



# EFFECTIVE POLICIES FOR SMALL BUSINESS

---

A GUIDE FOR THE POLICY REVIEW PROCESS  
AND STRATEGIC PLANS  
FOR MICRO, SMALL AND MEDIUM  
ENTERPRISE DEVELOPMENT



# **EFFECTIVE POLICIES FOR SMALL BUSINESS**

**A GUIDE FOR THE POLICY REVIEW PROCESS  
AND STRATEGIC PLANS FOR MICRO,  
SMALL AND MEDIUM ENTERPRISE DEVELOPMENT**





## About the OECD

The Organisation for Economic Co-operation and Development<sup>1</sup>, founded in 1961, provides governments with a setting in which to discuss, develop and perfect economic and social policy. The OECD Convention states that the Organisation shall promote policies designed to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy; to contribute to sound economic expansion in member as well as non-member countries in the process of economic development; and to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The OECD's members share a commitment to democratic government and the market economy. The Organisation's work covers economic and social issues from macroeconomics to trade, investment, enterprise development, governance, education, the environment, science and innovation.

The OECD produces internationally agreed instruments, decisions and recommendations to promote rules of the game in areas where multilateral agreement is necessary for individual countries to make progress in a globalised economy. Dialogue, consensus, and peer review and pressure are at the very heart of OECD.

Every year the OECD conducts the Global Forum on International Investment, which serves as an open forum for policy dialogue among OECD members, non-members and other stakeholders worldwide. This forum provides them with a platform for exchanging their expertise and experience in meeting the challenges and opportunities created by international investment. Within this framework and on several fronts, the OECD is promoting investment in transition economies and developing countries.

For further information see [www.oecd.org](http://www.oecd.org).

## About UNIDO

The United Nations Industrial Development Organisation (UNIDO) is the specialized agency of the United Nations System mandated to promote sustainable industrial development in developing countries and countries with economies in transition. It focuses its efforts on reducing poverty by fostering productivity growth. It helps developing countries and countries with economies in transition in the fight against marginalization in today's globalized world. In cooperation with its 171 Member States, it mobilizes knowledge, skills, information and technology to promote productive employment, a competitive economy and a sound environment. UNIDO Headquarters are located in Vienna, and with 29 country and regional offices, 13 investment and technology promotion offices, 30 cleaner

1. OECD Member Countries: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States and the European Commission.

production centers and 10 industrial technology centers, the Organisation has wide field presence and extensive operational experience.

In implementing its corporate strategy of productivity enhancement for social advance, UNIDO performs the following core functions:

- As a global forum, UNIDO generates and disseminates knowledge relating to industrial matters and provides a platform for decision makers in the public and private sectors, civil society organisations and the industrial community in general to strengthen cooperation, establish a dialogue and develop partnerships.
- As a technical cooperation agency, UNIDO designs and implements programmes to support the sustainable industrial developments of its clients. The emphasis is on strengthening institutional capacities, such as industry associations or chambers, technology and research institutions and relevant government bodies.

UNIDO services are designed to be easily integrated into country specific packages and local ownership ensures a custom made approach. Such services are provided in the context of Integrated Programmes that have been developed for over 40 countries to ensure that UNIDO's support has a sustainable and measurable impact through targeted combination of multi-disciplinary services. The services which represent UNIDO's key areas of expertise cover include:

- Industrial governance and statistics
- Investment and technology promotion
- Industrial competitiveness and trade
- Private sector development
- Agro-industries
- Sustainable energy and climate change
- Montreal protocol
- Environmental management

The comprehensive services provided by UNIDO are clustered around four thematic areas:

- Poverty reduction through productive activities
- Trade capacity building
- Energy and environment
- Advancing human security in post-crisis situations

For further information access [www.unido.org](http://www.unido.org).

## About TICA

Established in 1992, the Turkish International Co-operation Agency (TICA) is the main governmental institution responsible for Turkey's technical co-operation activities. TICA has field offices in Albania, Azerbaijan, Bosnia and Herzegovina, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

TICA is the main sponsor organisation of the OECD Istanbul Centre and its mission is to:

- Support sustainable social and economic development in developing countries
- Support regional co-operation initiatives
- Contribute to international peace and stability and settlement of cross-border problems

Through technical co-operation TICA contributes to sustainable development of human resources and institutional capacity in partner countries. TICA has co-operation activities both at bilateral and multilateral levels, co-operates with the public and private sector, and with international and bilateral development agencies in achieving its objectives.

For further information access [www.tika.gov.tr](http://www.tika.gov.tr).

## **About the OECD Centre for Private Sector Development ("OECD Istanbul Centre")**

The OECD Centre for Private Sector Development in Istanbul provides a platform for co-operation between the OECD and transition or emerging economies on private sector development policies through its approach to policy dialogue and exchange of experiences and the development of best practices for economic reforms.

Since its founding in January 1994, the OECD Istanbul Centre has held over 150 workshops and working group meetings, bringing together more than 5.000 senior officials and policymakers from Central Asia, Caucasus, Black Sea, Central, Eastern and South Eastern European countries, as well as Mongolia, the Russian Federation and the Middle East and North Africa.

The OECD Istanbul Centre has a stakeholder-oriented management structure that includes all those involved in the Centre's work (donors, partner countries, international institutions, non-governmental organisations and private sector participants).

The OECD Istanbul Centre's mission is to promote sustainable economic development and poverty alleviation through private sector development in our partner countries.

Its core activity areas are Foreign Direct Investment, Enterprise Development, Financial Sector Development and Rule of Law and Governance.

The Centre's programme objectives are to

- Continue to support the reform programme towards well functioning market economies especially in the Caucasus and Central Asia.
- Provide the opportunity to share experiences among countries in the pursuit of developing an improved climate for the private sector.
- Build institutional structures which help to create an efficient investment climate for domestic and foreign investors alike.

For further information please access [www.oecdistanbul.org](http://www.oecdistanbul.org).

## ACKNOWLEDGEMENTS

This guide is published by OECD and UNIDO as a follow-up to the work of the Transition Economies Forum on Entrepreneurship and Enterprise Development (TE FEED). The FEED process brought together extensive and practical case experience from transition countries, which was reviewed at a series of FEED meetings in the OECD Centre for Private Sector Development, Istanbul, Turkey. This review work was complemented by an analysis of a wide range of international experience and engagement with practitioners in a number of transition and developing economies. It resulted in recommendations for best practice policy development and recommended action on entrepreneurship and enterprise development<sup>2</sup>.

The guide presented here provides a further 'building block' for policy makers in transition and developing economies. It provides a systematic approach to reviewing policies and designing strategic plans for SME development at national, regional and local levels. It is designed to be of use to a wide constituency. Readers may include politicians and key policy makers; civil service staff at national, regional and local levels; and the staff of small and medium enterprise stakeholder agencies such as chambers of commerce and business associations, NGOs, local development agencies and consultancies, and training organisations.

This guide was prepared by Professor Allan Gibb, policy advisor to the OECD/ UNIDO Forum on Entrepreneurship and Enterprise Development, and draws on meetings with experts from OECD countries, international institutions and private sector representatives. It has been edited and prepared for publication by OECD and UNIDO.

The views expressed do not necessarily reflect those of the OECD or UNIDO or of their respective Members countries.

2. "Entrepreneurship and Enterprise Development in Transition Economies – Policy Guidelines and Recommendations", published by OECD and UNIDO, 2001



## FOREWORD

The establishment and nurturing of SMEs is a vital ingredient in creating dynamic market economies in the economic and social development of transition countries. Entrepreneurs are the big drivers of economic growth, innovation, regional development and job creation. A strong and vibrant SME sector provides a strong foundation to increase standards of living and to reduce poverty.

Despite the internationally recognised importance of SMEs, they still face major challenges in many developing and transition countries today. The challenges of business entry, survival and growth are often substantial. The availability of financial resources and lack of capacity to handle complex business management issues as well as a complicated and bureaucratic environment present major obstacles. As a result, there is an urgent and continuous need to improve the different elements that make up a good entrepreneurial climate.

This guide provides practical guidelines for policy makers on how best to review the process of policy development and establish strategic plans for micro, small and medium enterprise development. It is a further tool and reference source for all policy makers and actors dealing with small businesses, especially in transition countries seeking to further develop their market economies.

Private sector development relies on a partnership between the private and public sectors. The competitiveness of an enterprise may depend as much on what a government does as on what the firm's owners and managers do. To maximise the full benefits of small business in the economy policy makers must therefore review performance in partnership with the private sector, improve the policy framework and build better strategic plans to achieve their goals. This guide charts the methodology to fulfil that task.

We thank the many OECD and UNIDO member countries and international organisations and private sector representatives from various countries for their excellent partnership and expert contributions in providing advice and guidance for the preparation of this guide.

**Wilfried Luetkenhorst**  
Director  
Small and Medium Enterprises Branch  
UNIDO

**Rainer Geiger**  
Deputy Director  
Director for Financial and Enterprise Affairs  
OECD

## PREFACE

The Turkish government welcomes the launching of this guide “Effective Policies for Small Business” by OECD and UNIDO. The guide concentrates on the improvement of one of the most important engines of market economies – micro, small and medium-scale enterprises. It has been developed as a follow-up to the extensive work on small business policies and strategies conducted at the OECD Centre for Private Sector Development in Istanbul over several years, which the Turkish International Co-operation Agency (TICA) has been pleased to participate in and support.

The foremost aim of TICA is to support sustainable social and economic development in transition countries. The OECD Centre in Istanbul with the ongoing support by the Turkish government makes an important contribution to these objectives.

The Turkish Delegation to the OECD and TICA are pleased to express their thanks to UNIDO and OECD for initiating this valuable source reference. We look forward to continued close co-operation and exchange of experiences with the emerging and transition economies in the coming years. Conceived as a practical and user-friendly tool, this guide should play an important role in establishing a valuable instrument for policy-makers to review and set their own strategies and targets for SME development.

**H. E. Sencar Özsoy**  
Ambassador and Permanent Representative  
of the Republic of Turkey to the OECD

**Hakan Fidan**  
President  
Turkish International Co-operation Agency



## TABLE OF CONTENTS

<b>FOREWORD</b> .....	8
<b>PREFACE</b> .....	9
<b>SUMMARY</b> .....	15
<b>INTRODUCTION</b> .....	17
I. THE NEED FOR A POLICY FRAMEWORK .....	17
II. THE USES OF THE GUIDE .....	18
III. ORGANISATION OF THE GUIDE .....	19
IV. DEFINITIONS .....	20
V. BACKGROUND DOCUMENTS .....	21
 <b>PART 1: THE POLICY REVIEW PROCESS</b> .....	 23
<i>Chapter 1. NEEDS ANALYSIS</i> .....	25
1.1 MONITORING THE STATE OF THE SME SECTOR .....	25
1.2 MONITORING THE IMPACT OF GOVERNMENT LEGISLATION .....	26
1.3 EVALUATING SPECIFIC SUPPORT MEASURES .....	27
1.4 COMMUNICATING EFFECTIVELY WITH THE SME SECTOR .....	28
1.5 MONITORING THE ENTERPRISE CULTURE .....	28
1.6 RESPONSIBILITY FOR MONITORING AND EVALUATION .....	29
 <i>Chapter 2. POLICY SETTING</i> .....	 31
2.1 LINKING SME DEVELOPMENT TARGETS TO OVERALL ECONOMIC AND SOCIAL OBJECTIVES .....	31
2.2 ESTABLISHING CRITERIA FOR INTERVENTION AND SUPPORT .....	31
2.3 SETTING OUT THE ROLE OF CENTRAL, REGIONAL AND LOCAL AUTHORITIES AND AGENCIES .....	32
2.4 ESTABLISHING CRITERIA FOR REGULATORY INTERVENTION AND REVIEW .....	34
2.5 CREATING THE BASIS FOR DEVELOPMENT OF AN ENTERPRISE CULTURE .....	34
2.6 A FRAMEWORK FOR PRIVATE SECTOR LED SME DEVELOPMENT AND PARTNERSHIP .....	35
 <i>Chapter 3. POLICY MANAGEMENT</i> .....	 37
3.1 INTER-DEPARTMENTAL CO-ORDINATION AND COMMUNICATION .....	37
3.2 MANAGING THE REGULATORY ENVIRONMENT .....	37
3.3 MANAGING ENGAGEMENT WITH THE SME SECTOR .....	39
3.4 LINKING NATIONAL, REGIONAL AND LOCAL DEVELOPMENT EFFORTS .....	40
3.5 ESTABLISHING AN SME DEVELOPMENT AND POLICY CO-ORDINATING AGENCY .....	41
3.6 MARKETING AND PUBLIC RELATIONS .....	42
3.7 DEVELOPING SECTORAL APPROACHES .....	42
 <i>Chapter 4. STAKEHOLDER DEVELOPMENT</i> .....	 43
4.1 BUILDING SME ASSOCIATION ADVOCACY CAPACITY .....	43
4.2 DEVELOPING ASSOCIATION SERVICES .....	43

4.3 CREATING PUBLIC/PRIVATE PARTNERSHIPS IN SUPPORT OF SMEs . . . . .	45
4.4 DEVELOPING THE PRIVATE CONSULTANCY AND TRAINING MARKET FOR SMEs . . . . .	45
4.5 DEVELOPING THE SME FINANCE SECTOR . . . . .	46
4.6 SUPPORTING LOCAL AUTHORITY DEVELOPMENT . . . . .	47
4.7 SUPPORTING THE DEVELOPMENT OF PROFESSIONAL SERVICES . . . . .	47
4.8 DEVELOPING ENTERPRISE EDUCATION . . . . .	47
4.9 DEVELOPING EFFECTIVE REGULATORY BODIES . . . . .	48
4.10 CREATING SMEs THROUGH EFFECTIVE PRIVATISATION AND RESTRUCTURING . . . . .	48
<b>Chapter 5. DEVELOPMENT OF SPECIALIST INSTITUTIONS . . . . .</b>	<b>51</b>
5.1 SMALL BUSINESS DEVELOPMENT CENTRES AND LOCAL ENTERPRISE AGENCIES . . . . .	51
5.2 DEVELOPING THE NGO SECTOR . . . . .	52
5.3 SPECIALISED SERVICES . . . . .	53
<b>Chapter 6. PROGRAMME DEVELOPMENT . . . . .</b>	<b>55</b>
6.1 INFORMATION AND ADVICE . . . . .	55
6.2 COUNSELLING AND CONSULTING . . . . .	55
6.3 TRAINING AND EDUCATION . . . . .	56
6.4 MICRO AND OTHER FINANCE PROGRAMMES . . . . .	56
6.5 SPECIAL NEEDS . . . . .	57
6.6 SEGMENTING THE MARKET . . . . .	57
6.7 PROGRAMMES FOR CIVIL SERVANTS . . . . .	58
<b>PART II: THE STRATEGIC PLAN . . . . .</b>	<b>61</b>
<b>Chapter 7. THE VALUE OF THE PLAN . . . . .</b>	<b>63</b>
<b>Chapter 8. THE STRUCTURE OF THE PLAN . . . . .</b>	<b>65</b>
8.1 LINKS TO NATIONAL ECONOMIC AND SOCIAL OBJECTIVES . . . . .	65
8.2 MISSION STATEMENT AND GOVERNING PRINCIPLES . . . . .	65
8.2.1 MISSION . . . . .	65
8.2.2 GOVERNING PRINCIPLES . . . . .	65
<b>Chapter 9. THE PRESENT POSITION OF THE SME SECTOR . . . . .</b>	<b>67</b>
<b>Chapter 10. PROGRAMMES AND ACHIEVEMENTS TO DATE . . . . .</b>	<b>69</b>
10.1. OVERALL POLICY . . . . .	69
10.2 POLICY MANAGEMENT . . . . .	69
10.3 DEVELOPMENT OF STAKEHOLDER CAPACITY AND COMPETENCE . . . . .	69
10.4 SPECIALIST ORGANISATIONS - DEVELOPMENT AND PERFORMANCE . . . . .	70
10.5 PROGRAMME DEVELOPMENT . . . . .	70
<b>Chapter 11. FUTURE OBJECTIVES . . . . .</b>	<b>71</b>
<b>Chapter 12. TARGETS AND PLANNED ACTIVITIES . . . . .</b>	<b>73</b>
<b>Chapter 13. OVERCOMING BARRIERS . . . . .</b>	<b>75</b>
<b>Chapter 14. MANAGEMENT, MONITORING, EVALUATION AND CONTROL . . . . .</b>	<b>77</b>
14.1 MANAGEMENT RESPONSIBILITY . . . . .	77
14.2 MONITORING FRAMEWORKS AND PROCEDURES . . . . .	77
14.3 EVALUATION . . . . .	78
14.4 CONTROL . . . . .	82

**ANNEXES**

<i>Annex 1</i> – Reference List .....	85
<i>Annex 2</i> – Global entrepreneurship monitor survey 1999, interview format for assessing entrepreneurship culture .....	89
<i>Annex 3</i> – Measuring Regulations against the Five Principles of Good Regulation (UK) .....	91
<i>Annex 4</i> – European Charter for Small Enterprises. ....	93
<i>Annex 5</i> – Example of a quarterly SME survey .....	97
<i>Annex 6</i> – Outline of Report on small and medium-sized enterprises, 2000-2002, Bulgarian Agency for Small and Medium-sized Enterprises .....	99
<i>Annex 7</i> – Common external barriers to start-up and survival .....	101
<i>Annex 8</i> – Common internal barriers to start-up and survival. ....	103
<i>Annex 9</i> – Index of Additional Annexes Part I .....	105
<i>Annex 10</i> – Index of Additional Annexes Part II. ....	107

**TABLES**

<i>Table 1</i> - Range of business association services .....	44
<i>Table 2</i> - Linking SME Development to National Objectives .....	71
<i>Table 3</i> - Stimulating Enterprise Culture in Education – its Contribution to Development Targets .....	72
<i>Table 4</i> - Linking Higher Education with SME Development. ....	74



## SUMMARY

Micro and small or medium-sized enterprises (SMEs) make important contributions to development. The growth of a healthy, competitive SME sector will be maximised when there is a strong enterprise culture in the society at all levels; a continuous growth in the quality stock of independent business; maximum potential for growth of existing small businesses; and a highly supportive economic, social and stakeholder environment. These are the broad target areas for policy development.

This guide for SME policy development is divided into two parts.

Part I provides a framework for the review of existing policies and the state of the SME sector. This covers:

- The state of the SME sector, its needs and its reactions to policies;
- The process of formulating a policy for SME development;
- The way in which policies are managed;
- The development of a supportive stakeholder environment;
- The work of support institutions;
- The development of support programmes for the specific support services.

