-generating capacity of a given BC. After this period no further subsidies were provided. Self-sustainability was achieved by all BCs through:

- Charging for services
- Commercial activities
- Mobilizing external resources
- Implementation of donor-funded programmes

The results of the project and the proven replicability of the approach to other areas convinced the Government of Bulgaria to implement a follow-up project called Job Opportunities through Business Support (JOBS). JOBS is part of the government programme "Bulgaria 2001" being executed by the Ministry of Labour and Social Policy with the support of UNDP. The project aims to boost employment in 24 municipalities across the country by supporting micro and small enterprises and agriculture producers.

4.3 The ILO's Business Centre programme in Bosnia-Herzegovina

Bosnia and Herzegovina covers an area of 51,129 km² and has approximately 4.2 million inhabitants. The former Yugoslav republic of Bosnia and Herzegovina underwent a civil war that apart from causing immeasurable losses of human life and wide-scale material destruction also led to other factors negatively affecting economic and small enterprise development:

- The creation of new frontiers that constitute barriers to trade and that cut off existing business linkages inside and outside of Yugoslavia. Bosnia-Herzegovina nowadays consists of a relatively weak central government and a State that is divided into two entities and a district (Republika Srpska, the BiH Federation and Brcko district).
- The absence of investment and modernization in the existing enterprise structure – a downward process that had already begun in the 1980s but was worsened political turmoil and war.
- The “ethnification” of personal relationships and the war itself led to a situation in which trust and confidence (outside the immediate family) had severely diminished, to the extent that it also constituted a constraint for business relationships.
- The war led to a complex political structure which is responsible for slowing down political decision-making by the State and contributes to general economic uncertainty.
- Diverse labour and business regulations in different entities and cantons have resulted in a complex regulatory environment and act as a constraint to business relations.

The economic environment

A large fraction of the active population is unemployed, with unemployment rates estimated at between 30 and 40 per cent, depending on the region. The purchasing power of the population is very low in comparison with other SEE countries. The economy is still very



Courtesy of the General Libraries, the University of Texas at Austin.

much dependent on foreign aid and on financial transfers from Bosnians living abroad. A large part of GDP growth since the end of the war was induced by massive inflows of international aid and was concentrated in the sectors of construction and infrastructure. According to an internal document of the Swiss Agency for Development and Cooperation, growth declined from 20 per cent in 1998 to 7-9 per cent in 1999 for the Federation and is estimated at 5 per cent for Republika Srpska.

Project-starting circumstances

Three MSE development projects were started up under the responsibility of the ILO in Bosnia and Herzegovina in the late 1990s. The first Italian-funded project BiH/97/05M/ITA started in November 1997 in the town of Brcko where a BC called Enterprise Development Agency (EDA) was set up. A UNDP-funded project started in May 1998 to replicate the EDA Brcko project approach in two other towns, Banja Luka and Bihac, with a new EDA created in each town. Both EDAs had their ultimate financial support from the project budget in October 2000 and since then have been working out of their own income.

The Government of Italy funded a third project with the same approach. Its objective was to implement two new EDAs, one in Mostar and one in Livno. The project started in May 1998 and the first EDA was established in Mostar in October 1998. The second EDA was established one year later in October 1999. The EDA Livno, located in a small rural town, had a more limited potential for MSE-development so that in 2002 it was decided to merge Mostar and Livno EDAs under one management and re-found it as EDA Herzegovina.

The starting circumstances of EDA Brcko and EDA Mostar were especially difficult as these EDAs were located in areas through which one or several frontlines of the war were situated. The political reconciliation process has been especially slow in these areas and material destruction severe. The war also has had a strong influence on personal relationships, especially between different ethnic groups. For example, Brcko has three different population groups that after the war were still separated by minefields. Mostar has six different municipal administrations, three on the Croatian side of town and three on the Bosniak-Muslim side of town. The diverse political structures resulted in difficult starting circumstances for these BCs.

Money input and donor

The projects in BiH were financed by Italian emergency aid and by UNDP funding. The Brcko EDA was built up with US\$ 300,000 Italian funding and only six months of international technical assistance. EDAs Banja Luka and Bihac were built up through a UNDP-funded US\$ 450,000 project that was later stocked to US\$ 500,000. The EDAs Mostar and Livno were built up with a total funding of US\$ 790,000 including a start-up phase.

Services delivered

EDA Bihac

- SIYB training, including specific targeting of women entrepreneurs and youth
- Language training in business English
- Computer training
- Secretarial training
- Help in the privatization process of MSEs
- Access to credit lines

EDA Bihac, located in a small town in western BiH soon realized the necessity of developing alternative financial sources to ensure its financial sustainability. Apart from consulting services and MSE-management training EDA Bihac developed other training courses that were in high demand locally, including computer and language training. Funding for the computer equipment was secured through a World Bank project. EDA Bihac had to react flexibly and quickly on the demands of local enterprises. Soon after starting in computer courses a larger course for secretarial skills was developed. At the same time EDA Bihac assisted local entrepreneurs in the bidding process for the first phase of privatizations of socially owned SMEs in BiH and helped entrepreneurs to get access to state credit lines. In late 2001 EDA Bihac acted as a service provider for Regional Development Agencies set up by the EU in BiH and helped to train local municipal officers in local economic development planning.

EDA Banja Luka

- SIYB training
- Access to credit lines
- Business plans
- Computer skills training
- Training of local authorities for local economic development

EDA Banja Luka secured a building for its operations and invited a local microfinance institution to move into the same building. A fruitful collaboration ensued in which both organizations cross-referred clients and the clients had access to a range of financial and business development services. More than 60 enterprises were started up in the first years of operations. The management of EDA Banja Luka also soon recognized the potential of training for local economic development, which was demanded by local authorities. EDA Banja Luka became a major service provider in LED training in Republika Srpska after securing contracts from local authorities and local contracts from other donors.

EDAs Mostar and Livno

- SIYB training, including special target groups (women, youth)
- Subcontracting arrangements
- Advisory services in a business incubator
- Business Internet portal for the Herzegovina region

Impact

The evaluation of the Banja Luka and Bihac project showed that after a period of three years 100 new businesses had been started with the assistance of both EDAs Bihac and Banja Luka and at least 500 jobs had been created by these businesses.²¹

The other EDAs have created a smaller number of jobs operating in areas that were more difficult. EDA Brcko estimated in late 2000 that it had assisted up to 200 enterprises to create and sustain more than 400 jobs in a four-year span.

²¹ This estimate for jobs created does not take into account that positive or negative spillovers of EDA action for other enterprises. For example, if an enterprise is created that exports wood, this might lead to the creation of several other enterprises which deliver inputs for the wood exporter. But this wood exporter might displace another (by being more efficient or offering better prices), with subsequent job loss for the exiting enterprise. These mechanisms make it hard to assess the overall impact on job creation.

Other positive impacts created by the EDAs include an association of small entrepreneurs in Banja Luka which is now effectively voicing the concerns of its members in Republika Srpska. An inter-ethnic women's association was set up in the Livno area with support by EDA Livno. This association is now creating income sources for its members and is also contributing to the reconciliation process after the war.