Part II covers the process of developing a strategic plan, with the following key areas:

- Overall economic and social objectives;
- Mission statement and governing principles;
- The present position of the SME sector;
- Review of programmes and achievements to date;
- Future SME development objectives;
- Specific targets, and actions to be taken;
- Barriers to meeting future objectives and how they will be overcome;
- Management, monitoring, evaluation and control.

Each of the issues covered by Part I and II is discussed concisely in separate text sections, in bullet points and with brief explanatory texts.





## INTRODUCTION

### I. THE NEED FOR A POLICY FRAMEWORK

Micro, small and medium-scale enterprises (SMEs) make important contributions to economic and social development. In all economies they constitute the vast majority of business establishments, are usually responsible for the majority of jobs created and account for one third to two thirds of the turnover of the private sector. In many countries they have been the major engine of growth in employment and output over the last two decades. In developing countries they are seen as a major 'self-help' instrument for poverty eradication. In transition economies, the main target countries of this publication, they provide the best illustration of the changes in ownership structures, business culture and entrepreneurial behaviour over the past decade.

In all economies, many micro businesses and self-employed persons operate outside the 'formal' sector. One of the major challenges to governments in designing institutional, organisational and regulatory frameworks is therefore to encourage entrepreneurs to engage in legitimate activity. In pursuing this goal, governments have moved away from earlier, rather simplistic, approaches, recognising that SMEs not only create jobs but play a wider role in social, economic and political development. They are increasingly seen as central to creating a democratic society and developing an 'enterprise culture'.

Governments alone cannot create that 'enterprise culture', but their actions can destroy or facilitate it. A major difficulty is that the SME sector is always highly differentiated and that its power base, if any, is essentially local. This makes a coherent public policy approach to SME needs difficult. The aim must be to empower 'bottom up' approaches to development within a national framework in a way that rewards and enhances enterprise culture, because in *all* societies the independent owner managed small business is the organisational norm for economic activity.

In shaping a public policy framework it should be recognised that the SME sector will be healthy when there is:

- A culture of enterprise in society which rewards individual as well as collective initiative and innovation in all its citizens, including the socially excluded and other minority groupings. The first step towards the creation of such a culture lies in education;
- An economic, political and social climate that encourages a high rate of business start up and survival leading to an overall increase of the SME stock;
- A significant proportion of quality businesses contained in the new stock;
- An economic and social climate which encourages existing SMEs to grow;
- A sympathetic and entrepreneurial stakeholder environment for SMEs.

The last point is of particular importance and highly relevant to this guide. SME development does not take place in a vacuum. If the culture of government, education, regulatory authorities, banks, the professions and the large corporate sector lacks empathy with SMEs, then it will be difficult for the sector to survive and grow. The stakeholder environment must therefore be as entrepreneurial as the SME sector itself. Stakeholder organisations facilitating and supporting entrepreneurship are key elements in the creation of a 'level playing field' and of a solid base for enterprise culture.

Official policies for SME development can be evaluated against their impact upon enterprise culture, start-up, survival and growth of SMEs, and stakeholder empathy. Each of these criteria feeds off the others. Enterprise culture will be strong where there are high rates of SME growth. Where SMEs are dominant features in the local and regional economic and social environment, stakeholders themselves will be influenced and will adjust their behaviour accordingly.

This template of culture and business and stakeholder development may be used in very different country contexts. Each country has different problems and opportunities and therefore priorities for change and resource availability will vary. These factors will dictate not only how many areas covered in this guide can be targeted, but also the scale on which any programme of change can be pursued.

Targets also move dramatically over time. SME development policies in Western Europe, for example, focused on employment creation in the late 1980s and early 1990s. By the end of the century the emphasis had changed to international competitiveness and innovation. As a result, policy targets moved towards technology issues and creation of an enterprise culture. In transition economies a major focus has been upon creating an enabling environment for the market economy. Hence much of SME policy has targeted the building of an appropriate regulatory environment, privatisation and restructuring, development of the financial sector and mechanisms for private and public SME support.

In addition to SME policies, many countries have adopted small business legislative acts, including such countries with economies in transition as Russia, Hungary, Poland, the Czech Republic and Bulgaria. Within the national framework, acts may specifically target the local level, as in the case of the German *Länder*. Their content varies but usually includes a declaration of support for small businesses, a definition for public policy purposes and principles on which support for the sector will be based. In addition they may contain institutional support arrangements, types of support to be given and methods of reporting. The absence of an act does not mean that there is no policy. Countries like France and the UK prefer flexibility in their approach. One problem with acts is that they may need constant amendment as policy develops.

## II. THE USES OF THE GUIDE

This guide focuses on the policy/strategy level rather than on the legal framework for SME development. It is designed to:

- Provide a framework against which policy makers at the national, regional and local level (private and public) can review their own programmes;
- Facilitate the integration of SME policy within the broader social economic goals of government;
- Act as a strategic vehicle for harmonising the SME development activities of different government departments;
- Provide a framework for harmonising the activities of business support agencies at the national, regional and local level;
- Facilitate benchmarking internally (within the country) and externally (with other countries);
- Help create awareness of gaps in policies and programmes and of the imperative to fill these;
- Facilitate experience exchange and transfer of ideas both within and outside the country;
- Create awareness of what central government can and cannot do and what needs to be done at the local and regional level;
- Enable governments to insert their own distinctive ideologies and priorities in the light of differences in culture and stages of development and needs of different groups in society;
- Facilitate the integration of promotional efforts, for example the development of finance, business services, professional services, education, technology and infrastructure;
- Create awareness of the role that the private sector can play in SME development in partnership with government and alongside NGOs;

- Provide a framework for effective communication with society as a whole and all key stakeholders and illustrate the potential for engagement;
- Help donors to target more effectively their distinctive contributions to SME development and thus avoid unnecessary overlap and differentiation.

### III. ORGANISATION OF THE GUIDE

This guide is divided into two parts:

*Part I.* A framework for a Policy Review Process. This covers the key areas of policy development and policy management;

*Part II.* A structure for the creation of a Strategic Development Plan, based on the Review. This is an instrument for policy makers to set out their strategies and targets for SME development.

#### **Part I – The Policy Review Process**

This focuses on six key areas:

- 1) *Needs analysis* - covers the process by which the needs of SMEs can be identified and monitored as a basis for policy development and impact analysis;
- 2) *Policy setting* - specifies the key areas, which policy ought to cover as well as the rationale for intervention and justification for the development of policies;
- 3) *Policy management* - deals with the processes of co-ordinating and managing policy and the appropriate regulatory programmes;
- 4) *Stakeholder development* - covers the way in which policy can be sensitive to and shape the environment in which the SME sector operates including the behaviour of customers, suppliers, financial institutions, business associations, the media, and other private and public sector led influence upon small business performance;
- 5) *Development of specialist institutions* - covers the areas of potential direct intervention in support of SME development via the work of public, autonomous, private and non-governmental organisations (NGOs);
- 6) *Programme development* - covers programmes specifically designed to support SME development in key areas such as finance, counselling and consultancy, training and education, information and communication technology, innovation, incubation and the provision of premises as well as specialist services such as export market support.

#### **Part II – The Strategic Development Plan**

This covers the consecutive elements of the strategic planning process:

- 1) *Introduction* - summarising the government's overall economic and social objectives;
- 2) *Mission statement and governing principles* - indicating how SME development policy can sit within the vision of the government and how it can be developed to engage the key aspects of mainstream government policy, such as support for competition, innovation and technology development;
- 3) *The present position of the SME sector* - examines the present state of the sector using data from the Review;
- 4) *Review of programmes and achievements to date* - describes what has been achieved in the areas identified in Part I (needs targeted, strategies accomplished, management changes achieved, stakeholder and institutional arrangements made and programme development) and indicates gaps and areas for improvement;
- 5) *Future development objectives* - demonstrates how SME development policy will contribute to meeting the key national and social objectives;

- 6) *Specific targets and actions to be taken* - sets out the priorities in terms of:
  - Key future needs to be tackled
  - Key future policy targets
  - Planned changes in policy management
  - Planned institutional and stakeholder capacity development
  - Future programme development;
- 7) *Overcoming barriers to achieving future objectives* - sets out what actions will be taken, by whom, to achieve the targets;
- 8) *Management, monitoring, evaluation and control* - sets out the means to provide continuous assessment, feedback and evaluation in respect of government strategies and plans.

#### IV. DEFINITIONS

How SMEs are defined usually depends upon the scale and structure of business in the economy and varies from country to country. Definitions are useful:

- In the preparation of statistics and the monitoring of the health of the sector over time;
- In benchmarking against other economies and between regions within an economy;
- In providing arbitrary thresholds for imposition of tax or other regulations;
- In determining eligibility for particular forms of public support.

The most commonly used measure is that of employment, due to its simplicity and the ease of collection of data. Turnover and assets employed can also be measured but both are problematical. Relatively small firms (in employment terms) can have a large turnover as a result of buying in large quantities of components. There are also major problems in consistently monitoring asset values. A more satisfactory measure would be that of added value but this is difficult to calculate.

A general distinction can be made between self-employment, micro, small and medium sized businesses. The European Union follows this convention as follows:

#### *Number of employees*

0	Self employed
2-9	Micro business
10-49	Small business
50-249	Medium-size business

In official statistics, it is not always easy to distinguish independently owned companies. If, for example, employment data is collected at the establishment level then it is likely that these statistics will include a significant proportion of units owned by larger firms. Yet, from a policy viewpoint the characteristics of the owner-managed independent business are substantially different from those of the small subsidiary firm of a large organisation. Such characteristics radically affect SME responses to policy initiatives.

A qualitative definition that embodies this distinction would particularly reflect issues of ownership and (inter)dependence. Being a small entrepreneur fundamentally means coping with (and enjoying) high levels of autonomy: standing alone and having total responsibility for the full range of business activities. Within the firm, personal relationships and individual qualities are more important than formal hierarchies and promotion systems. Because the firm's own resources are limited, there is at the same time a high dependence on suppliers, banks, accountants, etc., and on appropriate, supportive legislation. Owner-managers have to be close to their customers (if they don't sell they don't live). Business networks become

social networks, and the entrepreneur's standing in the community is highly dependent on success or failure.

## **V. BACKGROUND DOCUMENTS**

An alphabetical reference list can be found in Annex 1. A number of documents which elaborate key concepts and principles that might be applied and also provide real-world examples are available on the OECD Istanbul Centre <http://www.oecdistanbul.org/en/Publications/Library.htm> (see Annexes 9 and 10). These concepts, principles and examples are selected for their focus on relevant key areas of SME policy.



## **PART 1: THE POLICY REVIEW PROCESS**





## NEEDS ANALYSIS

### 1.1 Monitoring the state of the SME sector

**Objective: To provide regular data on the state of enterprise development.**

Ideally, four key indicators should be monitored at a national, sectoral, and regional level.

#### *a. New business start-ups*

These can be measured in several ways through: business registration, tax returns (where the tax system is well developed and enforced), applications for licenses, and - in certain sectors - census or sampling. Different types of small business can be distinguished according to ownership structures and registration procedures: sole traders, partnerships, limited companies, etc.

#### *b. Survival rates*

These can be difficult to measure. A common mistake is to confuse de-registration of businesses with policy failure - a myth often quoted by politicians is that three out of five new businesses fail within five years. This 'failure rate' is then quoted as a sign of the high risk of entry into an independent business activity. It has also served as a justification against intervention because of the risk that a high proportion of investment support to start-ups will be quickly written off. The policy implication is that it is better to target public support on existing businesses.

However, at the 'small firms end' of industrial and commercial structures it is normal that as much as ten percent of the registered stock of business is replaced in any particular year. To gain a true measure of the impact of this 'turbulence' a distinction needs to be made between the business activity, the person (entrepreneur/owner) and the registration. In most modern economies only a fraction of businesses de-registered face involuntary liquidation, and relatively few individuals who move out of business face bankruptcy. Many small businesses just change hands and/or forms of ownership.

#### *c. Growth of the sector*

Official statistics must be interpreted with care, as changes at the margins of firm size categories may strongly affect size distribution and with that the picture of the role of SMEs in an economy. Wherever possible, data should be collected on a (sub-national) regional basis as the differences in birth rates and growth within an economy, and indeed within a locality or region, may be as substantial as between countries. There is evidence that in regions with a large stock of small businesses birth rates and growth will be high compared with regions that have a relatively weak locally owned business sector. Different policies may therefore be needed for different regions.

The same is true for key sectors of the economy. The performance of different social groups in society can also be measured: increasing attention is being paid to female entrepreneurs and ethnic minorities and the contribution that they can make to development. 'Socially excluded' groups (or localities) should also be a key target. Self-employment constitutes a key component of poverty reduction strategies and may need to be monitored separately.

This raises the issue of the measurement of the informal sector, which is known to be substantial in transition and developing countries. In the former Soviet Union countries it is estimated to contribute between 20 and 40 per cent of GDP. Even in the European Union (EU) there is considerable informal activity: in Italy, for example, it has been estimated to contribute between 10 and 20 per cent of GDP. It has been estimated that the informal sector contributes some nine trillion 'undetected' dollars to global GDP.

To measure the informal sector and its contribution, surveys can be used along with qualitative data and interviews. There are, however, two additional quantitative measures. One, known as the 'indirect' method, seeks to measure the discrepancies between expected levels of demand or receipts (such as consumption of power, tax, expenditure, employment and transactions) and the actual use of goods and services. A second set of approaches is built upon models designed to 'predict' the informal sector; these are comprehensively discussed in a paper of the German Institute for the Study of Labour (see [www.iza.org](http://www.iza.org)).

Variations in the number of SMEs reflect changes in the structure as well as the ownership of business and industry in general. Much of the increase in SME registrations in the EU in the 1990s reflected the downsizing and restructuring of large companies. Previously 'internalised' services and processes were moved out of companies focusing on their 'core' business. Similarly, in transition economies, privatisation and restructuring have led to the creation of new small firms. Therefore, small enterprise development policy is closely linked to policies relating to privatisation, restructuring of industries and new models of organising production and commercial activity, such as supply chains and cluster development (see Section 4.10.).

#### *d. Measurement of attitudes*

Monitoring the health of the SME sector over time can include a measurement of attitudes towards starting and developing a business. Attitude sampling may also be a key component of international benchmarking (see Section 1.5).

*In Scotland, where a wide-ranging initiative was launched to encourage more people to create new businesses in 1993, part of the monitoring has been carried out by opinion poll surveys. These sample attitudes to being: 'committed' to starting a business; 'enthusiastic' about starting a business; 'could but don't want to' start a business; and 'no interest' in starting a business. Evaluation over time indicates only limited progress.*

Examples of official statistical presentations in the UK and Europe are given on the OECD Istanbul Centre web site (see Annexes 9 and 10).

### **1.2 Monitoring the impact of government legislation**

**Objective: To obtain evidence on the problems faced by SMEs in dealing with government regulation, indicating areas where amendment is needed.**

In general, regulatory policy should aim at creating a 'level playing field' for all types of businesses. In practice, there is an imbalance in both economic and political power, which enables larger firms to influence the environment more substantially, and there are particular difficulties for small and medium firms in accessing information. In addition, the relative costs of conforming to regulations can be proportionately higher for the small firm. These costs stimulate the growth of the informal economy.

There are various models for monitoring. Annex 9 among others lists documents on the work of the US Office of Advocacy in the Small Business Administration and the Business Environment Simplification Task (BEST) Force of the European Community. Key areas to observe in monitoring the impact of regulation are:

- Direct and indirect tax at local, regional and national level;
- Business licensing and registration;

- Impact on transactions between businesses and businesses and consumers;
- Protection of the environment, health and safety;
- Access of small enterprises to resources of the government and other public authorities.

In each of these areas it is necessary to monitor:

- Ease of compliance;
- Removal of barriers to SME development at various development stages;
- Removal of barriers to transactions between key economic and social agents;
- Harmony between local and national authorities;
- Management of regulatory processes;
- Initiation and preparation of legislation, particularly with regard to the SME sector and the management of relations between different departments;
- The role of private-sector organisations in regulatory processes.

Many problems in the above areas will be avoided if care is taken in developing legislation to ensure that it is:

- *Necessary*. How does it solve small business problems?;
- *Effective*. Do the benefits exceed the costs?;
- *Consistent*. Is it consistent in application and in linking with related aspects of law and policy?;
- *Just*. Is there equal access and equal rights for all?;
- *Transparent*. Can implementation be properly monitored?;
- *Simple*. Can it be understood by all citizens and entrepreneurs affected?

These criteria set a general framework for monitoring existing and proposed legislation. But monitoring the actual policy needs of SME is difficult even in advanced economies. There is a need to establish mechanisms for effective public-private sector dialogue and feedback from those who implement legislation. Business associations from time to time can undertake studies of members' needs and governments anticipating a particularly acute problem or proposing new forms of legislation may commission surveys.

In some economies, independent agencies or semi-independent trusts undertake regular surveys for this purpose. But it is extremely difficult, using survey methods, to explore the in-depth problems that a particular piece of legislation may cause. Specialist government task forces (see Section 3.2) may provide a more satisfactory instrument for this purpose.

### 1.3 Evaluating specific support measures

**Objective:** *To obtain feedback on specific policies and programmes that have been introduced to stimulate the SME sector and remove barriers to its development.*

This will assess the impact of incentives and support given to SMEs in such fields as finance; counselling and consulting; training and education; information; technology and innovation; provision of premises; and special access to government contracts.

There are two groups of evaluation measures: summative measures aim to examine the impact of any particular measure by linking inputs to outputs; formative evaluation examines the process of support management. The latter obviously impacts on the former.

**Summative** evaluation may be undertaken at various levels including:

- *Reaction*: how recipients feel about the benefits or otherwise of support - usually measured by means of a questionnaire or interview;

- *Learning*: shows how well recipients understand the support mechanism and the opportunities it brings – measured by questionnaires, interviews and tests;
- *Behaviour*: how recipients have behaved differently as a result of the new policy – measured by interview and observation;
- *Interim actions*: what developments have taken place as a result of support or change (in the case of start-up incentives: has the business started and survived) – measured by audit, interview and observation;
- *Ultimate impact*: impact on business performance in terms of turnover, profits and employment – measured by primary enterprise data;

It should be noted that it is not easy to attribute changes in behaviours and organisational performance to any discrete piece of legislation as numerous other factors are usually at work.

**Formative** evaluation will cover the processes by which targets are set, needs have been established, programmes developed, and delivered, programmes are marketed as well as how they are managed.

Formative and summative evaluations are dealt with in more detail in Part II.