Sustainability

The EDAs that achieved financial sustainability most rapidly were those in Banja Luka and Bihac. Even though both EDAs had different sustainability strategies they managed to retain their main focus and also successfully tap into those areas where they could generate sources of income. EDA Banja Luka had probably the most favorable geographic location, in the main urban centre of Republika Srpska. The main income source of EDA Banja Luka after project support ended was contracts as a local consulting company. EDA Banja Luka specialized in training in different areas, including SIYB and Local Economic Development training for local authorities. Another income source was commissions for access to credits. EDA Bihac also concentrated on training but on technical training, in response to entrepreneurs' demand. After the project support ended EDA Bihac generated most of its income from technical training, even though only a small part of the staff time went into organizing these courses.

EDA Brcko had the most difficult location and the strongest competition. Two years after the war ended Brcko was still a divided town. The difficult political situation in the Brcko area resulted in a very high staff turnover. Progressively EDA Brcko ended up with low staff capacities, because the staff that remained had only partly been trained by the project. Competition emerged from another donor-funded project in the area that started to offer free-of-charge services for which EDA Brcko had to charge. After four years of operation (2.5 years supported by the project) EDA Brcko had to close down.

In Mostar the project started well but subsequently management had decided that EDA Mostar would not generate enough funds. They instigated a rent-seeking behaviour, trying to make the highest use possible of project money without working for EDA Mostar as an enterprise. This engendered a situation in which the ILO decided to hand over the management of EDA Mostar to the EDA Livno manager. However, it was realized that it would not be possible to make EDA Mostar financially viable with its management at the time. EDA Mostar was closed down by the project and a different strategy was pursued. EDA Livno, which had had a difficult start in one of the most rural areas of BiH, started to extend its services to the Mostar area. EDA Livno has now become a recognized player for the Herzegovina part of BiH. However, the sustainability of EDA Livno is currently based mainly on two income sources: local donor contracts and a small revolving loan fund that EDA Livno is administering. The project is still running and EDA Livno is being converted into EDA Herzegovina, covering several cantons of the federation.

4.4 The ILO's Business Centre programme in Kosovo

The province of Kosovo was one of the poorest parts of former Yugoslavia. The share of the informal economy was already high during Yugoslav rule. After ten years of political turmoil and the NATO intervention Kosovo became one of the spots on the globe with the highest concentration of donor interventions. Since the NATO intervention in 1999 the United Nations Interim Administration Mission in Kosovo (UNMIK) has administered this province. In late 2001 elections were held to elect a provisional government, which took office in 2002.

The UNMIK administration is now incrementally turning over the tasks to the newly elected government and UNMIK staff is being reduced. The new government is in a difficult starting position in terms of its own capacity to respond to the needs of the population. The Budget of the provisional government is covered 70 per cent by income generated through taxes and customs duty and 30 per cent by international financial support. The political and economic scenario in Kosovo is still strongly influenced by the post-war situation and the intervention of the international community.

At time of writing, there is almost no industrial production in Kosovo. However, due to a massive inflow of donor-money after 1999 the economy has been recovering, especially the construction sector and the service sector, which have enjoyed rapid growth. Unemployment rates are very difficult to estimate, as there is little reliable data. Post-conflict, they were estimated to run as high as 60-80 per cent, but these figures have shifted considerably in the past two years. The GDP per capita as estimated by the IMF ranged between US\$ 700 and 800 in 2000. After a shrinking of the economy in the 1990s and during the war, economic growth between 2000 and 2001 has been estimated at 24-25 per cent, owing mainly to the substantial inflow of aid money and remittances from Kosovars living abroad. Because the micro and small enterprise sector will have to absorb most of the current labour force, it is therefore essential that new enterprises are started and existing ones are enabled to grow and to create more employment.²²

Kosovo's economy faces several major challenges in the future:

- Large parts of the service industry, which is now absorbing most of the employment, relies on the considerable purchasing power of the expatriate community living in Kosovo. When most of these international staff members leave it is questionable whether employment in services will remain at the current level.
- Because of the strong international presence, prices and also local salaries have risen. Consequently, salaries for Kosovars are higher than in any neighbouring country or province. This factor, combined with low productivity in the very small manufacturing sector, will severely hinder any kind of export activities by Kosovar enterprises.
- The unclear international status of the province will continue for some time and thus deter foreign investment
- There still is a large informal economy. The Kosovar administration will have to find a regulatory framework and the necessary support for workers in the informal economy to ensure that enterprises are registered and that workers receive social protection.

Project-starting circumstances

The ILO set up a Mobile Training Unit (MTU) in Prishtina servicing the entire Kosovo. As project funding did not allow for a fully fledged Enterprise Development Agency, it was decided to set up a small management-training unit that would train a network of trainers and organize entrepreneur-training for one year. This was envisaged to eventually become a BC if more funding could be secured. The MTU delivered the management-training package "Start and Improve your Business" (SIYB).

²² Demekas, D. G., Herderschee, J., Jacobs, D. F. (2002).

Based on the ILO SIYB materials the project developed the first management training materials in the Albanian language in Kosovo. The project gained recognition in Kosovo during implementation and was hired to deliver further training by UNMIK. This allowed the project to continue delivering services and it now has a good chance of becoming sustainable. However, this sustainability will be solely based on local donor contracts and not on income generated from entrepreneurs. In early 2002 the MTU was converted into a local NGO: EDA Prishtina.

Project funding

The Mobile Training Unit project in Kosovo was built out of two project interventions. In April 2000 a first training of trainers and an entrepreneur training for women were organized with Belgian funding (US\$ 36,000). Further funding was secured from the French government (US\$ 93,000) to build up a MTU. The management was able to secure a local contract from the UNMIK administration and the project was converted into a local NGO. This local NGO will now continue delivering SIYB training.

Impact

Until the end of 2002 EDA Prishtina had organized more than 20 training courses for start-ups or existing entrepreneurs with around 20 participants in each course. In all, including trainers trained, over 400 participants have been trained. A first impact assessment showed that of these about 50 per cent had either started an enterprise or had found a job partly because of the training they took. This high success rate can be associated with the relatively favourable business environment in Kosovo at that time. The donor money inflow was very high and no business regulations were in place. Businesses did not pay taxes until 2002.

Another impact was the creation of private BDS providers alongside the MTU. Two participants in the training courses delivered with the support of the MTU started their own private business support centres in Prishtina after they had learned of the experience of the MTU and had received a first introduction to BDS. They identified a market niche opportunity to deliver services that were not covered by existing programmes. Thus EDA Prishtina acted as a market leader, demonstrating the possibility of establishing a profitable private BDS provider.

4.5 The ILO's combined BC and LED project in Serbia and Montenegro

Political turmoil and war in Yugoslavia in the past decade has led to a delayed transition in comparison to other Eastern European countries. The breaking up of the former Yugoslavia has also dismembered an economic territory by creating new borders and barriers to trade. These factors in combination with the NATO air war in 1999 have left an economy in need of rapid structural change and a social situation characterized by high unemployment.