#### **1.4 Communicating effectively with the SME sector**

**Objective:** *To ensure that mechanisms are in place to enable the views of the SME sector to feed into public policy in an effective manner over time.*

Effective communication is essential to the success of all the above categories of needs analysis. The mechanisms established need to ensure proper 'bottom up' communication from the local level, as it is difficult to make the voice of the SME sector heard at the national level – this is particularly so for informal and micro enterprises. Information and communication technology is now beginning to change this. For a selection of websites on SMEs and their development see also Annex 9.3.

Information alone is neither knowledge nor learning. Even in the most sophisticated economies a substantial gap remains in communication with SMEs. Associations remain the main mechanisms for communication at national, regional and local level.

*In Romania the National Council of Small and Medium Sized Enterprises produces an Entrepreneurial Barometer which measures opinions of entrepreneurs on the economic situation, their own dynamics and views of the environment. Opinions are sought on banks and insurance companies that are trusted, on legislation, on opportunities, and on difficulties faced. The information is offered to government on a monthly basis.*

In the case of formal sector SMEs, communication can be enhanced by equipping the key stakeholders with whom the small business interfaces (such as banks, professional services and regulatory authorities) with appropriate information dissemination capacities. Regular bulletins in small business journals and local ombudsmen who can answer queries on key issues can also be efficient means of information provision.

#### **1.5 Monitoring the enterprise culture**

**Objective:** *To measure society's capacity for enterprise and self-help, with the ability and knowledge to start independent businesses as the core competence.*

Policy makers throughout the world have placed considerable emphasis on the development of appropriate enterprise cultures in society. There have been many programmes, particularly in the field of education, designed to stimulate entrepreneurial behaviour in youth. It is difficult to monitor the impact

of these other than by measuring coverage - counting the numbers of programmes offered, for example in the school and college curriculums, and the numbers of students involved.

The development of the enterprise culture in society as a whole can be measured by survey methods. The Global Entrepreneurship Monitor (GEM – see Annex 2) survey has attempted to create an international benchmark for this purpose focusing mainly on attitudes to and knowledge of starting a business. It now operates in over twenty countries. It uses a combination of national opinion poll surveys and ‘Delphi’ (brainstorming with local experts) techniques. The European Union has also attempted to take ‘barometer’ measures of the culture and the health of the SME community (see Annex 9).

## 1.6 Responsibility for monitoring and evaluation

**Objective: To establish truly independent procedures.**

Achieving independent evaluation is difficult as governments are always under pressure to demonstrate success in their ventures. Evaluation is therefore best commissioned from more independent sources such as consultants, academics or an independent audit commission.

*In Hungary a great deal of this work is done by the Institute for Small Business Development and the Hungarian Foundation for Enterprise Promotion. Policy Research Institutes have been created to carry some of the work in this field in Ukraine and Croatia.*

*In 1998, UNIDO published an in-depth study of policies and programmes for SME development in Central Europe (see Annex 1).*

When financial constraints limit resources, it may be possible to engage private institutions such as banks in providing funding support, as much of the data created is useful to their marketing. Regular surveys of health of the SME sector are, for example, funded by one of the major banks in the UK, Natwest (see Annex 5).



## POLICY SETTING

### 2.1 Linking SME development targets to overall economic and social objectives

**Objective:** To position SME development targets within the framework of overall macro policy objectives.

Overall development objectives may include employment creation, productivity, competitiveness, GDP growth, price stability; and external payments equilibrium; as well as social, sectoral and regional equality including poverty reduction. Positioning SME development policy against national targets makes it easier to co-ordinate the relevant activities of different ministries and to prioritise goals. It also establishes the basis for a tighter process of decision-making. Very often official statements concerning SME policy consist of a list of generalisations about the role of small business in society without any details as to the priorities and potential in this respect.

Specific objectives can be set regarding the SME contribution to poverty reduction, job creation, the growth of value added, the welfare of specific groups (for example, women or indigenous business development in different localities), or major sectoral targets, for example in tourism or agro-based development. Specific targets relating to international competitiveness may also improve the focus of new small business development initiatives. Without this link to specific macro goals, SME development policy may drift over time as one priority succeeds another. On the other hand, policy makers should be aware that priorities must be reviewed regularly to reflect new development challenges.

*In Western Europe in the 1980s, small and medium enterprise policy was substantially a reaction to the need to create jobs at a time when large companies were shedding large numbers of employees and the public sector was shrinking. Such a focus led to relative neglect of other considerations such as the impact of enterprise development on productivity and competitiveness and a balanced economic structure.*

*In the transition to a market economy in Poland, the SME sector was initially also seen as primarily a source of new jobs. By the end of the 1990s, however, a major policy document, Activities of the Polish Government towards SMEs to 2002, identified competitiveness, exports and the ability to attract investors as the longer-term objectives.*

Some key questions to be addressed in linking SME policy with national objectives therefore concern the sector's impact on:

- The quantity and quality of jobs created;
- Productivity and business development targets;
- International competitiveness, adding value to exports;
- Regional and local development and regeneration;
- Key industry and service sectors targeted in national plans;
- The reduction of inequalities and poverty.

### 2.2 Establishing criteria for intervention and support

**Objective:** To set up a framework for intervention by policy makers relating to:

- Creating a market for SME business services;
- Areas where small businesses are at a clear disadvantage;



- Value added opportunities that would go unrealised;
- Integration of the informal sector;
- Institutional weaknesses.

Creating markets for SME business development services does not mean relying exclusively on 'for profit' support. Rather, it means recognising that intervention may be justified when it helps to articulate SME needs more clearly, so that a clear demand for certain services is created which markets can provide. It also requires ensuring that commercial suppliers of support are equipped to deal with that demand. In the microfinance field for example it may be desirable to 'build' markets by encouragement of innovative 'bottom up' savings and credit schemes while at the same time supporting the efforts of banks to move downmarket and experiment in micro credit activity.

The degree and focus of any subsidy to SME development will depend on whether the government follows an interventionist approach or not. The stage of evolution of the particular country is also an influencing factor on the policy path chosen.

In implementing a programme of privatisation and restructuring, it should be recognised that the restructuring process, if left solely to the market forces, may create substantial unemployment and incur considerable social costs. Supporting a programme of careful restructuring by the creation of new business out of the old, engaging under-utilised assets, with or without an element of public subsidy, may add considerable value to local economies. The experience of the transitional economies in Europe shows the potential for creating small businesses out of large company restructuring.

*The former Soviet state company Prompribor in Chuvash, Russia was a conglomerate with electrical and electronic devices as its core products and a number of related industries and services. It employed 3000 people. In restructuring the company in the early 1990s, the challenge was to retain business viability under market conditions and create job/business opportunities for staff. On the basis of a carefully formulated plan, the result of extensive internal discussion, a holding company (ZEIM) was created. In spite of financial and legal obstacles, ZEIM consisted of 25 linked SMEs by mid 1994 (For more details, see the source listed in Annex 1), with workers and retired workers in many cases holding the majority of shares. New markets were being explored and only 200 jobs were lost.*

*The Tesla plant in Lanškroun, Czech Republic, was the only producer of capacitors in Czechoslovakia, and of machinery for that purpose. After central planning was abolished, AVX Kyocera gradually took over the plant and a process of selective restructuring took place. The combination of gradual change and a positive outlook for the long-term viability of operations encouraged many former employees (the average qualification level was high) to set up their own small supplier firms for AVX Kyocera. After a few years, these local suppliers were able to compete with Japanese suppliers.*

The institutional and regulatory structure is often based upon large company norms. Informal businesses or micro businesses will therefore find it difficult to move into the more formal sector and grow. This justifies the creation of regulations and organisations focusing specifically on small enterprises (labour regulations, aspects of planning, safety, taxation, etc).

### 2.3 Setting out the role of central, regional and local authorities and agencies

**Objective: To ensure local empowerment.**

Local empowerment plays a key role in creating the conditions for SME development. There are limits to central government's role in supporting the development of entrepreneurship. The basic elements of entrepreneurship cannot be supplied by central government, and a 'bottom up' development philosophy in favour of SMEs can only function with substantial local empowerment, as local and regional authorities are closer to their business communities.

A clear vision of the respective role of central and local efforts and of the ways in which central government can facilitate and support local and regional efforts, are therefore essential.

*In Hungary, the law provides for a three-tiered territorial system of development councils: at the municipality group, county and county group level. The latter were created to handle the larger decentralised development issues. While the system seemed a logical approach to development at different levels, it has been criticised for inadequate local (particularly: private sector and civil society) representation, lack of coordination among tiers, limited decentralisation of financial resources and a lack of identification of actors with the county groups, which many consider arbitrary.*

*In the People's Republic of China, local authorities have considerable financial powers and a high degree of freedom to engage in a variety of local development activities. This has been a major factor in the strong growth of the small enterprise sector, which again had a major share in the impressive growth rates achieved in the last two decades. The large state owned industry sector now produces less than fifty percent of industrial output.*

The coordination of support at different government levels and specific activities that local authorities can undertake are discussed in Sections 3.4 and 5.1. The actual division of labour with local and regional governments is a function of a country's political structure and the financial powers and freedom of the latter. There are, however, basic principles for the role of central government. These are outlined below. The principles are drawn from observation of good and bad practice and can be justified via analysis of best international practice.

### **Basic principles for the role of central government in SME support**

#### **Central government should:**

- Trust the private sector, take risks and promote entrepreneurial attitudes in government agencies; local authorities can play the lead role in SME development;
- Delegate real power to the local level and generally encourage truly bottom-up development, with a central role for entrepreneurs;
- Adapt small business services to specific needs of localities and SME segments;
- Facilitate the creation of markets for services;
- Strengthen the role of stakeholders, especially in the creation of sustainable local institutions via stakeholder partnerships and the provision of services through business associations;
- Focus on effectiveness of promotion activities rather than just outputs;
- Take a long term strategic view, and encourage the adoption of long-term views in the business community;
- Give status to entrepreneurs in the community as role models.
- Consult regularly and openly with small business representative groups on policy issues that affect the growth of the sector and programme development.

#### **Central government should not:**

- Impose detailed inflexible programmes and targets;
- Set up centralised, bureaucratic support organisations and offer direct centralised services to SMEs where these can be better delivered by other actors including the private sector itself;
- Develop SME laws, institutions and policies in consultation with social partners including small business representative groups;
- Introduce corporate business models into SME business support management;
- Impose excessive standardisation for the sake of public accountability;
- Impose excessive control on local organisations through funding or other mechanisms;
- Confuse the creation of markets with the pursuit of for profit activity;
- Deliver information and knowledge to businesses in inappropriate forms.

## 2.4 Establishing criteria for regulatory intervention and review

**Objective:** *To set targets for regulatory intervention aimed at ensuring a level playing field for SME development.*

Regulations for the SME sector should be based on the same general principles as other regulations and laws: protection and enhancement of the rights and liberty of individual citizens in society and promotion of a safe and healthy environment. Specific criteria for the development of effective regulation for the sector include:

- Broad support of the public and the business community. Education and information can help increase support for compliance;
- Regulation must be enforceable;
- Regulations must be easily understood to ensure effectiveness and compliance.
- There should be awareness of 'opportunity costs'. Very strict regulations can encourage SMEs to stay in the informal sector;
- Legislation should not interfere with decisions that individuals should make themselves;
- Regulations should seek to reconcile contradictory policy objectives;
- Legislation must provide clear and identifiable accountability. This is particularly important when private companies are given responsibility for former public services.

A checklist of the principles of transparency, accountability, proportionality, consistency and targeting is presented in Annex 3.

## 2.5 Creating the basis for development of an enterprise culture

**Objective:** *To set out clear concepts and targets for the establishment of a culture of enterprise in the education system and in the relevant institutional/stakeholder environment.*

This requires, firstly, clarity as to what the target means and secondly, an understanding of how this might be achieved.

What is a society with an enterprise culture? It can be a society in which the potential for individuals and groups to start a business is maximised. More broadly it can be a society in which individuals in all kinds of organisations and in all aspects of life behave in an entrepreneurial manner. The common element is a set of values and attitudes underpinning a belief that economic and social development can best be achieved by the maximisation of individual, small group and local community effort and responsibility.

It is important to recognise that entrepreneurial behaviour arises from the need of individuals and organisations of all kinds to cope with, enjoy and sometimes create high levels of uncertainty and complexity as a means of personal fulfilment. The broad strategic challenge to public policy is therefore to seek to change the culture of organisations of all kinds to facilitate entrepreneurial behaviour enabling and encouraging individuals to:

- Enjoy a stronger sense of ownership;
- Freely choose the form and control the direction of their organisation (a small business or otherwise), maximising the opportunity to engage in 'total' management;
- Enable them to make decisions under conditions of uncertainty and ambiguity;
- Take responsibility to see things through and build a long term commitment to a venture;
- Build 'know who' networks with key public and private sector partners;
- Link rewards and the evaluation of behaviour to credibility with stakeholders and customers;
- Learn – not only formally, but also from stakeholders, and from mistakes and experiments;
- Encourage strategic thinking rather than formal planning and personal contact as a basis for management by trust.

These guidelines are important particularly for the design of organisations that will interface with the SME sector. Additionally, important general factors in supporting the development of an entrepreneurial society are positive entrepreneurial personal role models for individuals to follow, entrepreneurial attitudes among all relevant stakeholders, local empowerment, a greater belief in 'trust' than in regulations and the encouragement of initiative at all levels.

The education system is commonly regarded as the starting point for the creation of enterprise culture. Foreign assistance to promote entrepreneurship in the transition economies through education is provided on a bilateral basis (see below) as well as through UN bodies such as the Food and Agricultural Organisation.

*The UK Department for International Development supports a number of enterprise education programmes in Central and Eastern Europe. These include:*

*Hungary. Two programmes were developed in partnership with the Foundation for Small Enterprise Education Development (SEED) and the National Institute of Teacher Training. The first involved the development of enterprise education in secondary schools, the second focused on vocational colleges.*

*Latvia. Three programmes were developed with the Ministry of Education and head teachers of prominent secondary schools. The two completed programmes continue to be delivered via a network of trainers. The first, 'Working for Myself', involved students in vocational colleges, the second focused on vocational and grammar schools, and the third was aimed at Initial Teacher Training (ITT) institutions, building on the previous secondary school programme. With a scheme already in place to introduce teachers to enterprise education, the intention is to create a permanent infrastructure for enterprise education.*

*Poland. Two programmes were completed. One introduced enterprise education via secondary school teachers. Key partners were the Stefan Batory Foundation and the Ministry of Education and its Initial Teacher Training Department. The second programme focused on the development of self-employment capability in vocational schools.*

*Russia. Enterprise education was introduced in all secondary schools in the Samara Oblast as part of the Ministry of Education's restructuring programme. The local partners were the Ministry of Education and the International Market Institute.*

*Slovenia. Three programmes have been completed. The first introduced enterprise education in vocational schools, the second introduced enterprise and business understanding in the core curriculum of all grammar schools. Both have been nationally disseminated via a group of committed teacher trainers. The third programme focuses on teachers of vocational trades and is designed to develop small business capability and knowledge in students and teachers. All programmes have been developed in partnership with the National Vocational Centre, Ministry of Education and National Education Institute.*

## 2.6 A framework for private sector led SME development and partnership

**Objective:** *To clearly define the key areas of potential for privately led partnership.*

Achieving this objective implies that efforts are focused substantially on raising the capacity of the SME sector to help itself and contribute more substantially to the solution of broader problems of development including poverty alleviation, entrepreneurship, health, education and social exclusion.

With this focus the stance of government moves away from one of direct management and regulation (direction) towards one of governance (facilitation). This involves new partnership mechanisms for support of individual and collective initiatives. A general outline for public-private sector partnerships, with a special focus on SME development, may be found in the UNIDO publication *UNIDO-Business Partnerships for Industrial Development* (see Annex 1). For a guideline for the role of private sector led development in developing SME policy see Annex 9.



## POLICY MANAGEMENT

### 3.1 Inter-departmental co-ordination and communication

**Objective: To set out clearly the role of different departments in SME development and the mechanisms by which policies and programmes will be co-ordinated.**

There is no ideal model for this difficult task. Virtually every department of government impacts upon SME development. A starting point for co-ordination has been noted earlier, namely understanding the way that SME development impacts on national economic and social development priorities. Aside from the creation of inter-ministerial committees, the most common vehicle for attempting co-ordination is the creation of a small business department or agency. This can be housed in a particular government department, created as a separate department or set up as a semi-autonomous agency and/or network of regional and local agencies (see Chapter 5).

A key issue is that of relative strength and power of the voice of SMEs in government. Representation via a senior cabinet minister is desirable but rarely achieved. Location in the Ministry of Finance usually ensures a more powerful voice.

*In Malaysia, responsibility for small enterprise development policy was for a long time lodged with the Co-ordinating Unit of the Prime Minister's Office. This provides for a substantial voice in government.*

*In the USA, the US Small Business Administration's Office of Advocacy acts on behalf of small enterprise to identify areas of law and regulation which hinder the growth of the sector. The great importance of the Office lies in its legal right to challenge Federal US Agencies in court on behalf of the small business and its role in educating and communicating with Federal Government Agencies in respect of the small business interest. The US Congress has repeatedly affirmed and expanded the Office of Advocacy's powers. The Office has built up close links with the business community, among others through regular information a number of regional offices. Variations of the US model have been created in a number of countries.*

### 3.2 Managing the regulatory environment

**Objective: To develop appropriate models for managing this process.**

This can embrace a number of mechanisms for:

- Examining the potential for deregulation;
- Developing appropriate processes of appeals against regulation;
- Initiating and reviewing new legislation;
- Setting up impact evaluation measures;
- Establishing appropriate forms of self regulation;
- Finding means of engagement of the informal sector.

The main goal is to ensure that:

- All departments apply the principles of good regulation when drawing up new laws;
- Mechanisms are found to deal with cross-departmental issues;

- Business, commerce and other interests have channels to express their concern about regulatory matters.

The management processes by which this is undertaken may vary. As a beginning, it is important to allocate ministerial responsibility in each department for scrutinising the quality of regulatory proposals. Each department can then nominate membership of an interdepartmental committee or panel, which provides an overall review of the implications for SMEs of regulations. Such a panel can press departments to justify or abandon regulations that are likely to cause problems and can act as a broker to resolve differences between departments. In addition, it can establish criteria for encouraging deregulation where desirable and possible.

In some countries this committee procedure is reinforced by the establishment of an independent de-regulation authority or better regulation unit and/or the setting up of an independent task force or impact assessment unit to continuously review and report on key areas of regulatory impact.