The unemployment rate has constantly risen in the recent past. In 1999 it was estimated to be 26.5 per cent and in 2001 had risen to 37 per cent. These figures do not account for the large numbers of underemployed people in state and socially owned enterprises. It is envisaged that over 1,000 small and medium-sized enterprises will be privatized by the end of 2004. In some areas, for example in the Sandzak, the term “wild privatization” is used to characterize a situation in which a socially owned enterprise closes down but some of its assets and its employees’ knowledge is used to spin-off new private enterprises in the same area of activity. However, these newly created enterprises often operate at least partly in the informal economy, for example, by not reporting their actual number of employees to the tax authorities. A recent study²³ found that 2.3 million people had some form of involvement in informal economic activities in 1997. The number of informal enterprises in Serbia has been estimated at 60,000.

Project-starting circumstances

The ILO/SDC project YUG/01/M02/SWI on Local Economic Development and MSE-promotion is located in Novi Pazar, the main urban centre of the Sandzak region in southern Serbia. Two other municipalities of eastern Sandzak, Tutin and Sjenica, were included in the process of setting up the operational structure of the project.

Sandzak is one of the poorest regions in Serbia. In the early 1990s, this region had several large socially owned enterprises; some went bankrupt during the transition period. Their closing down, especially in the garment sector, led to the development of a large



Courtesy of the General Libraries, the University of Texas at Austin.

²³ Economic Institute, “Report on Human Development in Yugoslavia 1997”, Belgrade, 1997.

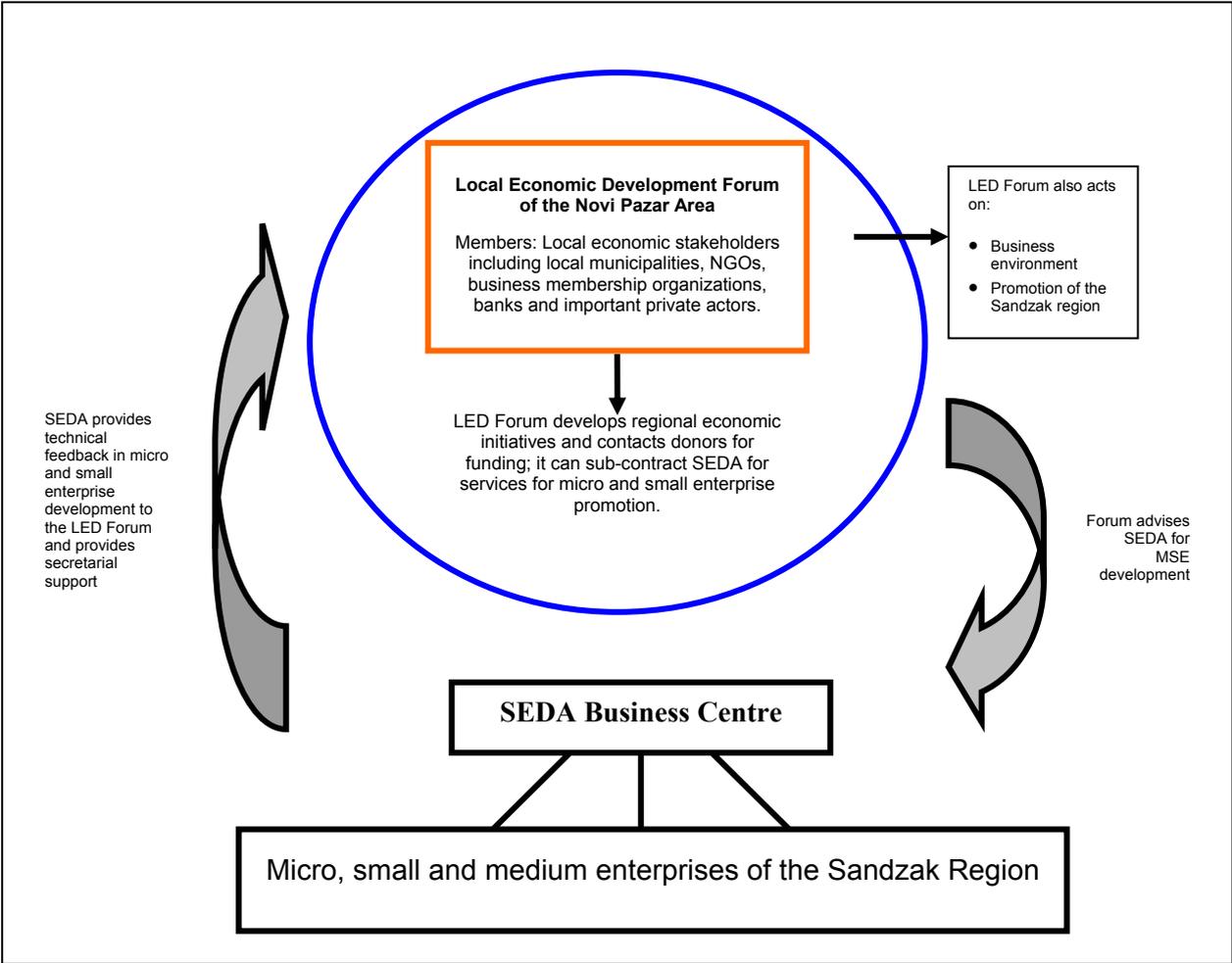
number of micro and small enterprises in garment production that now dominate the manufacturing sector in Novi Pazar. At the same time Novi Pazar is a trade centre and its weekly fair is one of the biggest open-air markets in this part of Europe.

From its outset, this project was designed as a combined LED and MSE project. Social cohesion was considered to be essential for the overall competitiveness of the Sandzak region, in view of its war-related migration problems, its ethnic sensitivity and cultural particularity within the Republic of Serbia. However, mechanisms of participation for different population groups in decisions concerning economic development are almost non-existent and the organizational structures of social partners (workers’ and employers’ organizations) as well as of the very few other NGOs in this region are very weak.

The project set up a Local Economic Development Forum and established a BC to promote the MSE sector in the region. The BC was set up as a not-for profit limited company under Serbian law.

Figure 4.1 exemplifies the relationship between the Local Economic Development Forum and the BC set up by the project.

Figure 4.1: Relationship between the Local Economic Development Forum and the Business Centre



Project funding

The project is financed for a three-year period (2002-2005) by the Swiss Agency for Development and Cooperation. Initial budget was US\$ 400,000.

Services delivered

As the project is still being set up, SEDA is presently concentrating on the following main areas of activity:

- Market access and marketing for the textile sector
- Business travel to fairs
- Business management training
- Access to credit

The capacity of the LED Forum will be strengthened so that it can develop a regional development plan and initiate local economic development.

5. Conclusions and lessons learned

Approaches to setting up BCs differ widely, as Table 5.1 shows. All the BCs analysed in the report deliver similar services but diverge in how they have been set up and how they plan to achieve sustainability. There is an agreement that BCs need to be market-driven, but what is “the market” for a BC? Very often the fee-paying clients of BCs are not only micro and small enterprises but also local authorities or donors interested in MSE development.

A general difficulty in assessing the differences between various BC approaches is that existing data is still relatively scarce. A second problem concerning available data is that documents tend to be over-optimistic about the approach they are describing. Common to all BCs reviewed is that the measurement of their impact on micro and small enterprises is limited to the number of enterprises served and their willingness to pay. In order to assess the differences between these BCs, the present section answers the questions asked at the outset of this paper.

What makes a BC effective?

Examination of the approaches and implementation of various agencies and of the ILO highlight three factors of major importance in creating an effective BC.