*In the UK, the Better Regulation Task Force was set up as an independent advisory body in 1997. Members are recruited from a variety of backgrounds: large and small businesses, business associations, consumer groups, unions, the voluntary sector, and those who enforce regulations and ideally have experience of regulatory issues.*

*The Task Force is independent but works with a team in the British Cabinet Office known as the Regulatory Impact Unit. The terms of reference are: 'to advise the government on action which improves the effectiveness and credibility of government regulation by ensuring that it is necessary, fair and affordable and simple to understand and administer taking particular account of the needs of small businesses and ordinary people'. Specific issues are studied by sub-groups of the Task Force.*

Key guidelines for better regulation include:

- Leave businesses free to decide how best to achieve their objectives wherever possible;
- Eliminate and simplify regulations where this helps business growth;
- Have fewer and simpler regulations;
- Emphasise facilitation and compliance rather than control and punishment;
- Ensure that the framework does not hinder competition.

The key tasks of task forces and committees frequently include:

- Clarifying underlying problems;
- Clarifying which departments or ministries have an interest in the matter;
- Determining whether an issue can be resolved without regulation;
- Exploring how regulation can solve a problem – is it realistic?;
- Examining the compliance costs/cost effectiveness of different solutions;
- Estimating likely impacts on business and particularly SMEs;
- Reviewing management and enforcement issues of various regulatory options;
- Assessing how the regulations fit in/comply with any international obligations.

An outline of a regulatory impact assessment procedure may be found in Annex 9.10.

Rather than legislation, voluntary schemes or codes of practice may be introduced. Voluntary schemes will work where public and private interests coincide and there are mutual incentives for change. An example would be the setting of industry standards for electrical goods to which suppliers must conform. Codes of conduct set out circumstances under which a regulatory authority may take action. Codes are easier to change and modernise than legislation itself. They may govern processes of self-regulation and may operate by the establishment of an external supervisory body. Legislation may ensure that rules made by voluntary bodies can be legally enforced.

Two key issues should be kept in mind:

- Firstly, policymakers must seek to ensure that the benefits of moving into the formal sector are clearly identified and promoted. Examples of this include legislation regarding the security and transfer of land and property and measures to improve access to affordable business financing;
- Secondly, the government should build upon ways in which the informal sector seeks to regulate itself. This involves understanding the 'unwritten rules' of the sector. The micro savings and lending sector, for example, can be strengthened by building incrementally on existing conventions, solving shortcomings of the existing credit systems in a way that is acceptable to debtors, creditors and the local community alike.

### 3.3 Managing engagement with the SME sector

**Objective: To find mechanisms for managing the relationship of government with the private sector and SMEs in particular.**

The beliefs and values of SMEs are in general anti-bureaucracy and government intervention. The previous section has already hinted at some of the principles of bridging this gap and working with the private sector. Issues of key importance in managing the engagement with the SME sector include:

- Generally creating means for effective 'bottom up' articulation of SME needs;
- Engaging private sector associations in a dialogue to understand the SME view;
- Creating formal 'advocacy' systems for the SME sector (see Section 3.2).

A 'bottom up' approach is essential for winning the trust and cooperation of the sector. Mechanisms for this purpose include the establishment of private sector led forums and councils, the development of business associations, the encouragement of bona fide pressure groups and of associations to develop forms of self regulation, and the creation of effective local/regional platforms for the articulation of SME interests.

In transitional economies, as elsewhere, the owner of an SME is usually the manager, and managing the business is very much a process of managing personally relationships with a wide range of different stakeholders - customers, suppliers, bankers, accountants, staff, family, etc. Involving the relevant stakeholders in the SME environment (in addition to sensitising them to the sector's needs) will therefore help to create an effective dialogue on policy issues, including property issues (which are often not well covered by present legislation and business practice in these countries, creating an obstacle to development of the formal SME sector).

It is often difficult to effectively engage SMEs through their associations. Such associations tend to be particularly weak in transition and developing countries. It is difficult for them to articulate the needs of a highly differentiated sector. To ensure that they can play their role in 'lobbying' for business interests and consultation/evaluation relating to regulations and draft laws, SME associations should have easy access to all ministries and government agencies.

*In Russia, during the 1990s, the Russian Guild of Commerce, an association uniting trading companies, created a Council of Trustees comprised of officials from various government agencies and Moscow City Hall. Retired ministers and powerful civil servants could be recruited to provide expertise to the group.*

To increase the influence of small business, a number of countries have established SME councils or similar platforms. These are not necessarily representative either, as there is often a high share of personnel from the more sophisticated and professional medium-sized sector. Another possibility is to institutionalise SME representation on government committees. Representatives chosen from industry associations can among others influence legislation affecting the industries in question.



*In Romania the government, the employers associations and the trade unions have a formal Social Agreement, which prioritises common actions on a range of economic and social issues. A key component of the agreement is the establishment in every ministry of a Commission of Social Dialogue, which meets monthly, mainly to focus upon regulatory issues of common interest.*

In some developed economies, notably Germany and Austria, statutory (compulsory membership) Chambers of Craft and Artisans as a counterpart to the National Chambers of Industry and Commerce has helped to ensure the engagement of the SME sector. These have close links to sector guilds and associations and regulate licenses and practice in certain areas of business. Compulsory registration has a number of benefits. In particular it facilitates the monitoring of the health of the SME sector at the local level.

In transition economies this model has not been altogether successful. It has been difficult to ensure that all relevant businesses register and pay their fee. An attempt to organise the sector in this way could therefore lead to an increase in the level of informal activity. Yet a major advantage of public law status registration is that it becomes easier for government to delegate certain licensing and other activities, knowing that an association's coverage is comprehensive and that it has sufficient resources and control to ensure compliance.

Where building new structures is too ambitious, an alternative is to build incrementally on informal associations and modes of private sector co-operation which already exist at the local level – especially where government functions have been effectively decentralised.

Finally, it should be pointed out that the Internet is becoming a key tool for managing relations with the SME sector. As coverage grows, governments can directly engage with a wide range of SMEs on particular issues, creating dialogues not hitherto possible.

#### **3.4 Linking national, regional and local development efforts**

**Objective: To establish mechanisms for co-ordinating policy and practice between central and local government and harmonising the development activities of other stakeholders.**

Section 2.3 briefly discussed the role of central government versus the regional and local government, indicating that the greater the power at the local levels, the greater will be the sensitivity to SME needs and the greater the capacity to take appropriate action. Decentralisation of development responsibilities usually involves the creation of regional and/or local development agencies. These provide a basis for managing development policy in a differentiated way, taking account of the characteristics and potential of the regional or local economy.

*In 1993, the first regional agency in the Czech Republic was created with EU support in the Ostrava region, to deal with the severe restructuring problems in this former heavy industry and coal mining regions. All 14 administrative regions of the country now have an agency; some lower-level administrative units with special development problems have also set up agencies. Organisational/legal structures vary, but public-private sector partnerships predominate. Tasks range from regional development policy formulation and execution to practical support (advice, business infrastructure, etc), often with a special SME component (such as the provision of incubators).*

*In Poland, regional agencies play a key role in implementing 'regional development contracts', which are based on a national strategy for regional development and a regional strategy formulated within that framework. Government funding of activities is provided for their execution. Each of the 16 voivodships (regions) has its own regional agency; at the lower administrative level, local development agencies have been created as well. As in the Czech Republic (and in EU countries), legal structures vary. SME promotion is a major component of the regional strategies.*

*In most Central European transition countries, national associations of regional agencies serves as discussion platforms, information sources and representatives of the regions at the national government level.*

The critical factors in the success of a decentralised approach to development are:

The degree to which local agencies have the freedom to develop their own plans within a national development framework;

- Their capacity to create differentiated programmes and products;
- Their ability to work effectively with and co-ordinate the efforts of the various stakeholders at the local level;
- Funding and financial accountability.

Experience in the Central European transition countries shows that two factors are often stumbling blocks:

**Financial accountability.** When budget accountability for local initiatives remains the direct responsibility of central government, flexibility and differentiation are difficult to achieve; therefore, devolution of financial accountability is also needed. This also requires the development of appropriate management procedures to ensure efficiency and effectiveness.

**Local capacities.** Stimulating local development requires highly active local leadership, entrepreneurial management and business development skills. During the many decades of centralised development, the development of these skills, which constitute a form of 'social entrepreneurship', was not encouraged. The skills required to adapt the local economy to the demands of globalisation remain in short supply at the regional and local level in the transition economies.

### 3.5 Establishing an SME development and policy co-ordinating agency

**Objective: To set up a separate department of government or an autonomous agency charged with the overall management of SME policy and programmes.**

This goes beyond the advocacy and communication role described earlier. Over the past three decades, countries all over the world have experimented with a variety of approaches to managing the development of the SME sector. The main models are:

- A special department (usually) within a Ministry of Industry, Trade and Commerce;
- An autonomous state agency, often also tasked with overseeing regional support structures;
- An independent agency in which the private sector plays a key role.

*The Small Business Administration of the United States created Small Business Development Centres (SBDCs) throughout the country funded in partnership with state governments and the private sector to deliver a range of federal and local programmes.*

*In Poland the Polish Agency for Enterprise Development (PARP), was established in 2000 as a successor to the Polish Foundation for Small and Medium-size Enterprise which created the basic support infrastructure for SME support after the abolishment of central planning. With an emphasis on SME, PARP provides advisory, promotional, training and financial services and also gathers and disseminates information relevant to business development. PARP's supervisory board members represent the ministries responsible for the economy and for regional development as well as national business associations.*

Major forms of support (information, counselling, training, finance, incubation and provision of premises) are often subcontracted to private sector associations, because the major lesson from international experience is that state owned and state funded organisations, important as they may be for the overall management of SME development strategy, are not the best way of delivering services to SMEs. The various ways of delivering these are discussed in Chapter 5.

### **3.6 Marketing and public relations**

***Objective: To communicate effectively with the public at large, with the media and with all the key stakeholders to create wide awareness of SME development issues.***

The vast majority of SMEs is often unaware of government service programmes. One problem is the method of communication: small businesses do not in general acquire information via formal literature, glossy booklets and brochures, but learn mainly by verbal interaction with other entrepreneurs and stakeholders. 'Know who' is more important to them than 'know what'. The owner-manager has little time for public agency channels of information that are not of immediate importance in 'doing the business'.

Ensuring that information services are organised on a 'need to know' basis is therefore the major challenge for government/small business relations. Another challenge is to ensure that the organised voice of SMEs in government is as powerful as that of large firms. The key guideline in designing effective communication with SMEs is to ensure that information is passed through channels which entrepreneurs trust. Stories about peer businesses' accomplishments, for example, are more convincing than pamphlets setting out formal guidelines. Marketing of small business services is best done through the channels which the businesses normally use as part of business activity.

### **3.7 Developing sectoral approaches**

***Objective: To select and monitor priority sectors for SME development as well as regional and social development priorities, for example in tourism, agriculture, craft and distribution services***

The importance of taking a sector-based approach lies in the fact that the entrepreneur prefers his/her services to be as closely related to the specific environment (and opportunities and problems) of the business as possible. Moreover many of the regulatory interventions of government are sector based, such as food hygiene, transport regulations, etc.

Understanding sector development is the key to effective cluster and supply chain policies. Concentrating on the supply chain in a sector is central to harnessing the energies of the private sector, maximising value added and increasing performance in general. Value chain analysis (see Annex 9.13 for an example) is a useful approach to assessing impacts of regulations and policies, and to identifying key groups of enterprises likely to be affected and with whom dialogue should be initiated.

## STAKEHOLDER DEVELOPMENT

### 4.1 Building SME association advocacy capacity

**Objective: To encourage the development of representative associations.**

Private sector associations include Chambers of Commerce, industry and sector associations and local business clubs. The importance of SME associations and the problem of adequately representing the heterogeneous SME sector have been noted above. The strength of associations and the quality of their staff are a major factor in the effectiveness of private/public partnership initiatives. In the interest of policy development, governments need strong and coherent associations.

Their establishment can be supported in different ways. They can be given public law status or remain entirely voluntary NGO-type bodies. They may need initial support in areas such as:

- The development of a clear *mission statement* as an anchor for strategy and role. Such a statement requires careful thinking – what is the association expected to take on? ‘To create and sustain a healthy small business community’ provides for a much wider role than the statement ‘to create as level a playing field for small business as possible at the local, regional and national level’;
- Defining their *value to its members* in relationships with customers, suppliers, accountants, bankers, regulatory authorities, workforce, unions and so on. An association working with banks may, for example, be able to reduce the cost to the bank of lending to SMEs and through mutual guarantees may reduce the cost to the business of complying with loan conditions. The establishment of international networks of SMEs is another way of adding value;
- Defining their *added value to the work of other stakeholders*, for example, by working alongside regulatory authorities and/or taking responsibility for self-regulation;
- The development of their *membership base*.

In providing such support, it must be realised that each SME segment has different needs, determined by the nature and markets of the business, the national or local industry service base, geographical location and the restructuring needs of other industries (such as heavy industry) offering opportunities for SMEs.

### 4.2 Developing association services

**Objective: To increase the range of services provided by associations.**

Associations can provide many different services, including basic networking and information, business management support, support to collective events such as trade fairs and exhibitions, or training and worker skills development (language skills, for example, are essential for international networking). A basic range of association services is shown in Table 1. As the Table indicates, decisions will have to be made as to the price of services to members and non members, and which will be provided free.

*In Russia, Chambers of Commerce are providing advertising services as well as bonding warehouses for their members. Associations may offer insurance, organise discounts, publication and telephone and IT services, publish directories to sell advertising in association publications, and provide basic consultancy and training for members.*

Table 1. Range of business association services

Cost	Basic network services	Basic individual information services	Individual in-depth services	Collective in-depth services	Lobbying
<b>Members:</b>	Lunches/dinners	Market information	Market research	Trade fairs	Surveys
Free?	Lectures/seminars	Market reports	Contact evaluation in-depth	Exhibitions	Media stories
Reduced?	Directories	Individual contact Enquiries	Negotiation with potential partners	Training	Advertising
Full cost?	Newsletters, magazines	On-line data base	Financial information and credit checks	Skill development	Committee work
<b>Non-Members</b>	Basic contacts/member lists	Market advice (standard signposting)	Interpretation/translation	Seminars on the environment	Entertainment
Free?	Signposting	Basic legal and tax information	Marketing advice		Submissions to government
Direct cost?	Letters of introduction	Guidance on labour law, insurance, customs, etc.	In-depth legal support, e.g. arbitration		
Full cost?		Standards advice	Tax advice		
		Fairs, exhibitions	Documentation and certification		

The major constraint of associations in the SME sector is budgetary – membership fees have to be low. This is also the main area of intervention for public policy: associations can be supported directly or be helped to find innovative ways of boosting their revenues other than through membership dues.

### 4.3 Creating public/private partnerships in support of SMEs

**Objective: To find new institutional ways of building bridges between the public and private sectors and to gear up public support for private sector led SME development.**

Mechanisms to achieve this objective include:

- *The establishment of trusts.* To create a flexible form of funding a development trust can be established as a vehicle for matching public with private funds. The trust status allows the managers a degree of entrepreneurial freedom, moving beyond more tightly controlled project based funding to a strategic development perspective. It also allows different stakeholders to join together their contributions.
- *Procurement offices.* Public and private interests can jointly establish procurement offices providing data on supply needs of both the public sector and large firms. It can act as a quality gateway and advice service to small businesses wishing to do business with public corporations and large private firms;
- *Programmes to encourage corporate social responsibility.* Special tax incentives may be given to large companies to encourage corporate social responsibility programmes in the form of support to local enterprise. This can include making unutilised parts of their plant available for incubators or the secondment of personnel to small enterprises. There may also be systems of matching grants to encourage private sector involvement (in the form of physical, financial or human resources) in non-governmental local enterprise development agencies;
- *'Patron' type programmes.* Where large companies, typically in their local region, are organised to provide general advice (keeping accounts, cash flow management, suggestions on marketing/distribution) and act as a 'mentor' to start-up or early stage small business. This usually involves no cost to the small businesses and is seen by larger companies as a corporate contribution to the local economy and local community.
- Ensuring that SMEs have maximum opportunities to provide services to the public sector by a careful process of contracting out wherever possible;
- Encouraging public/private partnerships in supply chain development.

*In India, the Government of India, UNIDO and FIAT initiated a Partnership Programme for the Automotive Components Industry in 1999, together with a wide range of Indian and foreign public and private sector participants. An assessment in 2001 showed that, in the participating SMEs, a 75 per cent reduction in production lead time and die and cast changeover times as well as a 40 per cent reduction in production throughput time by reorganising work areas and product flows. A culture of continuous improvement has emerged in the participating firms.*

### 4.4 Developing the private consultancy and training market for SMEs

**Objective: To enhance the capacity of private training and counselling services to work with SMEs and ensure professional standards of such services.**

Rather than developing support services for SMEs themselves, governments can help to create markets for such services by encouraging private counselling and consulting organisations to undertake a certain amount of work with SMEs at marginal fees (possibly subsidised by the government). This model, which helps to ensure that the supply of services is market driven, is favoured among others in Germany. Private consultancy or counselling firms benefit by selling spare capacity; SMEs get expertise for an affordable fee and learn how to use the market for counselling and consultancy. An alternative to direct subsidy is a system of vouchers given directly to SMEs for purchasing services of their choice in the market.

*The Association of Counsellors/Consultants in Poland was set up on the basis of training programmes designed to establish standards for SME services.*

*In Canada a network of Small Firms Counsellors was established by the Atlantic Canada Opportunities Agency (ACOA) for the Atlantic Provinces. It has now extended across Canada.*

Government influence on consultancy services through this approach can also be used to set standards for consultancy, counselling, training and education services, or encourage self-regulation through associations. Donor guidelines for intervention in business development services may be found in Annex 9.15.

*A major focus of activity in Western Europe has been to set standards for services by framing sets of competencies for SME trainers and counsellors. The Guides to Training Competencies published by the European Union Centre for Vocational Training and Development CEDEFOP (see Annex 1) have been linked with a 'Training the Trainers' Programme.*

*In a similar vein, the development of competency standards for counsellors and advisers of small businesses in Canada has been followed by the development of associated training. In Africa, the Micro Finance Capacity Building Programme (AFCAP) focused on developing local private sector training capacities. Through careful selection of associates, a cadre of competent training, consulting and technical assistance providers was created.*

#### 4.5 Developing the SME finance sector

**Objective: To work effectively with the existing finance sector in order to help them develop markets and innovative institutional approaches to meet new areas of need.**

The most rapidly growing component of the finance sector for SME development is microfinance. A wide range of different microfinance models exists, some of which are more sustainable than others (see Annex 9.16). Public sector support can be used to encourage the development of sustainable markets, not only by creating a sound regulatory framework for microfinance but also by encouraging the existing commercial banking system to move into small business lending. As with counselling services, there is growing pressure for ensuring that microfinance becomes commercially sustainable.

*The Bank Rakyat Indonesia and Banco Sol in Bolivia are well known examples of sustainable micro finance institutions from which important lessons can be drawn, in particular that there are methods of meeting the financial service needs of the poor without subsidy and that it is possible via scale economies to ensure profitable development of commercial microfinance institutions while offering effective protection to the public at large.*

The different target markets for microfinance range from the poorest of the poor to the more sophisticated small/medium enterprises. The government role in this respect is to ensure that these markets are developed in such a way that the right instruments are available for the different types of customer. As in the case of training and counselling, governments can develop standards to enhance the capacity of microfinance institutions and to promote suitable training.

*The Ukrainian National Association of Savings and Credit Unions (UNASCU) coordinates and represents over 100 credit unions, which are important sources of micro credit. It has a training centre and also provides advice on issues such as bookkeeping and compliance with laws. UNASCU requires members to use a standardised reporting system and developed a rating system, to fill the gap in government regulations with regard to standards for credit unions. The Credit Union Law adopted in 2002 it is expected to strengthen the role of UNASCU and the standards it developed.*

#### 4.6 Supporting local authority development

**Objective: To create mechanisms and new forms of organisation enabling local authorities to develop a range of appropriate support mechanisms for SME development.**

Local and regional authorities play an active role in the promotion of entrepreneurship and small business, as among others a report of the European Commission has shown (see Annex 1). Local authorities can be guided by central government to:

- Understand how to identify strategic priorities at the local area and industry sector level and to analyse the needs of SMEs individually and collectively;
- Develop a strategic vision for SME and local economic development, establishing priorities;
- Manage projects in support of SMEs at the local level, evaluate and monitor them and raise funding, in partnership with the private sector;
- Understand the roles of various local stakeholders and how public-private sector cooperation can help cover gaps in support services;
- Maximise the efficiency and effectiveness of support services provided at different public administration levels;
- Develop suitable performance standards for the provision of services and raise the competence of providers of SME services;
- Develop effective marketing of local SME support.

Central government can assist in harmonising the role of the local authorities, increasing the effectiveness of their activities, by supporting the growth of local authority associations.

*The National Association of Municipal Governments was extremely active in Hungary during the process of transition. The Council of Local Government Associations is a co-ordinating organ bringing together various local government bodies. Under this mechanism regulations affecting small businesses can be harmonised and privatisation processes enhanced using best practice exchange.*

#### 4.7 Supporting the development of professional services

**Objective: To develop the capacity for private sector professional services for SMEs**

These wide-ranging services, described in more details in Chapter 5, play a major role in SME development, as it is rarely economical for the individual entrepreneur to internalise them. Two examples may give an idea. If SMEs did not have external accountants, tax revenue collection in most developed economies would face massive problems. Business also needs strong, ethical professional private-sector property management to acquire property on terms that support investment and the growth of a business - this has been a major barrier to SME development in many transition economies.

The role that public policy can play in developing standards to enhance the capacity of these professions has already been argued. The key to policy support for professional development lies in encouraging the growth of associations and creation of standards with associated qualification, possibly linked to the vocational education system. Growth of self-help provision for the informal sector should particularly be encouraged.

#### 4.8 Developing enterprise education

**Objective: To enhance the capacity of the education system (primary, secondary and higher education and life long learning) to support the creation of a culture of enterprise.**



The basic need that enterprise education addresses is that of individual and collective empowerment for self help. This is not only needed for running one's own business but also for working confidently in flexible labour markets. The key issues to be addressed in developing the capacity are:

- Clearly defining the objective in an educational context. The key objective is *not* business and/or economics education - it is to encourage the development of entrepreneurial behaviours in young people. This requires incorporation of a strong element of personal development in education, not merely as an add-on (as for example with the useful and popular junior achievement or young enterprise models) but as an essential element next to knowledge acquisition;
- Making provision for the appropriate training of teachers and the development of materials;
- Providing support for different educational models with different objectives. In vocational education it is possible to develop a curriculum which focuses on encouraging each individual to use his or her vocational skill in self-employment. At primary school level, on the other hand, it is more appropriate to focus upon development of personal enterprising attributes through innovative pedagogy ;
- The encouragement of learning by doing: by copying, by experiment, by making mistakes, by problem solving and opportunity seeking and by 'making things up'.

*The Latvian Entrepreneurship of Management Academy (LEMA) has a 'Working for Myself' programme which enables participants to absorb needed information while gaining practical experience. LEMA programmes are shown on national television.*

#### 4.9 Developing effective regulatory bodies

**Objective: To create organisational capacity to deal with all process aspects of regulation.**

The effectiveness of regulations for SME development depends above all on creating an organisational capacity to deal with all process aspects of regulation - the law in itself is insufficient. Three issues are very important in creating such capacity:

- 1) Regulatory processes must be designed to keep the transaction costs to businesses low and limit the size of the regulatory bodies avoiding the establishment of a costly and slow-moving bureaucracy ;
- 2) The development of effective training programmes for staff of all regulatory bodies, especially to create empathy with SME, ensuring that:
- 3) Organisation culture is sympathetic to SMEs and geared to flexibility in applying regulations.

The major challenge is the last. The culture of the bureaucrat is essentially one of valuing hierarchy, order, control, systems and formality. The micro and small enterprise in contrast has values associated with informality, trusting in personal relationships and observation, and living day to day with ambiguity and uncertainty.

The failure of SMEs to conform to the regulatory environment very often reflects the lack of empathy of those who operate it. It can, for example, be argued that in many transition economies the real challenge of entrepreneurship is not so much the education of entrepreneurs (most are learning full-time by doing) but mainly in developing those who manage the environment for SMEs, so that they facilitate enterprise.

#### 4.10 Creating SMEs through effective privatisation and restructuring

**Objective: To ensure that privatisation processes and the institutions developed for privatisation maximise the potential for creation of SMEs.**

There are three major challenges:

- 1) Recognising that the transfer of assets from public to private hands is not enough to create a market economy or entrepreneurship. State monopolies in few private hands become private monopolies giving ownership without responsibilities to shareholders, a situation that makes for corruption and exploitation. Managers of former state enterprises find it difficult to behave differently in a privatised enterprise when the culture has not changed. The key to success is the ability to redesign the organisation to facilitate entrepreneurial behaviour and build the culture of entrepreneurship in the organisation;
- 2) Releasing and supporting the large numbers of potential micro, small and medium sized businesses 'internalised' in large state-owned enterprises. The process by which large companies can be downsized while maximising the potential for the creation of small enterprises has been described in several documents listed in Annex 1. It helps to avoid the waste of physical and human resources which is the consequence of stripping a former state enterprise down to the sustainable core of the business. The process needs careful management over several years, but the reward is the preservation of employment and the creation of a network of new businesses, which may become subcontractors to the large organisation or operate independently;
- 3) Mitigating some of the side effects of privatisation. Again, the potential for the creation of new independent SMEs should be explored. Many large companies in OECD countries that went through downsizing and restructuring in the 1980s and 1990s responded to local community and societal pressures to mitigate the employment effects and co-operated with the government to help former employees set up businesses for themselves. They made it possible for new and existing small businesses to move into unused premises and utilise redundant resources, organised seminars on self-employment for potentially redundant staff and linked with public agencies to help find ideas and resources for the ideas of those facing redundancy. Some private companies even set up their own financing and counselling schemes and organised ideas competitions to promote the business generation process. All these corporate social responsibility efforts can be stimulated by public-private sector partnerships.



## DEVELOPMENT OF SPECIALIST INSTITUTIONS

### 5.1 Small business development centres and local enterprise agencies

**Objective:** *To build local capacity to provide specialist services to the local SME sector, maximising the potential for entrepreneurial behaviour and leadership.*

Chapter 2 has already indicated the need to decentralise support to SMEs. International experience with the development of small business development centres and local enterprise agencies (LEAs) has highlighted a number of additional important issues:

- **Limiting the amount and period of public subvention.** Governments tend to be reluctant or unable to commit themselves to supporting small business services over long periods of time. International donor agencies also have a long history of funding local centres in developing and transition economies which, after the termination of donor funding, are not sustainable. The 'new paradigm' for building business development services is essentially that financial sustainability must be ensured through a more aggressive approach to market development and private sector led 'for profit' activity. Alternative strategies are possible, for example, by treating stakeholders as customers as shown below;
- **Engagement of local stakeholders.** Sustainability is heavily influenced by the ability of a support agency to work with local stakeholders – banks, customers, local authorities, the media, etc., strengthening their relationships with and understanding of SMEs. The agency becomes the interface between the stakeholders and the entrepreneur, assisting both in improving business relationships. It may also develop support programmes via joint ventures and partnerships with stakeholders who can provide services. Once they understand their own long-term gains as customers of the agency, stakeholders may contribute resources and sustainability can be achieved without charging SMEs the full cost of services;
- **Development of integrated service centres.** These bring together, under one roof, services provided by various stakeholders such as business registration and licensing; commercial accounting and legal services; other regulatory processes; information and databank services; representation; appeals organisations (of the ombudsman type) signposts to resource acquisition (loans and grants); and direct support services such as counselling and training;
- **Using a stakeholder model of evaluation.** A local agency can be evaluated through the eyes of its key stakeholders. These evaluations can measure the perceived benefits to stakeholders and the joint ventures and partnerships developed with them. The focus is on effectiveness in relationship development rather than counting outputs;
- **The engagement and utilisation of entrepreneurs.** Entrepreneurs learn best from other entrepreneurs, and the success of peers is a major motivator. Helping owners and managers to learn from each other ensures that the focus is on 'know how', 'know who' and a relevant 'need to know' context. The organisation of experience exchange groups, a well-developed model in Germany and Switzerland, may achieve more than formal learning. Training entrepreneurs as teachers and consultants may be preferable to engaging 'professional' trainers;
- **Focusing on the real customer.** When small business development centres or LEAs are publicly funded, the work of the agency may become over-focused on the outputs desired by the public or donor agency resource provider. The culture and organisation of the agency then may reflect the demands of the providers of funds rather than those of the ultimate clients - the SME sector. Effective organisations design themselves around the needs and values of their customers. It is therefore essential to create a small enterprise culture within the service delivery organisation.

Local organisations delivering services to entrepreneurs should, in short, be entrepreneurial, as Section 2.5 already indicated. Central government will only be able to encourage this if its own actions are based on trust and endorsement of local strategies rather than on narrow, centralised control of outputs and activities.

*The Polish Agency for Enterprise Development coordinates a network of over 150 Consulting and Advisory Centres (PKDs), which serve as a first contact point for SMEs. They provide legal, financial, marketing and management advice as well as support in accessing various assistance programmes. Some 13,000 start-ups and small enterprises were assisted in 2002. The network is linked to a National SME Services Network (KMU) with almost 180 members (regional agencies, Chambers of Commerce, etc.) operating under an accreditation system developed by the Agency. A specialised services network for innovation is to be created as well. Because the regional agencies within KMU also play a key role in decentralised development (see Section 3.4), a close link with local development needs is enhanced.*

### 5.2 Developing the NGO sector

**Objective: To design an NGO sector for SME support, sustainable in the long run through engagement and partnership.**

The SME development infrastructure is often characterised by a large number of NGOs whose objectives range from social aspects of poverty alleviation through to self-help and enterprise development. NGOs have been favoured in the past as organisations to deliver services to small businesses for a number of reasons:

- They are essentially ‘bottom up’ organisations, supported by and made up of members of the local community; therefore they are more likely to share local values and be more sensitive to local business needs;
- They are likely to be entrepreneurial. As small organisations, they probably combine some of the key characteristics of the entrepreneurial organisation described earlier;
- They reflect differences in local needs due to their differentiation;
- Because of strong local pressure they may be less susceptible to corruption;
- They usually operate with tight resources. This helps in their understanding of the conditions of the micro and small business client group.

These are important areas upon which public policy can build. But policy should also recognise the limitations of NGOs and find ways to overcome them. These limitations include:

- Frequently they have a weak resource base, with accordingly less capacity to guarantee quality and consistency in services delivery;
- Weak resources also make them prone to falling in the trap of chasing funding organisations. They may therefore become supplier rather than local demand led;
- Their local base and resource weakness may limit their outreach and prevent them from offering a sufficiently wide range of services;
- They may be isolated from the broader local stakeholder network as, in the struggle for survival, they become competitive with other local service providers;
- Their differentiation may make for difficulty in promoting standards in service delivery;
- Because accounting in standard outputs may be difficult for NGOs, providers of funds may have problems in measuring cost effectiveness ;
- Local differentiation may make working within a national public policy framework difficult;
- Because of their smallness and vulnerability, resource providers may consider NGOs incapable of sustainable service delivery and programme execution.

Public policy should seek to remedy these weaknesses while building on the strengths of the NGO sector. Once the exact role of NGOs in outreach to SMEs has been determined, government funds can be

used to leverage existing private and non-government resources to shape effective partnerships and harmonise NGO activity with policy goals.

### 5.3 Specialised services

There are many models for the development of specialised services to SMEs provided directly by the government or through private or NGO providers. International practice shows that there is no single best programme. There are, for examples, numerous models of microfinance aimed at different target groups in different countries – Annex 9 provides examples.

Specialised services can refer to issues (finance, technology transfer, etc.), specific SME sectors (such as arts and crafts) or areas/groups that would benefit from stimulating SME (depopulated areas, disadvantaged youth, ethnic minority groups and women's development). Developing economies sometimes have ministries for craft and artisan services and product development, with specialist marketing and even export services. Over the past decade associations and agencies aimed at supporting female entrepreneurs have grown.

*The US Centre for International Private Enterprise (CIPE) (an affiliate of the US Chamber of Commerce) (<http://www.CIPE.org>) has published 'Business Associations for the 21<sup>st</sup> Century' which details the steps needed to build specialist membership based organisations. This is particularly targeted at practitioners from voluntary associations in transition economies. In a case study it traces the development of a professional women's association and of a manufacturing association.*



## PROGRAMME DEVELOPMENT

Public policy has traditionally considered this to be a key target area. The aim is to identify and encapsulate 'best practice' in provision of services to SMEs including programmes for information, counselling, education and training, finance, and special services such as incubation, usually with the help of manuals and guides. Much of the delivery can take place through properly organised regional, local and specialised agencies of the kind discussed in Chapter 5. A checklist for identifying the priorities and potential for SME policy can be found in Annex 9.

### 6.1 Information and advice

**Objective:** *To bridge the information gap that places SMEs at a disadvantage compared with their larger counterparts.*

In almost every country, there are official mechanisms designed to improve access to information for small business. This can take the form of a national database made available to business associations as well as official advisory services covering regulation, particularly tax, company registration and property. Such data bases also frequently cover 'how to' advice, for example about exporting, licensing and so on, as well as information on business support programmes and incentives (see also Annex 9). Services frequently extend to the provision of business-to-business contact.

*One specific support service for SME with a wide reach is the network of Subcontracting and Partnership Exchanges (SPXs) supported by UNIDO. These act as centres for technical information, match making and promotion as well clearing houses for subcontracting and partnership enquiries and opportunities. Members and associate members of the SPX network are found in many transition economies.*

One key to success is an approach as used in the 'Yellow Pages', providing simple, precise information focused on solving specific problems and giving access to specific opportunities. The service should in addition be able to refer customers to private and specialist sources of help. Effective local 'know who' is therefore another prerequisite for success. Facilitating exchanges of experience between entrepreneurs is one of the most (cost) effective ways of providing information services.

### 6.2 Counselling and consulting

**Objective:** *To back up information services by programmes of counselling and consultancy.*

This may take the form of an 'official' service offered through subsidised business centres or may be channelled through SME stakeholder organisations such as chambers and entrepreneurs associations. To be effective, the service needs to be available at the local level. Counsellors may be attached to specialist centres or may operate freelance. Usually the service is subsidised, particularly for business start-ups.

A key issue, as noted in Section 4.4, is not to 'displace' the private market through government subsidy but to build it. One way in which this can be pursued is by subsidies to private consultants to offer reduced



rate services to small business clients. This helps to build a private market and avoids displacement. Quality control can be exercised officially by an evaluation and client reporting process which ensures that only consultants with a successful track record are employed.

Counselling services are to be distinguished from consultancy. The former means working with and through the client with the client taking responsibility for actions. The latter is more akin to working for the client where the outcome is a formal report or 'new system' designed by the consultant. The distinction is important in recruiting counsellors, as there is a substantial need for interpersonal 'teaching' skills.

A basic guide to the organisation and management of a counselling service for SMEs can be found in Annex 9.17.

### 6.3 Training and education

**Objective: To provide an appropriate education and training service for SMEs.**

This is a recognised problem internationally. Although SMEs constitute the mass of businesses, they make relatively few demands on formal education and training. Learning from experience is preferred. In most developed economies, special incentives are offered to encourage SME involvement in education and training. Subsidised programmes for new business starters are common and there are frequently subsidies to encourage existing businesses to participate in training, particularly those with ambitions to grow. There are similar programmes in transition economies; a publication on these programmes, illustrated with case studies from Central and Eastern Europe, can be found in Annex 1.

The key factors in design of successful programmes are an emphasis on action learning; 'know how', rather than 'know what'; networking and relationship management ('know who'); a problem and opportunity focus; the careful linking of knowledge to the development processes of the business; encouragement of peer exchange; organisation of knowledge in the right 'language' and at the right level; and timing and support for follow up implementation of learning. The absence of these prerequisites often leads SMEs to ignore the training offered.

*In some countries, business education and training for SMEs is highly formalised within the national vocational education and training system. In Germany the two tier system of vocational training demands that before qualified 'journeymen' can practice in a self employed capacity they must acquire qualifications to Meister level.*

### 6.4 Micro and other finance programmes

**Objective: To build sustainable financial systems in support of SME development.**

The product/service offer of micro and other finance programmes can cover a wide range of practice including revolving savings and loan funds; mutual guarantees associations, credit unions; and village and co-operative banks. This reflects different segments of the customer market. Studying the different models is important for the design of effective support policies (see Annex 9). A key aim in many countries is to construct links to the formal banking system.

The microfinance sector can be distinguished from the formal banking sector by:

- Its greater emphasis on short-term lending, without grace periods, with a consequent strong focus on capacity to repay (rather than project assessment), working with small client groups and a personal, hands-on approach to delinquency measurement and follow up;
- The creation of active social partnerships involving all key stakeholders in the governance of lending programmes;

- Judging business on the basis of intangible assets – there is a strong focus on the person, character, networks, relationships, family;
- Incentives for timely repayment and the use of peer pressure and peer guarantees (mutual) to repay;
- Greater willingness to nurse defaults where there are legitimate reasons;
- The linking of credit to (a) savings, (b) services such as mentoring and business development support;
- A high degree of localisation to maximise personal relationships and use of local knowledge, with a resulting high level of decentralisation of management;
- The gradual building up of client lending over time, depending on performance;
- Simple procedures and speed to minimise costs for the client.