1. **The institutional set up.** Three main types can be distinguished: NGOs, public-private partnerships (PPP) and private enterprises. In most approaches BCs have been established with the direct support of the implementing agency. While most agencies have set up NGO-type organizations with a board of directors that often also includes public actors, the EU-Phare and Swisscontact opted for different models. Under EU Phare the BCs were usually set up as public-private partnerships in which a local authority contributed to the costs of the BC. However, after project support terminated, public actors often were either unable or unwilling to take over the running costs of the BCs. The second exception, Swisscontact, opted to set up their BCs through public tendering. Local private institutions (often NGOs) or entrepreneurs were selected to set up a BC based on the business plan proposal they submitted to Swisscontact, which then provided a part of the investment cost and cash-incentives based on performance indicators.

In the NGO-type model, widely differing performances did not allow an assessment of the connection between effectiveness and institutional set up. The PPP model did not demonstrate a good performance, according to the Phare evaluation report, while the tendering process of Swisscontact appears rather effective in creating BCs that were adapted to local demand.

2. **Staff selection.** Good local project staff with the commitment to create their own business out of the BC and correspondingly dynamic and entrepreneurial behaviour will make the input of expensive international expertise more effective and probably shorter, thus decreasing the necessary funding to set up BC structures. This is valid for any of the chosen approaches to set up BCs. The ILO experience showed that an entrepreneurial manager and a well-chosen board of directors were some of the most essential “ingredients” for successful BCs.
3. **The existing BDS market.** An analysis of the existing BDS market needs to be made. It is important that the BC is genuinely market-driven. Products need to be adequate to local demand. Too many BCs have been set up without a good analysis of the local

BDS market. Others have proved unable to adapt to a changing local demand. These factors, combined with weak institutional set up, have led to a short lifespan of some BCs whose services subsequently reached only a few small enterprises.

How is sustainability defined in the different BC approaches? How does a BC become sustainable?

Although these are probably the two main questions in most of the BC approaches reviewed, it is interesting to see that existing reports make it difficult to judge how sustainable the various different BC models are.

First, sustainability is defined differently among authors. Two main definitions apply:

1. The BC is sustainable if commercially motivated revenues are at least as high as the full costs of service provision (direct and indirect costs, fixed and variable). Income should not include transfers or budgetary support by the donor that set-up the BC. In this “Blue Book”²⁴ definition, BC revenues do *not* include those funds received from the public sector or any other non-commercial source.²⁵ This might be termed the “commercial sustainability” definition.
2. The second definition is still used in most publications on BCs. It 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. As a private actor a BC will focus on the chances that the market delivers, including those arising from donors or governments.²⁶

For both definitions two issues are essential when addressing the sustainability of BCs: how BC income is generated and how the institutional set up secures sustainability.

Income generation: Most BCs surveyed were generating only a part of their income directly from entrepreneurs. Their sustainability strategy has usually included other sources of income:

- By targeting medium and large enterprises to which services could be sold with a higher profit margin.
- By becoming local service providers for governments or local donors
- By cross-subsidizing BDS through the provision of other services: language and computer training, rental of premises acquired through the project and others
- By being contracted by larger enterprises to build up provider networks of small and micro enterprises

²⁴ *Guiding Principles of Donor Intervention in BDS* is often referred to as the “Blue Book”.

²⁵ See, for example, Hitchins (1999).

²⁶ This means that a BC will be considered 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 in Woller, Dunford and Woodworth 1999, p. 54-55.

Table 5.1: Comparison of different types of business centre approaches, selected countries, 1990-1995

	UNIDO	Swisscontact	USAID	IADB	EU	ILO
Year started	1991	Mid 1990s	1993	1995	1991	1995
Countries with case studies available	Romania	Ecuador, Peru, Philippines, Indonesia	Russia	El Salvador, Costa Rica, Argentina, Colombia	Hungary, Poland, Slovakia, Czech Republic, Slovenia, Bulgaria, Romania, Lithuania, Latvia, Estonia	Bulgaria, Bosnia-Herzegovina, Province of Kosovo
Costs per BC	US\$ 400,000-700,000	No data available	No data available	Total costs: US\$ 31,667,207	Total inputs for BCs and other non-financial business support: Over € 80 million	US\$ 250,000-400,000 per BC
Number of BCs set up (based on case studies)	20	46	8	Total: 14 BCs and 8 regional executive units	156 BCs and similar structures plus sub-offices	11
Organization type	NGO, set-up by the project	Existing NGOs and private providers	NGO, set-up by the project	BDS delivered by business associations	NGOs or limited liability companies set up as public-private partnerships organized by the project	NGOs set up by the project
Staffing	Manager, finance counsellors, marketing specialists, consultants and secretaries	Depending on BC		Manager, managerial officer and in-house consultants	Manager and several part-time employees	Manager and two to three full-time consultants/business advisers
Source of BC income	Financed by local governments, private partners, fees-for-services and local donor contracts	Fees-for-services from SMEs and donors/local governments	BDS: Fees-for-services from small and big enterprises and donors/local governments Financial services: Management of innovation fund. Other services: rent of office space	Fees for services, IADB grants	Local governments, fees for services, other donors	Fees for services, other local donors
Sustainability	No data available	50-100% ²⁷	50-90%	No data available	Very heterogeneous	8 sustainable, 3 not sustainable
Local partners	Local governments and private businesses	NGOs and private BDS providers	Local governments and other BDS providers	Private sector organizations, corporate businesses	Local governments, business associations etc.	Local governments, business associations
Services provided	BDS: Information, referral and technical assistance, workshops, seminars and management training, business counselling, guidelines for preparing feasibility studies and business plans, business manuals, business registration Financial services: Loan packaging, administration of revolving loan guarantee funds Other services: Safety staff training for the Romanian government, communication and negotiation skills training, training for local development	BDS: Trade fair marketing and trade fair organization, business registration fees, purchase of bulk materials for members, training, specialized training for tourism and other sectors, marketing assistance and consulting Financial services: Some have provided microfinance	BDS: Business registration and business planning, feasibility studies, business skills-based courses and seminars, legal and regulatory compliance assistance, trade and export development, financial management, training courses in personnel management and marketing, consulting and training services in marketing and market research, assistance for foreign clients in finding local venture partners, information and partner search services, recruitment and brokerage services, technology licensing links, trade shows or exhibitions. Financial services: Developed with the local authorities a leasing programme	BDS: Consultancy services and training courses in strategic planning, marketing and human resources, training for business women, technical assistance, including preliminary diagnosis and quality assurance (ISO 9000), promotion of foreign trade, assistance for fairs and support of company networks, product design, sectoral analysis and information services	Consultancy services, legal advice, taxation, accounting and marketing services. Access to information and training activities, preparing business plans, monitoring. Organization of trade fairs, running training courses for government certificates	BDS: Management training, business linkages to foreign and local enterprises, business planning and access to state credit lines, marketing studies, support in the privatization process, small enterprise radio programmes Financial services: Micro-credit provision in some cases Other services: Advice on local economic development, development of local and regional development plans, language courses, computer courses
Client outreach average per BC and year (breadth)	Average per centre: 105; 295; 705 clients/year	94; 230; 132; 38	1,128 trainees per centre per year (including training by partner organizations)	No data available	No data available	100-350 clients per year per BC
Client outreach (depth)	Mostly SMEs, but also larger enterprises	The higher segment of SMEs, larger enterprises	After donor funding withdrew: Larger enterprises and growth-oriented SMEs. Local governments, foreign enterprises	Formal manufacturing enterprises from 5-99 employees; about 17% of clients are SMEs	No data available	Micro and small enterprises, exceptionally medium enterprises

Sources: Astrakhan, Stinger and Yanboukhina (1999); Gibson and Hitchins (2000); Hagnauer, Rivera and Valcárcel (2001); Hitchins (1999); Kennedy, Scholtes and Sonesson (1999 and 2000); Monck, Bateman and Kudela (2000); Tabuena and Llisterrri (1998 and 2000); United Nations Development Programme (2000); ILO reports by Maurica Allal, Merten Sievers and Klaus Haftendorf. Any errors or omissions remain the responsibility of Merten Sievers.

²⁷ These numbers are taken from Hitchins (1999). The assumption made by the present authors is that these rates are calculated on the fees that the BCs receive from enterprises and exclude donor and government contributions (otherwise all of the BCs would have drastically diminished their operating costs or would have had to close down).

Institutional set-up: As mentioned earlier, three main approaches to institutional set up exist. The EU Phare evaluation report states that most BCs organized according to the PPP model were not sustainable after donor funding was withdrawn. Often the exit-strategy of funding had not been well defined and BCs were not ready to work without support. That the ownership of the BCs was not defined clearly (public or private?) might have also contributed to the high “death rate” of EU Phare BCs. The Swisscontact model, which includes tendering, incentive payments based on performance and in some cases an accompanying voucher system to stimulate demand, has demonstrated the ability to set up service providers that found a market niche, thus insuring sustainability. This model also showed a (low) death rate of BCs. The ILO has chosen to set up NGOs and pay decreasing running costs and salaries for BC staff. In most cases this has led to a hard learning process for the BC in which it had to concentrate on moneymaking services. In a few cases it has also led to the closing-down of BCs whose managers were not able to develop enough funding sources.

In heavily donor driven (often post-crisis) countries it has been difficult to build up structures that managed to survive solely from the income generated by selling services to entrepreneurs. If the management of the BC has been entrepreneurial it has been searching for the best ways to make money while still being relevant for small enterprise development. In several cases it has been more attractive to become a local service provider for the government or local donors in the area of MSE development. This is a general risk of building up private providers: they will only continue providing services to MSEs as long as it proves profitable. The challenge of sustainability then is how to create a BC that is able to serve micro and small enterprises in the long term without relying continuously on donor funding or other external funding.

What should a newly created BC concentrate on? What is the right mix of services?

Two recommendations emerge out of the approaches reviewed:

Adjusting to MSE client demand and to their payment capacity. Here it is probably necessary to learn some lessons from microfinance. To sell services in markets with a very low purchasing capacity, the services will have to be delivered in very small quantities that an entrepreneur might be more willing and able to pay for. The transaction cost of selling small quantities is comparatively high and the BC will have to sell a high amount of smaller products to be able to survive financially solely out of client fees. BC approaches need to consider opting for more basic services that can be more easily sold to small entrepreneurs. This would imply offering small service packages instead of complex training modules. Other basic services could include enterprise registration packages and legal advice. Here, these areas require careful scrutiny: Are they already being delivered by the existing private sector, for example, and can the BC play an innovative role? Flexible payment modalities would surely also help to access smaller clients. As in microfinance, new payment modalities need to be developed for BC clients. Smaller payments in various instalments could be an option but this would probably require some kind of collateral that guarantees the payment of the client. It also requires that clients are highly aware of the usefulness of the service provided.

*Concentration and specialization on a few market-driven services (flexible specialization)*²⁸. The ILO experience and some examples in Swisscontact show that concentrating on a small number of services in response to the market has been a successful

²⁸ Flexible specialization is a term used to describe how the industrial structure of some local regions has changed in response to market forces and to changes in regulation associated with globalization, but it could also be used for the policy of a BC.

strategy. The BC becomes known by one or two main services in which it concentrates a lot of its expertise. At the same time, because it should be able to take up new services rapidly, it must remain flexible.

Products offered by the BC need to show tangible effects to entrepreneurs in a relatively short time frame, for example, access to credit and access to (internal and external) markets. Products could also include services that entrepreneurs have to buy because of the regulatory framework (accounting and legal advice). If these are being efficiently provided by the existing private sector then the role of the BC would be to introduce new services to the local BDS market.

The ILO BCs have been set up as local NGOs. This experience shows that management can be made stronger if supported by a well-functioning board of directors. The board can play a role in ensuring that the BC keeps its small enterprise development focus and remains business-minded. A weak or badly functioning board of directors will hinder BC functioning.

How does the BC approach compare to other MSE-development measures?

BCs address only a part of the needs of micro and small enterprises. If they are managed well they deliver vital services to enterprises and start-ups and contribute to making BDS accessible for MSEs. MSEs have a wide range of possible demand, including financial services but also services that are supplied by municipalities or states.

It is difficult to compare Business Centre to other MSE development interventions. In some cases, depending on local needs, it might be more appropriate to start a local microfinance scheme instead. The Business Centre needs to be based on a sound market analysis, which also identifies potential new market niches.

As in other technical cooperation projects, a BC also stands or falls according to the capability of those who implement it, as confirmed by the experience with BCs in the Balkans. It is imperative to place strong emphasis on the international or local selection of project personnel. For example, it can be very detrimental for a project to put conditions on staff selection concerning nationalities of the international or national experts. BCs can be very flexible MSE development tools that react to market demand but are also able to introduce new services for which they detect potential demand.

Is the BC approach compatible with the “new BDS paradigm”?

BCs differ from traditional donor interventions in that they tend to be market-led institutions. They put more emphasis on working under market conditions and on developing services that can be self-sustaining. As in microfinance, this has also led to a stronger emphasis on BC institutional sustainability than on the ultimate impact on the client. The BC approach puts the emphasis on the fact that small entrepreneurs need support mechanisms which are commercially viable in the long term – to allow BCs to become trustworthy partners of MSEs and to enable MSEs to maximize their use of BC services. However, in a narrow sense the BC approach does not correspond to the “new paradigm” in BDS. All BCs surveyed in this paper are direct BDS-providers that have been built up with donor support. Most of them have provided totally or partly subsidized services to MSEs, with only a few examples of BCs that have been able to survive solely on income generated from MSE-client fees. In transition countries, implementing agencies have usually created new institutions rather than taking a close look at the existing private BDS providers or institutions and trying

to build on them. In Eastern Europe, implementing agencies often faced a situation in which *no* private service providers existed and therefore had to be created. More still needs to be learned about private providers and on how they sell their services. The debate continues on when it is useful to subsidize services (e.g. for marketing purposes or while developing a new BDS products). Examples of donor programmes that have successfully developed providers who supply without any kind of subsidies are still scarce.

From the BCs analysed, only a very few have been conceived as being instrumental in creating a vibrant BDS market – and even fewer have been able to create private spin-offs that could then drive market development. However, there are also risks involved in building up private providers: they will opt for the market that is more promising for them. If this means providing services to medium-sized enterprises rather than small ones, then private providers will choose to do so. In addition, private providers will not pay the cost of monitoring and evaluating the impact of their services. If donors want impact assessment they might have to contract the provider to do it.