The first point makes it clear that, although they are (incorrectly) seen to have their origin in developing economies, microfinance programmes should not be associated with soft lending. Loans are usually made at full cost. However, programmes may be accompanied by loan guarantee schemes and a willingness to convert debt into equity.

The substantial growth of microfinance worldwide and its increasing professionalism has led to wider experimentation in the microfinance field. Microfinance programmes have also extended into leasing, insurance and pensions and, with the advent of new information technologies, into innovative products such as smart cards and credit cards.

### 6.5 Special needs

**Objective: To meet special needs of SMEs.**

In all of the areas of potential business support there are special needs. Examples include incubation, technology support; the promotion of social inclusion; cross border business development; cluster support; and so on.

When developing support programmes in response to these needs (see Annexes 9 and 10), it is important to use best international practice and check that existing models are likely to lead to desirable outcomes in the long term. Attempts to base networks and cluster development on the Northern Italian model have had a very mixed experience. The UK Local Enterprise Agency model which has been transferred to a number of transition economies has not as yet proved wholly sustainable in its own environment. Financial sustainability may be another issue, as in the case of many incubation programmes.

*International and bilateral agencies such as the ILO and GTZ have developed training approaches to business start up and growth processes, which they have internationalised. Such programmes are usually accompanied by a training the trainers programme as a vehicle for extending good practice and process across the country. The Morosov Project in Russia in the 1990s had the similar objective of developing the capacity of agents at the local level throughout the country to deliver effective programme modules.*

Adapting existing models to the highly differentiated SME market for services is the key to effectiveness (see Section 6.6). Standardised programme development has its limits unless agents have the ability to adjust their product on the basis of a needs analysis, and manage and evaluate the programme on that basis.

### 6.6 Segmenting the market

**Objective: To create effective SME programmes adapted to the very divergent needs of different groups.**

Many problems result from the failure to respond to the segmentation and differentiation of the SME market in programme design. As a result, these do not deliver the appropriate knowledge in an appropriate

way and at an appropriate level. A document of the European Training Foundation on effective programme design for transition economies is listed in Annex 1.

The market can be segmented for programme development by:

- Stage of development of the business (from pre-start to internationalisation);
- Size of the business;
- Nature of the problem or opportunity (export marketing, information technology development, production and finance);
- Educational background of the clients;
- Industry sector;
- Age (youth, young entrepreneurs, retirees opening a business);
- Ambition (as reflected in the scale of any particular planned development);
- Company status (informal, formal, self employed, partnerships, limited companies);
- Market focus (domestic or export, consumer or subcontracting, etc.);
- Level of technology and innovation (with special programmes for inventors and spinouts from universities or large companies);
- Gender or ethnic group;
- Degree of poverty or social exclusion.

The role of public policy is to assist in the identification of specific needs and creating programme models designed to meet these.

*Developed countries now have a variety of special programmes for graduates to encourage them to set up businesses near universities to prevent 'brain drain'. There are specific adaptations of these for technology and for science and engineering undergraduates. Different models of business start up programmes take account of the sophistication of the client group and the scale of business envisaged.*

*In a similar effort encourage the building of links between academia, a science incubator programme covering the Czech Republic, Hungary, Poland and the Slovak Republic was executed with UNIDO support. The programme has facilitated the establishment of small enterprises or improvements in their performance (some are now exporters), and has also enhanced cooperation in the field of innovation and business start-ups among the participating countries and of these countries with EU countries.*

### 6.7 Programmes for civil servants

**Objective: To improve the understanding of 'enterprise culture' and its promotion among civil servants**

Effective development and implementation of policy requires highly competent and knowledgeable public officials. Training and development of the relevant groups of public employees will often be necessary because they may not fully understand small business, lack empathy with the culture of the entrepreneur, and may have a limited ability to undertake or supervise needs analysis, programme development, effective delivery, programme management and evaluation of SME support.

The development needs of public servants vary with their status and location. A basic programme for public service development might cover:

- Understanding the importance of small businesses in society and the role they play in economic and social development;
- Understanding the culture of entrepreneurship and how it is embodied in firms;
- The ways in which the differentiated SME structure can be segmented in a meaningful way for policy development;

- The basic characteristics of SMEs and the implications for the development of instruments of support and regulation;
- Acquaintance with the scope for: policy setting; policy management; stakeholder, institutional and programme development building on best national and international practice;
- Concepts of private sector led SME development and their particular relevance to support.

Staff of multilateral and bilateral donor/aid agencies may need similar training for the creation and delivery of effective SME policies and programmes. These agencies play an essential role in supporting all stages of SME development through funding and international know-how. However, their work is often based on models that work in developed country contexts but may not do so in a transition or developing economy without extensive adaptation. Ensuring sustainability of results in these countries often also requires a longer time frame than foreseen in the programmes of these agencies. Few of the staff actually have business experience. A greater awareness of the way in which the SME sector operates will increase the effectiveness of external support. A more substantial discussion of the role of donors may be found in Annex 9.



## **PART II: THE STRATEGIC PLAN**



## THE VALUE OF THE PLAN

The strategic plan builds on the review of the strengths and weaknesses in the process and management of SME development policy described in Part I and on the approaches and analytical techniques mentioned there. It will focus on the achievement of specific objectives within the framework of SME development.

The plan is probably best delivered in the early years of a new administration. It can, however, also be used by an existing administration to support the development of the 'enterprise culture'. The production of a plan enables the government to demonstrate that it is responding to the needs of what usually constitutes the main but neglected form of business activity and the source of much of the growth, innovation and employment potential

The plan can embrace a five-year horizon on a rolling basis. It provides:

- A means to link SME development to the mainstream of government economic and social objectives in a coherent fashion;
- A framework for bringing together coherently the initiatives of various government departments impacting upon SME development;
- A framework for evaluation and impact reporting of specific programmes and policies, whose time periods, target groups and scale may differ. This can prevent strategy from becoming the servant or victim of individual initiatives;
- The bridge between the administration's philosophy and practice. It sets out the means by which the government's particular ideology is to be realised;
- The basis for monitoring progress over time, and, where resources allow, a framework for an annual report on progress;
- A central framework for communication with all SME stakeholder groups (including donors) and a central reference point for debate and discussion with pressure groups.

*Examples of high quality reports include those produced by the Hungarian Institute for Small Business Development and the Hungarian Foundation for Enterprise Promotion. An example of a report outline (on the Bulgarian SME sector for the period 2000-2002) is reproduced in Annex 6.*

*In Ireland the national agency with responsibility for promoting small business highlights its strategic approach in published documents and annual reports (see [www.Enterprise-Ireland.com](http://www.Enterprise-Ireland.com)).*

The strategic plan is not a 'one-off' static monument to policy but a framework within which changes can be made reflecting the dynamics of economic and social reality. Its customers are all the key public and private sector stakeholders in SME development as well as politicians and in, some countries, donors. Its formulation should not wait until all desirable information is available – the idea is to provide a guide to what is most necessary for effective decision-making. Regular reviews will help to adjust the plan to unforeseen problems and new developments.

Each country will have its own conventions for the format of strategic plans. The following is a suggestion for an overall structure, which can be adapted to local requirements.

- 1) Introduction setting out briefly the links to national economic and social objectives;



- 2) Mission statement and governing principles;
- 3) Present position of the SME sector;
- 4) Review of programmes and achievements to date;
- 5) Future objectives;
- 6) Targets and planned actions;
- 7) Overcoming barriers;
- 8) Management, monitoring, evaluation and control.

## THE STRUCTURE OF THE PLAN

### 8.1 Links to national economic and social objectives

**Objective:** *To provide a national context for SME development policy*

This section needs to review briefly the government's overall strategy, covering:

- Its targets for growth, productivity, employment, investment, balance of payments and foreign trade, inflation and equality and issues of social justice and welfare;
- Any underpinning themes such as competitiveness, key sector development, privatisation, industry restructuring, information technology, infrastructural improvement priorities, innovation, technology, education, health, and regional and local development balance;
- The main actions the government is taking in general.

The concluding statement can indicate that the SME policy is designed to meet these goals.

### 8.2 Mission statement and governing principles

#### 8.2.1 Mission

**Objective:** *To set out how the SME development policy sits within the vision of the government.*

This means, in particular, how it contributes to the key targets and themes outlined above:

- Its contribution to growth, employment, exports, import substitution, competition and therefore price stability, local and regional development and sector development priorities;
- Its contribution to the government's main programme themes, for example, competitiveness, education, technology and innovation, social exclusion and minority group development, IT and perhaps rural development;
- The key priority areas. These ought to mention the broad strategies for development in the four key areas of:
  - Enterprise culture and in particular the role of enterprise education at all levels;
  - Business start-ups and survival. Priorities - tourism, food processing and distribution, ethnic groups, social exclusion, technology, e-business and commerce – may be included here;
  - Growth of the existing SME sector and the main challenges to growth;
  - Development of the stakeholder and regulatory infrastructure.

#### 8.2.2 Governing principles

**Objective:** *To state the main principles guiding the government in its SME policy.*

Major principles that may influence the government's support to SME development include:

- Principles relating to the criteria for intervention in the workings of the market such as:

- Gaps in information for small firms (markets, supplies, finance availability, sources of assistance);
- Unfair competition, monopoly or restrictions on entry into certain sectors (intervention that causes displacement, for example subsidies to entry costs into a sector that threatens and generates unfair competition for existing businesses, should therefore be avoided);
- Excessive costs of compliance with regulation (planning, legislation governing the use of labour and redundancy procedures, etc.).
- Developing the enterprise culture in society;
- Adding value to public investment;
- The role of the private sector (for example: private sector leadership in SME development wherever possible, with an indication what this will mean in general);
- The role and status of public and private partnership;
- The creation of markets and sustainable institutions and programmes for business services and support;
- The role of central government support for regional and local initiatives;
- The development of an appropriate regulatory environment;
- The co-ordination of the work of different government departments impacting on different aspects of SME development, covering in particular processes of communication, partnering and joint venturing.

How these principles are interpreted and realised depends on the policy approach of governments as well as the reality of the present stage of transition and development – the conditions prevailing in the OECD countries are not necessarily found elsewhere. In the People's Republic of China, for example, they would need to fit the Government's notion of a socialist market economy as well as the more pragmatic tasks of effectively privatising large sections of collective and previously state owned enterprises. They would also need to reflect the balance of power between local and national authorities and Chinese ways of doing things, and build on the considerable local achievements in SME development.

## THE PRESENT POSITION OF THE SME SECTOR

**Objective:** *To set out the present position of the SME sector. This covers the key areas identified under the strategic review - see Part 1.*

Where information (from any reliable public or private sector source, including panels of entrepreneurs and focus groups) allows, this chapter will comment on:

- The state of, and trends in, the sector, including:
  - Measures of the development of the enterprise culture taken from regular sample survey data;
  - Start up and survival rates of small businesses in the relevant period, overall and by sector and area where possible and relevant;
  - Growth of existing small firms, overall and by sector and region where possible and relevant;
  - Development of stakeholder capacity taken from regular sample survey data of key institutions;
  - Achievements against official targets for the sector.
- Particular current problems and opportunities of the sector needing more detailed discussion. This might cover SME views of: the business climate; market prospects; sources of major uncertainty/shortages; barriers to growth; development intentions and planned investments; external trade prospects; and access to resources. Such data is best collected on a regular basis using a consistent sampling frame (see Annex 5).
- Current regulation/legislation problem areas. This might cover such key areas as registration, licensing, tax and contract law, but also any area of current legislative concern where overtures have been made by organisations representing business. Such data can be collected by use of panels and focus groups of entrepreneurs meeting every quarter as well as through the more established representative channels.



## PROGRAMMES AND ACHIEVEMENTS TO DATE

**Objective:** *To cover key areas of policy noted in the review.*

This includes the assessment of:

### 10.1. Overall policy

This might cover:

- How SME development policy is contributing to overall economic and social objectives;
- How it is meeting criteria for intervention (information gaps filled, competitive disadvantage removed, access to resources eased, costs of compliance to regulation reduced and imbalances in industry structure corrected);
- Assistance to regional and local development and results;
- Success in expanding the enterprise culture (results of education programmes, promotions of enterprise, start up and development support);
- Success in engaging the private sector.

### 10.2 Policy management

Comments on progress made in:

- The co-ordination of programmes between different arms of government, in particular joint ventures and partnerships (for example between the Ministries of Employment and Industry in the promotion of start ups);
- The management of the regulatory environment, for example improvement in business registration and licensing procedures, changes in tax reporting procedures to improve compliance, and so on;
- The methods of engagement of the private sector in SME support, for example the establishment of a national and regional network of small business advocacy councils;
- The cooperation between national, regional and local government, for example the setting up regional strategy teams or the coordinated application of planning laws;
- The work of any special advocacy body or co-ordinating centre for SME policy development and implementation, for example the equivalent of the Advocacy Office of the President of the USA (see Part I, Section 3.1);
- The co-ordination of donor support.

### 10.3 Development of stakeholder capacity and competence

Comment on progress made in:

- Building capacity in organisations representing the SME sector, for example the development of chambers to manage business registration and licensing or the establishment of a national benchmarking system and related competence development programmes for chamber staff;

- Developing the capacity of the private sector to deliver services to SMEs, for example by offering incentives to consultants to develop in-house specialist units with discrete competencies to work with SMEs and the registration of such capacity, or setting up a system such as SCORE in the USA (Senior Corps of Retired Executives);
- Developing markets for business development services, for example by the use of vouchers for training given to SMEs to 'spend' in the market, rather than giving direct subsidies to the suppliers of training services;
- Improving the capacity of financial institutions to deal effectively with SMEs, for example through guarantee schemes, micro finance development, leasing or venture capital development;
- Improving local authority capacity to assist SMEs, for example by the development of competency programmes for staff or the provision of incentives with the private sector;
- Developing the capacity of the education sector to contribute to SME development, for example by the training of teachers or the creation of incentives for education to build links with the SME sector;
- Building SME development into processes of privatisation and restructuring, for example by providing training for those engaged in privatisation aimed at developing their competence to create SMEs out of the process of large company restructuring;
- Building the competency of regulatory institutions to deal with SMEs, for example by the introduction of special training programmes for staff of tax and licensing offices;

#### **10.4 Specialist organisations - development and performance**

Review of the performance of specialist organisations established specifically to support SMEs, such as:

- Business centres;
- NGO training organisations;
- Technology transfer bodies, incubators, science parks;
- Sector organisations with specific tasks such as tourism, rural or craft development, women's entrepreneurship, or the promotion of social inclusion.

#### **10.5 Programme development**

Review of success or otherwise of any products developed to enhance the provision of services to small business, for example:

- Information leaflets and guides;
- On-line IT and interactive services;
- Counselling support materials;
- Promotional videos, magazines or other media initiatives;
- Training programme manuals;
- Special credit instruments;
- Incentives to invest in small businesses.

## FUTURE OBJECTIVES

**Objective: To demonstrate clear and specific links between the government's national economic and social objectives and SME development.**

The government's overall national objectives, such as:

- Fostering economic growth and productivity;
- Creating employment;
- Improving international trade performance and competitiveness;
- Remedying any imbalances in economic and social development including poverty alleviation.

And the key areas for SME development, including:

- The creation of an enterprise culture;
- More and better quality business starts (and associated higher survival rates);
- Performance of the existing business stock;
- Creation of an empathetic entrepreneurial environment.

While providing this link between general and SME objectives may appear complex, it is critical in demonstrating the relevance and coherence of SME policy. In many transition economies it is not uncommon to find long lists of small enterprise development projects without any clear linkage to major national goals.

Analyses of the above do not need to be included in full, but the results must be summarised. This summary of the (lack of) links can take the form of a table, as shown below.

Table 2. **Linking SME Development to National Objectives**

SME DEVELOPMENT TARGETS	CONTRIBUTION TO OVERALL ECONOMIC AND SOCIAL OBJECTIVES			
	Growth/ Productivity	Employment creation	External trade performance	Economic and social balance
Creation of enterprise culture				
Improving quantity and quality of start-ups and survivors				
Supporting the growth of existing businesses				
Ensuring a supportive and entrepreneurial climate				



Table 3 presents a simplified example of the possible links between programmes for the creation of an enterprise culture at all education levels and general development priorities. More examples can be found on the OECD Istanbul Centre website.

Table 3. **Stimulating Enterprise Culture in Education – Its Contribution to Development Targets**

<b>GROWTH/ PRODUCTIVITY</b>	<b>EMPLOYMENT CREATION</b>	<b>EXTERNAL TRADE PERFORMANCE</b>	<b>ECONOMIC AND SOCIAL BALANCE</b>
A more adaptive and enterprising work force.	Lower youth unemployment. More start-ups creating jobs.	More internationally oriented, entrepreneurial young managers.	More graduates retained in deprived regions of the country.
More innovations emerging from the higher education sector/science base.	More flexible workforce.		Stronger position of women through self-employment.
Graduates more motivated to set up and expand small or medium size enterprises.	More unemployed exploring self-employment opportunities.		More reliance on self-help, less social on security, resulting in fewer socially excluded young people and drop-outs.
A more knowledgeable and efficient service sector work force produced by the vocational education sector.			Lower crime rates.
More and better private sector business development services.			Stronger potential to solve regional imbalance problems by self-help.

## TARGETS AND PLANNED ACTIVITIES

**Objective: To clearly set out the targets of the plan.**

This section represents the heart of the strategic plan. It embraces the various broad as well as specific programmes of the government. In many developing and transition economies it is accompanied by annexes of detailed project memoranda often using a logical frame (log frame) format, which is discussed in Section 8. These should not represent 'wish-lists' but be an integral part of the government's programme.

The detailed content will reflect individual country priorities but if the strategic plan format shown here is followed then it should be possible to present the details as follows

Contributions of plan targets to:

- The development of an enterprise culture;
- The growth of start-ups and their survival;
- Improving the quality and performance of the existing business stock;
- Establishing an entrepreneurial and supportive environment and regulatory framework.

Within each of the above key areas it should be possible to set out:

- Identified needs;
- Overall objective(s);
- Targets;
- Activities;
- Inputs/resources;
- Outcomes;
- Impact measurement.

This can be illustrated for programmes that relate to the creation of an enterprise culture. Key potential target areas include: embedding enterprise in education at all levels; developing the entrepreneurial culture in key organisations and small business stakeholder groups; and stimulating a culture of enterprise in the population as a whole. Within each of these broad groups there are distinctive target areas for policy intervention. In formal education these include primary, secondary, vocational, higher and adult education. Higher education has been a key target area in Europe. Table 4 demonstrates how targets might be set out.