What are the future challenges for the Business Centre approach?

Based on the mixed experiences of various BC models and the impact that was hoped for in implementing them, four challenges can be identified:

1. *Impact on MSEs.* Perhaps the main weaknesses of current BC approaches is that they have not been able to quantify exactly the effect a BC has on employment creation. The approach has been very concerned with the sustainability of the BC but seems not to have taken a closer look at the real employment creation impact. Impact measurement is costly and difficult but needs to be built into a project if its effectiveness is to be demonstrated.
2. *Replication and market development.* The question is not whether donors can replicate the BC approach, but whether the private sector can replicate it, thus leading to market development. In Kosovo, for example, a private replication took place but in several other regions this was not the case and the projects did not concentrate their efforts on it. This is an area where more knowledge is needed. Questions to be asked could include: Can BCs be successfully started in a limited area while at the same time encouraging other private actors to enter the market? How can private actors be stimulated more effectively to start-up or expand a BDS business? Or will this mean that the BC will only encourage competition and not be able to survive? For some rural areas, BCs probably need to be subsidized for a longer start-up period. Often awareness about the services offered has to be fostered by showing their usefulness to the entrepreneurs.
3. *Job quality and MSEs.* Apart from their potential for income and employment generation, BCs could play an important local economic development role by promoting the local MSE sector and supporting the setting up of associations that strengthen the voice of micro entrepreneurs in a given region. Little attention has been given to job quality aspects in MSEs. Here the Business Centre could be stronger in raising the awareness of entrepreneurs that improving labour standards or conditions in the jobs they are offering can have a positive impact on enterprise productivity and competitiveness.
4. *Different types of sustainability and the role of subsidies.* The BC approach is placed somewhere between the “new paradigm” and other forms of SME promotion. The role of subsidies and the way sustainability of a BC is defined are still unresolved issues.

For example, should “commercial sustainability” be the only criteria or should sustainability be defined on grounds other than solely financial?

These questions still need answers if the Business Centre is to evolve and to maximize its potential as a delivery mechanism of BDS.

Bibliography

- Allal, M. (1999): *International Best Practice in Micro and Small Enterprise Development*. ILO/UNDP, Bangkok.
- Allal, M. (2001): *Evaluation Report for the ILO Project BIH/97/07M/ITA, EDAs in Mostar and Livno, Bosnia-Herzegovina*. ILO, Geneva.
- Allal, M., Sievers, M. (2000): *Evaluation Reports for the ILO project BIH/98/001, EDAs in Banja Luka and Bihac in Bosnia-Herzegovina*. ILO, Geneva.
- Altenburg, Tilman (1996): *Die Klein- und Mittelindustrie der Entwicklungsländer im internationalen Wettbewerb*. DIE, Berlin.
- Astrakhan, I.; Stinger, C.; Yanboukhina, Y. (1999): *Business Development in Russia: New Business Development Program. Sponsored by the World Bank*. Document of the International Conference on Building a Modern and Effective Development Services Industry for Small Enterprises. Rio de Janeiro, Brazil, March 2-3 1999.
- Bateman, M. (2000): *Neo-liberalism, SME development and the role of Business Support Centres in the transition economies of Central and Eastern Europe*. Published in *Small Business Economics*, 2000, Vol. 14, No. 4 (August).
- Bateman, M. (2000): *Small enterprise development in the Yugoslav successor states: Institutions and institutional development in a post-war environment*. In *MOCT-MOST*, Vol. 10, No. 2, August 2000.
- Bateman, M. (2001): *Promoting pro-poor local enterprise development in the Balkans*. Draft report prepared for Oxfam (unpublished).
- Benett, R., Robson, P. (2000): *The Small Business Service. Business Support, Use, Fees and Satisfaction*. In: *Policy Studies*, Vol. 21, No. 3.
- Brezinski, H., Fritsch, M. (eds.) (1996): *The economic impact of new firms in post-socialist countries. Bottom-up transformation in Eastern Europe*. Cheltenham /Brookfield.
- Chua, R. T. (1999): *The Laguna SME Service Center: A Case Study of a Non-profit Business Development Service Provider to Micro and Small Enterprises in the Philippines* (Draft version).
- Committee of Donor Agencies for Small Enterprise Development (2001): *Business Development Services for Small Enterprises. Guiding Principles for Donor Intervention*. 2001 Edition. Washington.
- Cook, P., Kirkpatrick, C., Nixson, F. (eds.) (1998): *Privatization, Enterprise Development and Economic Reform. Experiences of Developing and Transitional Economies*. Cheltenham/Northampton.
- Cotter, Jim (1996): *Distinguishing between poverty alleviation and business growth*. In: *Small Enterprise Development*, Vol. 7, pp. 49-52.
- Demekas, G. D., Herderschee, J., Jacobs, D. F. (2002): *Kosovo. Institutions and Policies for Reconstruction and Growth*. IMF, Washington.
- EIU Country Forecast Bulgaria, November 2002: *The Economist Intelligence Unit*, London www.eiu.com (visited 10 March 2003)

- Field, M., Hitchins, R., Bear, M. (2000): *Designing BDS interventions as if markets matter*. USAID/Development Alternatives Inc., Review Paper 6 Microenterprise Best Practices: <http://www.mip.org/> (visited 21.02.03).
- GEMINI (1993): *Principles for Effective Design and Management of Small Business Development Centers*. Gemini Technical Report No. 62, Washington.
- Gibson, A. (2001): *Developing indicators in small enterprise development projects. A tool for people involved in designing, implementing and evaluating SED projects*. SED Working paper No. 1 Swiss Agency for Development and Cooperation.
- Gibson, A., Hitchins, R. (2000): *Business Centre Approach in Indonesia and the Philippines*, in: Levitsky, J. (ed.), *Business Development Services: A Review of International Experience*: 105-121, London.
- Haftendorn, K. (1996): *Project Documents for MSE development in Bulgaria*. ILO, Geneva
- Haftendorn, K. (1997): *Project Documents for EDAs in BIH*. ILO, Geneva.
- Haftendorn, K., Van Empel, C., Sievers, M. (2001): *Project Documents for LED and SED development in Serbia*. ILO Geneva.
- Hagnauer, J., Rivera, C., Valcarcel, J. (2001): *Swisscontact's Business Centre Approach in Peru*, in: Levitsky, J. and Mikkelsen, L. (ed.), *Micro- and Small Enterprises in Latin America: Experiences of Business Development Services*: 107-129, London.
- Hitchins, R. (1999): *The Business Center Approach to Business Development Services: Assessing the Experience of Swisscontact's Business Center Approach in Latin America & Asia*, Swiss Agency for Development and Cooperation, Swisscontact and Springfield Center for Business in Development: SED Issue Papers 3, Bern.
- ILO (McVay, M. and Miehlsbradt, A. O.) (2001): *Background Reader Business Development Services*, Second Annual Seminar, Turin, Italy, 10-14 September 2001. ILO, Geneva and Turin.
- Kennedy, R., Scholtes, P., Sonesson, C. (1999): Case study on the operation of three Romanian Business Centers. Paper presented at the International Conference on Building a Modern and Effective Development Service Industry for Small Enterprises. Rio de Janeiro, 2-5 March 1999.
- Kennedy, R., Scholtes, P., Sonesson, C. (2000): *The Operation of Three Romanian Business Centres*, in: Levitsky, J., *Business Development Services: A Review of International Experience*: 137-148, London.
- Mead, D. C., Liedholm, C. (1998): *The dynamics of Micro and Small Enterprises in Developing Countries*. In: *World Development* Vol. 26. No. 1, pp. 61-74.
- Meyer-Stahmer, J., Qualmann, S. (1996): *KMU als Träger von Entwicklung unter Berücksichtigung des informellen Sektors und der Beruflichen Bildung*. DIE. Berlin.
- Monck, J., Bateman, M. and Kudela, J. (2000): *An Evaluation of Phare-financed Programs in Support of SMEs: Final Synthesis Report*, Vols. 1 and 2, http://europa.eu.int/comm/europeaid/evaluation/evinfo/cards/951508_ev.html (visited 21.02.03)

- Musiolek, B. (2002): *Decent Work in the Informal Sector. CEE/CIS Region*. Employment Paper 2002/7, ILO, Geneva.
- Ruszyck, H., Schubert, I., Stoyanovska, A. (2001): *Local Response to Globalization: MESTA Region, Bulgaria*. SEED Working Paper No. 12, ILO, Geneva.
- Scase, R. (2000): *Entrepreneurship and Proprietorship in Transition. Policy Implications for the Small- and Medium-Size Enterprise Sector*. UNU/WIDER, Working Paper No. 193. Helsinki
- Schulpen, L.; Gibbon, P. (2002): *Private Sector Development: Policies, Practices and Problems*. In: World Development, Vol. 30, no. 1, pp. 1-15.
- SDC (1999): *The Business Centre Approach to Business Development Services. Assessing the Experience of Swisscontact's Business Center Approach in Latin America and Asia*. SED Issue Paper No. 3.
- SDC (2000): *Developing markets for Business Development Services. Designing and Implementing More effective Interventions*. SED Issue Paper No. 5.
- Tabuenca, A., Llisterri, J. (1998): *Enterprise Development Centres: Evaluation of Results and Lessons Learned in Four Projects in Latin America*, Alcalá de Henares.
- Tabuenca, A., Llisterri, J. (2000): *Enterprise Development Centres in Latin America*, in: Levitsky, J. (ed.), *Business Development Services: A Review of International Experience*: 122-136, London.
- United Nations (1997): *Enterprise management in countries with economies in transition with a special reference to small and medium-sized enterprises*. Department for Development Support and Management Services, Division for Governance, Public Administration and Finance. New York.
- United Nations Development Program (2000): *United Nations Inter-Agency Resource Guide for Small Enterprise Development*, Version 1: 102-106, New York.
- Villarán, F., Gutiérrez, J. J. (2001): *La medición de efectos en los clientes de los Centros de Desarrollo Empresarial*. Swisscontact/DESIDE/COSUDE, Lima.
- Woller, G. M., Dunford, C., Woodworth, W. (1999): *Where to Microfinance?* In: *International Journal of Economic Development* Vol. 1, pp. 29-64.

SEED Working Papers

1. “Home Work in Selected Latin American Countries: A Comparative Overview” (*Series on Homeworkers in the Global Economy*), Manuela Tomei, 2000
2. “Homeworkers in Paraguay” (*Series on Homeworkers in the Global Economy*), María Victoria Heikel, 2000
3. “Homeworkers in Peru” (*Series on Homeworkers in the Global Economy*), Francisco Verdera, 2000
4. “Job Quality and Small Enterprise Development” (*Series on Job Quality in Micro and Small Enterprise Development*), 1999
5. “The Hidden MSE Service Sector: Research into Commercial BDS Provision to Micro and Small Enterprises in Viet Nam and Thailand” (*Series on Innovation and Sustainability in Business Support Services (FIT)*), Gavin Anderson, 2000
6. “Home Work in Argentina” (*Series on Homeworkers in the Global Economy*), Elizabeth Jelin, Matilde Mercado, Gabriela Wyczykier, 2000
7. “Home Work in Brazil: New Contractual Arrangements” (*Series on Homeworkers in the Global Economy*), Lena Lavinias, Bila Sorj, Leila Linhares, Angela Jorge, 2000
8. “Home Work in Chile: Past and Present Results of a National Survey” (*Series on Homeworkers in the Global Economy*), Helia Henríquez, Verónica Riquelme, Thelma Gálvez, Teresita Selamé, 2000
9. “Promoting Women’s Entrepreneurship Development based on Good Practice Programmes: Some Experiences from the North to the South” (*Series on Women’s Entrepreneurship Development and Gender in Enterprises — WEDGE*), Paula Kantor, 2000
10. “Case Study of Area Responses to Globalization: Foreign Direct Investment, Local Suppliers and Employment in Győr, Hungary” (*Series on Globalization, Area-based Enterprise Development and Employment*), Maarten Keune, András Toth, 2001
11. “Local Adjustment to Globalization: A Comparative Study of Foreign Investment in Two Regions of Brazil, Greater ABC and Greater Porto Alegre” (*Series on Globalization, Area-based Enterprise Development and Employment*), Glauco Arbix, Mauro Zilbovicius, 2001
12. “Local Response to Globalization: MESTA Region, Bulgaria” (*Series on Globalization, Area-based Enterprise Development and Employment*), Hanna Rusczyk, Ingrid Schubert, Antonina Stoyanovska, 2001
13. “Ethnic Minorities — Emerging Entrepreneurs in Rural Viet Nam: A Study on the Impact of Business Training on Ethnic Minorities”, Jens Dyring Christensen, David Lamotte, 2001