Table 4. **Linking Higher Education with SME Development**

---

NEEDS:

- To tackle problems of graduate unemployment
- To maximise the potential to transfer research based ideas from universities to business
- To help graduates cope better with a complex and uncertain labour market
- To tackle problems of retention of graduates in peripheral regions
- To create a more enterprising national graduate workforce
- To find mechanisms for creating higher quality and more ambitious business start-ups in the economy

OBJECTIVES, to ensure that:

- All undergraduates in all subjects are exposed to an entrepreneurship programme
- Teachers in universities are trained to deliver curriculum in an enterprising manner
- Personal enterprise development is accepted as an objective of the sector and is embedded in the curriculum
- There are incentives for professors and staff to exploit their ideas working with students
- The sector takes a more proactive stance in linking with the business world.
- There is improved access to resources for exploiting enterprise in the sector

TARGETS to be set for each of the above, for example for an entrepreneurship programme for undergraduates:

- The development of a basic course for all science and engineering students
- Its application within two years to X (number) universities
- Its linkage via project work with X (number) firms
- The engagement of X (number) entrepreneurs, to be trained as mentors to the process

ACTIVITIES needed to implement the above include:

- Design and development of entrepreneurial curriculum and its testing
- Training of relevant staff
- Endorsement by the relevant boards of studies and departmental committees
- Selection and training of entrepreneur mentors
- Promotion of programmes to students
- Development of suitable assessment and accreditation instruments

INPUTS AND RESOURCES: these will be appropriate to the targets and scale of the programme and may take the form of grants for curriculum and materials development, staff training, project expenses, the setting up of mechanisms to engage entrepreneurs, research into appropriate forms of assessment and accreditation.

OUTCOMES can be expressed in terms of changes in:

- The attitude to and motivations of students for entrepreneurship
- Better understanding of the world of work and entrepreneurial firms in particular
- Changes in attitudes and understanding of staff in the relevant sector and in general
- More active involvement of higher education in entrepreneurial firms
- More student and staff enterprises

IMPACT MEASUREMENT: Summative and formative evaluations will be needed. Summative evaluations involve monitoring reaction to activities, perceived learning, changes in attitudes and motivations, resulting actions undertaken by students and staff and final outcomes in terms of business activity. Formative evaluations involve examination of the way in which the process was managed at each stage, how obstacles were overcome and whether/how the activity has become embedded in the institution. Overall, an evaluation would need to consider where, if and how this process contributes to overall government objectives: does it create a seedbed for growth businesses, does it help to create new employment, does it exploit hitherto untapped sources of innovation?

---

## OVERCOMING BARRIERS

**Objective: To define barriers and ways of overcoming them.**

The barriers to meeting future objectives will obviously vary with the specific focus of objectives in the country concerned, the present state of development and the success of previous policies. It is, however, possible to speculate on the barriers and problems that will be encountered in the light of international experience. Barriers can be divided in those that are external or internal to the firm or entrepreneur and can be categorised as:

- Barriers to the development of an enterprise culture;
- Barriers to the start-up and survival process;
- Barriers to the growth of existing businesses.

An example in the context of the start up and survival process is shown in Annexes 7 and 8.

Key success factors in the business start up process have been organised into six areas:

- 1) The motivation to start a business;
- 2) The quality of the idea and the potential of the market;
- 3) The ability of the individual or group of individuals;
- 4) The physical and financial resources required;
- 5) The administration and organisation required;
- 6) The formal or informal plan.

In each of these areas, internal and external barriers to success can be summarised. Governments can use the framework to identify the key domestic barriers needing policy attention, adding such factors as are important in the context of their own country's development, and actions needed to overcome the barriers. Similar matrices can be constructed for the processes of development of enterprise culture (see OECD Istanbul Centre website).

Examples of actions to remove obstacles abound. With regard to *external* barriers to motivation, a number of countries have made business failure less punitive, and programmes have been developed to emphasise entrepreneurs as social role models, with regional and national award ceremonies. Special programmes have been developed to cushion the cost of moving from a safe job to running a business. To overcome *internal* barriers, 'know who' networks have been built between entrepreneurs and would-be starters. Motivational training and programmes to create achievement orientation have been particularly emphasised in Asia. *Internal and external* problems of resource acquisition have been removed through interventions in the field of micro finance, leasing, small firm equity and venture capital schemes, loan guarantees and soft lending.



## MANAGEMENT, MONITORING, EVALUATION AND CONTROL

### 14.1 Management responsibility

#### **Objective: To attribute clear responsibilities for SME development**

This should cover the key areas set out in the review with the focus on who is responsible for specific aspects of policy, in particular:

- Areas where co-ordination is needed between different departments of government, for example, between ministries of employment and education in areas of entrepreneurship education and training or between ministries responsible for specific sectors with large numbers of SMEs, for example ministries of tourism, agriculture or crafts;
- Management of changes in regulation. Responsibility for de-regulation or re-regulation will vary between departments. This can cause problems as even 'independent' agencies and ministries with major responsibility for SME development are not in a position to initiate all relevant regulation or deregulation;
- The specific responsibilities of the private sector for specific SME policies/programmes. SME business associations, for example, may have responsibilities in licensing and in representing the private sector when policy changes are planned;
- The responsibilities of local and regional bodies for the delivery of particular programmes/projects, such as the operation of local business advice centres;
- The responsibilities of a national small business agency for key parts of the programme. This might cover the operation of management or advisory boards to the agency, responsibilities for meeting key counselling and training target, the management of business centres and their performance and the way in which this is reported to the relevant minister;
- Responsibility for communication and promotion to all key stakeholders. This will normally be the responsibility of a national small business agency or department and may take the form of an annual report on the state of small business (see Annex 6 for an example of its structure).

### 14.2 Monitoring frameworks and procedures

#### **Objective: To monitor procedures using the logical framework mechanism.**

A much-utilised means for monitoring policy and programmes, favoured by donors, is the logical framework or log frame. There are several variations of the framework but broadly it divides itself into a number of key headings as follows:

*Summary*, which embraces:

- The overall development objective, which provides the basic framework;
- The immediate objective, defining the focus of the overall objective and indicating what specific changes are planned and who will benefit;
- The outputs, also indicating the specific means by which the objectives are to be met;
- The activities needed to achieve the outputs, including responsibilities and timetables.

In relation to each of the above there will be established:

*Verifiable indicators* setting out what needs to be monitored.

*Means of verification* establishing which information sources are to be used for this purpose.

*Assumptions* on which the planned achievements are based but which are beyond the control of this specific programme activity.

The log frame will conventionally contain specific targets against which the programme will be monitored. It requires adequate data systems covering all key aspects of the programme.

Like all planning frameworks, log frames are based on analysis at a particular period of time and need to be used as a basis for regular discussion and review. They should preferably be set up with the close involvement of the recipient institutions, the relevant intermediaries and the key stakeholders. Under these conditions they are a useful instrument for change in response to circumstance. Major problems occur when they are used for control at a distance, to measure performance. There are many examples of how this can lead to pursuit of objectives/actions rendered irrelevant by the passage of time or changed circumstance.

A simple application of the log frame format to a microfinance programme is given in the box below. A fuller outline of the format and a more formal example of the layout of a log frame are provided in Annex 10.

### 14.3 Evaluation

**Objective:** *To assess the results of various programmes and provide feed forward.*

Public and private policy makers evaluate projects and programmes to provide evidence of value for money and to find out whether changes are needed. It is important to make a distinction between formative and summative evaluations. As explained in Chapter 1, formative evaluation examines the intervention processes while summative evaluation seeks to measure its outcomes. The issues explored in formative evaluation therefore determine the outcomes of the summative exercise. It is the formative issues that will determine the capacity of an organisation to continue with an activity when external support is terminated.

The log frame approach provides a basis for evaluation, but because of its focus on the relationship of inputs to outputs, is in the first place a summative evaluation instrument.

---

#### Example of a Log Frame Approach Applied to a Microfinance Programme

---

##### Programme Summary

##### **Overall development objective**

To increase the capacity of new and existing microfinance institutions in the country to deliver sustainable services effectively to the poor.

##### **Immediate objective**

To extend the outreach of existing microfinance and other finance institutions not currently engaged in microfinance to a number of (specified) rural areas in the country previously not served in this way.

##### **Outputs**

- Establishment of a number new branches of microfinance NGOs in areas A, B and C;
- A number of existing banks to move into microfinance;
- Promotional campaign to raise awareness in the countryside.

**Activities**

- Identification of NGOs with capacity for sustainable expansion;
- Establishment of a process of competitive tender to select a number of these NGOs;
- Training programmes for key staff to equip them as branch managers;
- Establishment of an office of microfinance promotion charged with raising awareness and assisting institutions to reach the potential customer.

**Verifiable indicators****Overall development objective:**

- The number of new institutions;
- An increase in lending by existing institutions to new customers in new areas;
- Indicators that both of these will be profitable.

**Immediate objective:**

- New areas covered over time;
- Level of penetration in relation to potential.

**Outputs:**

- Numbers of new staff trained or existing staff retrained;
- Numbers of new branches established;
- Numbers of savings and credit groups formed.

**Activities:**

- Establishment of selection criteria for NGOs to be supported;
- Development of a tendering document;
- Interview processes with potential candidates;
- Manuals for training programmes prepared;
- Staff of all selected NGOs and banks which have received 5 days training;
- Office of promotion established and equipped with web site, brochures and point of sale materials.

**Means of verification****Overall development objective:**

- Registrations of microfinance institutions with the Central Bank;
- Quarterly reports of the microfinance institutions.

**Immediate objective:**

- Reports of the Central Bank;
- Quarterly reports of microfinance institutions;
- Surveys in targeted areas.

**Outputs:**

- Reports of training courses;
- Quarterly reports of microfinance institutions;
- Sample surveys of the customer base;
- Budget reports.

**Activities:**

- Documentation on selection criteria;
- Reports of interviews;
- Training manuals completed;
- Budgets expended on training;
- Course evaluations.



### Assumptions

- **Overall objective:** the regulatory framework established for microfinance activity is not punitive;
  - **Intermediate objective:** the existing level of public support for rural development is maintained and there will be no major drought or agricultural catastrophes during implementation;
  - **Outputs:** the existing central bank support for bank diversification into microfinance is maintained;
  - **Activities:** it will be possible to recruit and retain a sufficiently high level of calibre people to staff the main coordinating unit for the programme.
- 

### Formative evaluation

Formative evaluations focus on:

- The concept – what is the targeted added value from the intervention and why is it needed?;
- The process of identifying beneficiaries, if necessary segmented in groups;
- How the needs of beneficiaries (organisations and individuals) are analysed and grouped meaningfully;
- How well the products and services are embedded in the programmes designed to meet needs, covering the processes of:
  - The setting of programme objectives;
  - The determination of detailed content;
  - The design of materials;
  - The recruitment, selection and development of trainers/service providers;
  - The proposed style of delivery;
- The delivery process itself, covering:
  - The competence of those delivering the programme/service;
  - Counselling, consultancy and follow up;
  - The choice and use of networks and outside personnel;
  - Location and timing of programme activity;
  - Assessment and accreditation.
- How the programme reaches its market, in particular:
  - The process of price setting (if necessary);
  - The choice of the marketing mix;
  - The channels used for reaching beneficiaries;
  - Public relations management;
  - How the programme is 'sold' to the public;
  - The procedure of evaluating success.
- How the programme is organised and managed, in particular:
  - The soundness of budgeting and financing procedures;
  - The adequacy of control systems and performance measures;
  - The quality of leadership and motivation of staff;
  - The appropriateness of the organisation design (is it entrepreneurial?) and staff backgrounds;
  - Its openness to innovation and new ideas;
  - Its effectiveness in acquiring resources;
  - Its success in engaging relevant stakeholders;
  - Its flexibility and degree of strategic orientation;
  - The soundness of its planning processes.

### Summative evaluation

Summative evaluation measures are taken at various levels of impact:

*Reaction impact* measures the reaction of immediate beneficiaries to the input, be it training, counselling or a more direct service. This usually evaluates whether customers:

- Like the service;
- Think it is relevant to their jobs/institutions;
- Think they have gained from it;
- Like the service providers;
- Like the location and amenities;
- Benefit a lot or little;
- Find it easy to participate and contribute;
- Would like more, and what:

In addition, the highs and the lows overall of the programme can be explored.

All the above except the last can be measured on a scale 1 to 5 representing high to low.

*Appreciation/learning impact:* This measures what has been gained from the input in more detail. In the case of a training/counselling programme this would be a test of what has been learnt. In the case of a service such as micro credit it would be how well the beneficiaries understand the process and how they can gain from it. In the broader policy context the impact measured is how well the policy has been internalised by the beneficiaries, and indeed the public as a whole.

*Behaviour impact:* This measures how and why people do things differently as a result of the programme. This can be assessed by questions about the way individuals approach key parts of their work and what has changed as a result of the input – especially, of course, what has improved. It can also be checked by observation or through the perceptions of other stakeholders as to whether those benefiting from the programme have changed their behaviour. In the case of policies and programmes specifically targeting personal behaviour (for example through counselling or training) this may be tested by observation of events or video recording.

*Intermediate organisational impact:* This measures what has been changed in organisation practices. For example, in the context of microfinance, are there new credit rating systems, new forms of marketing and new ways of dealing with customers in arrears? In the case of start up training: have participants started a business, how far down has the business proceeded?

*Ultimate impact:* This seeks to measure what impact on the ultimate performance of beneficiary has been. In the case of micro credit this requires measuring improvements in lending (sales), profits, liquidity and employment. The impact on the ultimate customers should also be measured.

At the higher levels of summative evaluation it is difficult to attribute results to any specific programme/policy input, for two reasons:

- Programme impacts need time: it may be several years before a specific scheme to improve micro credit has a full impact on its final customers;
- Numerous other factors in the economic and social environment have an impact on specific policies and programmes: what is the exact effect of a microfinance training course attended by a few individuals on the growth and profitability of a micro finance institution?

Cost-benefit measures of inputs are usually so contrived (or alternatively so simplistic) in these cases as to be useless. The value of summative work lies in actively using the 'hierarchy of impacts' approach in designing a programme or policy. In institutional development, it helps in setting immediate and ultimate impact targets, targeting organisational changes, and identifying groups that need training as well as behaviours that need to change.

### ***Effectiveness and efficiency in the evaluation context***

In evaluation studies, as noted briefly above, an important distinction should be made between measuring effectiveness and efficiency.

Measures of *effectiveness*, in the context of SME development, provide indicators of the capacity of assistance recipients to (better) manage processes of business development. It therefore represents the true result of 'capacity building'. Capacity is not simply a function of introducing a new activity or systems/product market orientation to an institution, nor of its ability, with guidance, to deliver a particular set of programmes in the short run. Nor is it solely about individual learning brought about by training programmes. It is about the enhanced capacity of any (group of) organisations to do things better once assistance comes to an end.

It is therefore not evaluated via measures of efficiency, nor by long frame outputs in the summative evaluation sense. For example, in the case of microfinance institutions effectiveness is not concerned with outputs such as number of loans, repayment or default ratios or the growth of businesses to which money was lent. It is possible to have sound results in this sense in the short run without the organisation having advanced substantially in its ability to make sound judgements in respect of its future development.

Measures of effectiveness therefore include such things as improvements in the capacity of those in the organisation to:

- Think and act strategically, and grasp opportunities strategically when identified;
- Plan new developments in an appropriate manner;
- Harvest and evaluate new ideas for development;
- Attract resources for sustainable development, including: physical resources, appropriate technology, finance, human resources and appropriate knowledge;
- Develop management control and communication systems incrementally as appropriate to the needs and stage of development;
- Attract and develop appropriate entrepreneurial leadership, management and HRD systems;
- Relate effectively to the stakeholder environment;
- Evaluate their own experience base and adapt and acquire experience according to future needs;
- Understand their own organisation capacities and development needs in respect of basic performance in the market, delivery of services and finance.

Overall, in the context of SME development, there is a particular need to make judgements as to improvement in the entrepreneurial capacities of organisations which are benefiting from enterprise development, in particular their capacity to:

- Take ownership of things;
- Take independent initiatives;
- Manage autonomously;
- Network effectively with all key stakeholders;
- Manage holistically all aspects of organisation development;
- Think and act strategically by and through doing;
- Plan new development incrementally and assess risks accordingly;
- Evaluate themselves through the eyes of key stakeholders and particularly customers;

The first group of factors measures the capacity of organisations to grow. The second set measures the ability to adapt to an entrepreneurial environment of uncertainty and complexity.

In contrast, *efficiency* measurement focuses on the utilisation of resources to achieve an output, usually against a standard. This is more in line with measures of inputs against outputs, as at the ultimate impact level of summative evaluation described above.

### 14.4 Control

This must follow the established governmental procedures. Project management control can also follow conventional budget reporting systems.

## **ANNEXES**



Annex 1

**REFERENCE LIST**

**Bannock Consulting** (2000), *SME Acts*, Department for International Development, London.

**CEDEFOP** (1990), *Training for Small Business in the European Community. Guides to the Competency and Design of Effective Training Programmes*, Office for Official Publications to the European Communities, Luxemburg.

**EC DG Enterprise** (2000), *European Charter for Small Enterprises*, Santa Maria da Feira, European Council 19-20 June 2000.

**Enste, D., and Schneider, F.** (1998), *Increasing Shadow Economies all over the World – Fiction or Reality. A Survey of the Global Evidence of their Size and of their Impact from 1970 to 1995*.

**European Commission DG 23** (1999), *Local and Regional Authorities Promoting Entrepreneurship and Small Businesses. A Report of the Committee of the Regions*, Brussels.

**European Training Foundation** (2000), *Entrepreneurial Training for the Growth of Small and Medium Sized Enterprises. Lessons from Central and Eastern Europe*, Office for Official Publications of the European Community, Luxemburg.

**European Training Foundation** (2001), *Entrepreneurial training for the growth of small and medium enterprises. A study and cases in transition economies*, ETF, Turin.

**Gibb, A.A.** (2001), 'Restructuring Through Small Enterprise Development', Series on Socially Responsible Restructuring, ILO, Geneva.

**Gibb, A.A. and Li, Jun** (2003), 'Organising for enterprise in China: what can be learnt from the Chinese micro, small and medium enterprise development experience?' *Futures* 35, pp 403-421.

**Gibb, A.A., and D. Adhikary** (2000), 'Strategies for Local and Regional NGO Development: Combining Sustainable Outcomes with Sustainable Organisations', *Entrepreneurship and Regional Development*, Vol. 12.

**Gibb, A.A., and S. Lyapunov** (1995), 'Creating Small Business out of Large in Central and Eastern Europe', *Small Enterprise Development*, Vol. 6. No. 3, pp 5-17.