14. “Jobs, Gender and Small Enterprises in Bangladesh: Factors Affecting Women Entrepreneurs in Small and Cottage Industries in Bangladesh” (*Series on Women’s Entrepreneurship Development and Gender in Enterprises — WEDGE*), Nilufer Ahmed Karim, 2001
15. “Jobs, Gender and Small Enterprises: Getting the Policy Environment Right” (*Series on Women’s Entrepreneurship Development and Gender in Enterprises — WEDGE*), Linda Mayoux, 2001
16. “Regions, Regional Institutions and Regional Development” (*Series on Globalization, Area-based Enterprise Development and Employment*), Maarten Keune, 2001
17. “ICTs and Enterprises in Developing Countries: Hype or Opportunity?” (*Series on Innovation and Sustainability in Business Support Services (FIT)*), Jim Tanburn and Alwyn Didar Singh, 2001
18. “Jobs, Gender and Small Enterprises in Africa and Asia: Lessons drawn from Bangladesh, the Philippines, Tunisia and Zimbabwe” (*Series on Women’s Entrepreneurship Development and Gender in Enterprises — WEDGE*), Pamela Nichols Marcucci, 2001
19. “Jobs, Gender and Small Enterprises in the Caribbean: Lessons from Barbados, Suriname and Trinidad and Tobago” (*Series on Women’s Entrepreneurship Development and Gender in Enterprises — WEDGE*), Carol Ferdinand (ed.), 2001
20. “Jobs, Gender and Small Enterprises in Bulgaria” (*Series on Women’s Entrepreneurship Development and Gender in Enterprises — WEDGE*), Antonina Stoyanovska, 2001
21. “Women Entrepreneurs in Albania” (*Series on Women’s Entrepreneurship Development and Gender in Enterprises — WEDGE*), Mimoza Bezhani, 2001
22. “Ajuste Local à Globalização: um estudo comparativo do investimento estrangeiro direto no ABC e na Grande Porto Alegre” (*Série sobre Globalização, Desenvolvimento de Empresas ao Nível Local e Emprego*), Glauco Arbix, Mauro Zilbovicius, 2002
23. “Small Enterprises, Big Challenges: A Literature Review on the Impact of the Policy Environment on the Creation and Improvement of Jobs within Small Enterprises”, (*Series on Conducive Policy Environment for Small Enterprise Employment*), Gerhard Reinecke, 2002
24. “Méthodes et Instruments d’Appui au Secteur Informel en Afrique Francophone”, Carlos Maldonado, Anne-Lise Miélot, Cheikh Badiane, 2003 (forthcoming)
25. “Artisanat et Emploi dans les Provinces de Settat et El Jadida”, Gérard Barthélemy, 2002
26. “Employment Creation and Employment Quality in African Manufacturing Firms”, Micheline Goedhuys, 2002
- 27E. “An Information Revolution for Small Enterprise in Africa: Experience in Interactive Radio Formats in Africa” (*Series on Innovation and Sustainability in Business Support Services (FIT)*), Mary McVay, 2002

- 27F. “Une révolution de l’information pour les petites entreprises en Afrique : L’expérience en matière de formats radio interactifs en Afrique” (*Série Innovation et viabilité des services d’appui aux entreprises*), Mary McVay, 2002
28. “Assessing Markets for Business Development Services: What have we learned so far?” (*Series on Innovation and Sustainability in Business Support Services (FIT)*), Alexandra Overy Miehlsbradt, 2002
29. “Creating a Conducive Policy Environment for Micro, Small and Medium-Sized Enterprises in Pakistan” (*Series on Conducive Policy Environment for Small Enterprise Employment*), Small and Medium Enterprise Development Authority of Pakistan (SMEDA), 2002
30. “Creating Market Opportunities for Small Enterprises: Experiences of the Fair Trade Movement”, Andy Redfern and Paul Snedker, 2002
31. “Creating a Conducive Policy Environment for Employment Creation in Small Enterprises in Viet Nam” (*Series on Conducive Policy Environment for Small Enterprise Employment*), Pham Thi Thu Hang, 2002
32. “Business Training Markets for Small Enterprises in Developing Countries: What do we know so far about the potential?” (*Series on Innovation and Sustainability in Business Support Services (FIT)*), Akiko Suzuki, 2002
33. “Organizing Workers in Small Enterprises: The Experience of the Southern African Clothing and Textile Workers’ Union” (*Series on Representation and Organization Building*), Mark Bennett, 2002
34. “Protecting Workers in Micro and Small Enterprises: Can Trade Unions Make a Difference? A Case Study of the Bakery and Confectionery Sub-sector in Kenya” (*Series on Representation and Organization Building*), Gregg J. Bekko and George M. Muchai, 2002
35. “Creating a Conducive Policy Environment for Employment Creation in SMMEs in South Africa” (*Series on Conducive Policy Environment for Small Enterprise Employment*), Jennifer Mollentz, 2002
36. “Organizing in the Informal Economy: A Case Study of Street Trading in South Africa” (*Series on Representation and Organization Building*) Shirin Motala, 2002
37. “Organizing in the Informal Economy: A Case Study of the Clothing Industry in South Africa” (*Series on Representation and Organization Building*), Mark Bennett, 2003
38. “Organizing in the Informal Economy: A Case Study of the Building Industry in South Africa” (*Series on Representation and Organization Building*), Tanya Goldman, 2003
39. “Organizing in the Informal Economy: A Case Study of the Minibus Taxi Industry in South Africa” (*Series on Representation and Organization Building*), Jane Barrett, 2003
40. “Rags or Riches? Phasing-Out the Multi-Fibre Arrangement”, Auret van Heerden, Maria Prieto Berhouet, Cathrine Caspari, 2003

41. “Flexibilizing Employment: An Overview”, Kim Van Eyck, 2003
42. “Role of the Informal Sector in Coping with Economic Crisis in Zambia and Thailand”, Gerry Finnegan and Andrea Singh (eds.), 2003 (forthcoming)
43. “Opportunities for SMEs in Developing Countries to Upgrade in a Global Economy” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), John Humphrey, 2003
44. “Developing Countries Clusters in Global Chains: Opportunities, Obstacles and Policy Challenges” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Cathrine Caspari, 2003 (forthcoming)
45. “Local Implementation of Quality, Labour and Environmental Standards: Opportunities for Upgrading in the Footwear Industry” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Lizbeth Navas-Alemán and Luiza Bazan, 2003
46. “Industrial Renewal and Inter-firm Relations in the Supply Chain of the Brazilian Automotive Industry” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Anne Caroline Posthuma, 2003 (forthcoming)
47. “The Competitive Advantage of Buying Networks in Wood Products Value Chains” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Jeff Readman, 2003 (forthcoming)
48. “High Road Upgrading in the ‘Third Italy’: Lessons for Integrated Small Enterprise Development and Good Labour Conditions in Developing Countries” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Alberto Criscuolo, 2003 (forthcoming)
49. “Small Enterprise Development and Job Creation in the Culture Sector in the SADC Region: The Music Sector” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Cecile Lambert, 2003 (forthcoming)
50. “Small Enterprise Development and Job Creation in the Culture Sector in the SADC Region: Ethno-Tourism” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Steven Bolnick, 2003 (forthcoming)
51. “Small Enterprise Development and Job Creation in the Culture Sector in the SADC Region: Visual Arts and Crafts” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), The Trinity Session, 2003 (forthcoming)
52. “Small Enterprise Development and Job Creation in the Culture Sector in the SADC Region: Performing Arts and Dance” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Annabell Lebethe, 2003 (forthcoming)
53. “Small Enterprise Development and Job Creation in the Culture Sector in the SADC Region: Television and Film” (*Series on Upgrading in Small Enterprise Clusters and Global Value Chains*), Avril Goffe and Natalie Jacklin, 2003 (forthcoming)
54. “Promouvoir un environnement de développement des micro et petites entreprises guinéennes favorable à la création d’emplois décents” (*Série Cadre stratégique favorable à l’emploi dans les petites entreprises*), Moussa Kourouma, 2003

55. “Creating a Conducive Policy Environment for Employment Creation in Micro and Small Enterprises in Tanzania” (*Series on Conducive Policy Environment for Small Enterprise Employment*) Paul Tibandebage, Samuel Wangwe, Moses Msuya, Darlene Mutalemwa, 2003 (forthcoming)
56. “Public Policy and Employment in Micro and Small Enterprises in Peru” (*Series on Conducive Policy Environment for Small Enterprise Employment*), Juan Chacaltana, 2003 (forthcoming)
57. “Business Centres for Small Enterprise Development: Experiences and Lessons from Eastern Europe”, Merten Sievers, Klaus Haftendorn, Astrid Bessler, 2003