**Gibb, A.A., and S. Lyapunov** (1995), 'Creating Small Businesses out of Large in Central and Eastern Europe', *Small Enterprise Development*, Volume 6 Number 3, pp 5-17.

**Gibb, A.A., and Z. Haas** (1996), 'Developing local support services for small business in Central and Eastern Europe - the donor challenge', *Entrepreneurship and Regional Development*, Vol. 8, pp 197-216.

**ILO** (1991) 'Defining success in Entrepreneurship Development programmes. A guide to a model approach', ILO, Geneva.

**Institute for Small Business Development and Hungarian Foundation for Enterprise Promotion** (2000), *State of Small and Medium Sized Business in Hungary. Annual Report*, ISBD, Budapest.

- Ledgerwood, J.** (1999), *Sustainable Banking with the Poor*. Micro Finance Handbook. An Institutional and Financial Perspective, International Bank for Reconstruction and Development/The World Bank, Washington, USA.
- Lee, S.** (2000), *The Top 200 Websites for Small Business*, Kogan Page, London (Contains a CD ROM).
- OECD-UNIDO** (1999) *Entrepreneurship and Enterprise Development in Transition Economies: Policy Guidelines and Recommendations*, OECD, Paris.
- OECD-EBRD** (2001) *Entrepreneurship and Enterprise Development in the FYR Macedonia: Country Assessment and Recommendations*, Paris, OECD.
- OECD-EBRD** (2002) *Entrepreneurship and Enterprise Development Romania: Policy Review*, OECD, Paris.
- OECD-EBRD** (2003a) *Albania Enterprise Policy Performance Assessment*, OECD, Paris.
- OECD-EBRD** (2003b) *Bosnian and Herzegovina Enterprise Policy Performance Assessment*, OECD, Paris.
- OECD-EBRD** (2003c) *Bulgaria Enterprise Policy Performance Assessment*, OECD, Paris.
- OECD-EBRD** (2003d) *Croatia Enterprise Policy Performance Assessment*, OECD, Paris.
- OECD-EBRD** (2003e) *FYR Macedonia Enterprise Policy Performance Assessment*, OECD, Paris.
- OECD-EBRD** (2003f) *Moldova Enterprise Policy Performance Assessment*, OECD, Paris.
- OECD-EBRD** (2003g) *Montenegro Enterprise Policy Performance Assessment (Serbia and Montenegro)*, OECD, Paris.
- OECD-EBRD** (2003h) *Romania Enterprise Policy Performance Assessment*, OECD, Paris.
- OECD-EBRD** (2003i) *Serbia Enterprise Policy Performance Assessment (Serbia and Montenegro)*, OECD, Paris.
- Randel, J., German, T., and Ewing, D.** (2000), *The Reality of Aid 2000. An Independent Review of Poverty Reduction and Development Assistance*, Earth Scan Publications Ltd, London.
- Robinson, M.S.** (2001), *The Micro Finance Revolution. Sustainable Finance for the Poor*, World Bank/Open Society Institute, New York.
- Robinson, N.S.** (2001), *The Micro Finance Revolution. Sustainable Finance for the Poor*, World Bank/Open Society Institute, New York.
- Rutherford, S.** (2000), *The Poor and their Money*, Oxford University Press/Department for International Development, UK.
- Steel, W.F., Tanburn, J., and K. Hallberg** (2000), *The Emerging Strategy for Building Business Development Service Markets in Levitsky, J. (ed) Business Development Services: Review of International Experience*, Intermediate Technology Publications, London, chapter 2
- The Institute for the Study of Labour (IZA)** Discussion Paper 26, Frankfurt
- UNIDO** (1998), *A Comparative Analysis of SME Strategies, Policies and Programmes in Central European Initiative Countries*, UNIDO, Vienna

**UNIDO** (2002), *UNIDO- Business Partnerships for Industrial Development*, UNIDO, Vienna

**UNIDO** (2003), *High-tech Incubation Systems for the Central European Transition Countries*, Vienna

**UNIDO** (2003), *Development of Clusters and Networks of SMEs. The UNIDO Programme. A Guide to export Consortia*

**UNIDO** (2002), *Corporate Social Responsibility. Implications for Small and Medium Enterprises in Developing Countries*

**UNIDO** (2002), *UNIDO Business Partnerships for Industrial Development*

**UNIDO** (2001), *Development of Clusters and Networks of SMEs. The UNIDO Programme*

**Wright**, G.A.N. (2000), *Micro Finance Systems. Designing Quality Financial Services for the Poor*, The University Press Limited, Bangladesh.





Annex 2

**Global Entrepreneurship Monitor Survey 1999,  
Interview Format for Assessing Entrepreneurship Culture**

**Q.1 Which of the following would apply to you? [YES or NO]**

- a. You are, alone or with others, currently trying to start a new business.
- b. You are, alone or with others, trying to start a new business or a new venture with your employer – an effort that is part of your normal work.
- c. You are, alone or with others, the owner of a company you help manage.
- d. You have, in the past three years, personally provided funds for a new business started by someone else – this would not include buying publicly traded shares or mutual funds.
- e. You think that if there were good opportunities for businesses, one of your friends or family would try to start a new firm.
- f. It would be a major problem for you if, every five years, you had to change employers, even if you did not have to move.
- g. You think starting a new business a respected occupation in your community.
- h. You think there is much resentment in your community of people who make a lot of money from businesses they start themselves.
- i. You think that in the next 6 months good opportunities will have developed for starting a new business in your community.
- j. You think that if someone's business failed in your community it would be considered a personal failure.

IF NO TO Q.1a AND Q.1b, GO TO INSTRUCTIONS ABOVE Q.2f.

IF YES TO Q.1a OR Q.1b OR BOTH, ASK Q.2a.

**Q.2a You mentioned previously that you are trying to start a new business. Will you personally own all, part or none of this business?**

1 All      2 Part      3 None      4 Don't know      5 Refused

IF Q.2a IS CODE 3 (NONE) GO TO INSTRUCTIONS ABOVE Q.2f

**Q.2b And in the past 12 months, have you done anything to help start this new business, such as looking for equipment or a location, organising a start-up team, working on a business plan, beginning to save money, or any other activity that would help launch a business?**

1 Yes      2 No      3 Don't know      4 Refused

IF Q.2b IS CODE 2 (NO) GO TO INSTRUCTIONS ABOVE Q.2f

**Q.2c Has the new business paid any full time salaries or wages, including your own, for more than three months?**

1 Yes      2 No      3 Don't know      4 Refused

**Q.2d What kind of business is this? What will it be selling?**

**Q.2e How many employees, not including the owners, do you expect this business to have when it is five years old?**

IF NO TO Q.1d EXIT SECTION. IF YES TO Q.1d ASK Q.2f

**Q.2f You mentioned previously that you have personally provided funds for a new business start-up other than your own. Approximately, how much, in total, have you personally provided to these business start-ups in the past three years?**

(Source: Global Entrepreneurship Monitor. Babson College, Boston US and London Business School, UK)

Annex 3

## Measuring Regulations Against the Five Principles of Good Regulation (UK)

---

TRANSPARENCY	<ul style="list-style-type: none"><li>• The case for a regulation should be clearly made and the purpose clearly communicated</li><li>• Proper consultation should take place before creating and implementing a regulation</li><li>• Penalties for non-compliance should be clearly spelt out</li><li>• Regulations should be simple and clear and come with guidance in plain English</li></ul> <p>Those being regulated should be made aware of their obligations and given support and time to comply by the enforcing of authorities with examples of methods of compliance</p>
ACCOUNTABILITY	<ul style="list-style-type: none"><li>• Regulators and enforcers should be clearly accountable to government and citizens and to parliaments and assemblies</li><li>• Those being regulated must understand their responsibility for their actions</li><li>• There should be a well-publicised, accessible, fair and efficient appeals procedure</li></ul> <p>Enforcers should be given the powers to be effective but fair</p>
PROPORTIONALITY	<ul style="list-style-type: none"><li>• Any enforcement action (i.e. inspection, sanctions etc.) should be in proportion to the risk, with penalties proportionate to the harm done</li><li>• Compliance should be affordable to those regulated-regulators should 'think small first'</li></ul> <p>Alternatives to state regulation should be fully considered, as they might be more effective and cheaper to apply</p>
CONSISTENCY	<ul style="list-style-type: none"><li>• New regulations should be consistent with existing regulations</li><li>• Departmental regulators should be consistent with each other</li><li>• Enforcement agencies should apply regulations consistently across the country</li><li>• Regulations should be compatible with international trade rules, EC law and competition policy</li></ul> <p>EC Directives, once agreed, should be consistently applied across the Union and transposed without 'gold-plating'.</p>
TARGETING	<ul style="list-style-type: none"><li>• Regulations should be aimed at the problem and avoid a scattergun approach</li><li>• Where possible, a goals-based approach should be used, with enforcers and those being regulated given flexibility in deciding how best to achieve clear, unambiguous targets</li><li>• Regulations should be reviewed from time to time to test whether they are still necessary and effective. If not, they should be modified or eliminated</li><li>• Where regulation disproportionately affects small businesses, the state should consider support options for those who are disadvantaged, including direct compensation</li></ul>

---

Source: extracted from *Principles of Good Regulation* published by the UK Better Regulation Task Force.

---



#### Annex 4

### European Charter for Small Enterprises

(adopted by the General Affairs Council, 13 June 2000, and welcomed by the Feira European Council, 19/20 June 2000)

Small enterprises are the backbone of the European economy. They are a key source of jobs and a breeding ground for business ideas. Europe's efforts to usher in the new economy will succeed only if small business is brought to the top of the agenda.

Small enterprises are the most sensitive of all to changes in the business environment. They are the first to suffer if weighed down with excessive bureaucracy. And they are the first to flourish from initiatives to cut red tape and reward success.

At Lisbon we set the goal for the European Union to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth, more and better jobs and greater social cohesion.

Small enterprises must be considered as a main driver for innovation, employment as well as social and local integration in Europe.

The best possible environment for small business and entrepreneurship needs therefore to be created.

#### Principles

*In urging for this, we*

- Acknowledge the dynamic capacities of small enterprises in answering to new market needs and in providing jobs;
- Stress the importance of small enterprises in fostering social and regional development, while behaving as examples of initiative and commitment;
- Recognise entrepreneurship as a valuable and productive life skill, at all levels of responsibility;
- Applaud successful enterprise, which deserves to be fairly rewarded;
- Consider that some failure is concomitant with responsible initiative and risk-taking and must be mainly envisaged as a learning opportunity;
- Recognise the values of knowledge, commitment and flexibility in the new economy.

The situation of small business in the European Union can be improved by action to stimulate entrepreneurship, to evaluate existing measures, and when necessary, to make them small-business-friendly, and to ensure that policy-makers take due consideration of small business needs. To this end, we pledge ourselves to:

- Strengthen the spirit of innovation and entrepreneurship which enables European business to face the challenges ahead;
- Achieve a regulatory, fiscal and administrative framework conducive to entrepreneurial activity and improve the status of entrepreneurs;

- Ensure access to markets on the basis of the least burdensome requirements that are consistent with overriding public policy objectives;
- Facilitate access to the best research and technology;
- Improve access to finance throughout the entire life-cycle of an enterprise;
- Improve our performance continuously, so that the EU will offer the best environment for small business in the world;
- Listen to the voice of small business;
- Promote top-class small business support.

### **Lines for action**

By endorsing this Charter, we commit ourselves to work along the following lines for action, taking due consideration of small business needs.

#### *1. Education and training for entrepreneurship*

Europe will nurture entrepreneurial spirit and new skills from an earlier age. General knowledge about business and entrepreneurship needs to be taught at all school levels. Specific business-related modules should be made an essential ingredient of education schemes at secondary level and at colleges and universities.

We will encourage and promote youngsters' entrepreneurial endeavours, and develop appropriate training schemes for managers in small enterprises.

#### *2. Cheaper and faster start-up*

The costs of companies' start-up should evolve towards the most competitive in the world. Countries with the longest delays and most burdensome procedures for approving new companies should be encouraged to catch up with the fastest. Online access for registration should be increased.

#### *3. Better legislation and regulation*

National bankruptcy laws should be assessed in the light of good practice. The learning from benchmarking exercises should lead us to the improvement of current practices in the EU.

New regulations at national and Community level should be screened to assess their impact on small enterprises and entrepreneurs. Wherever possible, national and EC rules should be simplified. Governments should adopt user-friendly administrative documents.

Small enterprises could be exempted from certain regulatory obligations. In this context, the Commission could simplify competition legislation to reduce the burden of compliance for small business.

#### *4. Availability of skills*

We shall endeavour to ensure that training institutions, complemented by in-house training schemes, deliver an adequate supply of skills adapted to the needs of small business, and provide lifetime training and consultancy.

#### *5. Improving online access*

Public authorities should be urged to increase their electronic communication with the small business sector. Thus, companies will be able to receive advice, make applications, file tax returns or obtain simple information online, therefore faster and more cheaply. The Commission must lead by example in this area.

## 6. *More out of the Single Market*

Small businesses are feeling the benefits from the reforms underway of Europe's economy. The Commission and Member States must therefore pursue the reforms underway aiming at the completion in the Union of a true internal market, user-friendly for small business, in critical areas for development of small businesses including electronic commerce, telecommunications, utilities, public procurement and cross-border payment systems.

At the same time, European and national competition rules should be vigorously applied to make sure that small businesses have every chance to enter new markets and compete on fair terms.

## 7. *Taxation and financial matters*

Tax systems should be adapted to reward success, encourage start-ups, favour small business expansion and job creation, and facilitate the creation and the succession in small enterprises. Member States should apply best practice to taxation and to personal performance incentives.

Entrepreneurs need finance to translate ambitions into reality. In order to improve the access of small enterprises to financial services, we will:

- Identify and remove barriers to the creation of a pan-European capital market and to the implementation of the Financial Services Action Plan and the Risk Capital Action Plan;
- Improve the relationship between the banking system and small enterprises by creating appropriate access conditions to credit and to venture capital;
- Improve the access to the structural funds and welcome initiatives by the European Investment Bank to increase funding available to start-ups and high-technology enterprises, including equity instruments.

## 8. *Strengthen the technological capacity of small enterprises*

We will strengthen existing programmes aimed at promoting technology dissemination towards small enterprises as well as the capacity of small business to identify, select and adapt technologies.

We will foster technology co-operation and sharing among different company sizes and particularly between European small enterprises, develop more effective research programmes focussed on the commercial application of knowledge and technology, and develop and adapt quality and certification systems to small enterprises. It is important to ensure that a Community patent is available and easily accessible to small enterprises.

We will foster the involvement of small enterprises in inter-firm co-operation, at local, national, European and international levels as well as the co-operation between small enterprises and higher education and research institutions.

Actions at national and regional levels aimed at developing inter-firm clusters and networks should therefore be supported, pan-European co-operation between small enterprises using information technologies enhanced, best practice in co-operative agreements spread, and small enterprises co-operation supported to improve their capabilities to enter pan-European markets and to extend their activities in third country markets.

## 9. *Successful e-business models and top-class small business support*

The Commission and Member States should encourage small enterprises to apply best practice and adopt successful business models that enable them to truly flourish in the new economy.



We will co-ordinate Member States and EU activity to create information and business support systems, networks and services which are easy to access and understand, and relevant to the needs of business; ensure EU-wide access to guidance and support from mentors and business angels, including through websites, and exploit the European Observatory on SMEs.

10. *Develop stronger, more effective representation of small enterprises' interests at Union and national level*

We will complete a review of how the interests of small businesses are represented at EU and national level, including through the social dialogue.

We commit ourselves to progress towards these goals using the open method of co-ordination of national enterprise policies. The Multi-annual Programme for Enterprise and Entrepreneurship, the Cardiff process on economic reforms, the Luxembourg process on employment policies and other Community programs and initiatives will be used to this end. We will monitor and evaluate progress annually on the basis of a Commission report on the relevant issues at the Spring Summits.

We will use effective indicators to assess progress over time and in relation to the best in the world to reinforce our learning, searching for better practice in all fields that affect small business to continuously improve our performance.

## Example of a Quarterly SME Survey

## Quarterly Survey No. 69

Small Business Research Trust  
Survey Section  
c/o Bannock Consulting  
Freeport WD549  
Chorley, Lancashire PR6 7ZZ



Confidential

Please circle the appropriate letters or fill in the blanks. Your answers will remain confidential.

- 1** Please indicate your firm's annual turnover (excluding VAT):  
 a. Less than £20,000                      c. £50,000-£149,999                      e. £350,000-£749,999                      g. £1,500,000 and over  
 b. £20,000-£49,999                      d. £150,000-£349,999                      f. £750,000-£1,499,999
- 2a** Employment: How many people (including yourself) work in the business? \_\_\_\_\_
- 2b** If your business is not a limited company, how many of these people are self-employed proprietors or partners? \_\_\_\_\_
- 3** How many years has your present business been trading? \_\_\_\_\_
- 4a** Please classify your business activity by circling one of these categories:  
 a. Agriculture, Forestry, Fisheries                      d. Construction                      g. Hotels & Restaurants                      i. Other Services  
 b. Manufacturing, Mining, Processing                      e. Wholesale                      h. Business Services  
 c. Transport                      f. Retail Trade                      (Finance, Consultants, Designers, etc.)
- 4b** Please also describe in a few words the precise nature of your business: \_\_\_\_\_
- 5** By roughly what total percentage has your annual income (drawings) from the business changed over the past year and the past three years (e.g. 'UP 20%' or 'DOWN 15%')?  
 a. PAST YEAR: Income in 2000-2001 compared with 1999-2000: UP / DOWN \_\_\_\_\_ %  
 b. PAST 3 YEARS: Income in 2000-2001 compared with 1997-1998: UP / DOWN \_\_\_\_\_ %
- 6** Do you think that the UK economy is in, or heading for, recession?  
 a. Yes, already started                      b. Yes, by end of 2001                      c. Yes, probably within next 6 months                      d. No                      e. I do not know
- 7** To what extent have you changed your line of business or switched industries over the past year and past three years?  
 (i) Over past year: a. Completely                      b. Substantially                      c. Some minor changes                      d. Not, but intend to within next year                      e. No significant changes  
 (i) Over past 3 years: a. Completely                      b. Substantially                      c. Some minor changes                      d. Not, but intend to within next 3 years                      e. No significant changes
- 8** If your business is currently suffering from low turnover/lack of business is this mainly due to a generally poor economic climate, increased competition or because marketing problems mean that you have been less successful than others in attracting business?  
 a. Poor economic climate                      b. Increased competition                      c. Marketing problems                      d. Low turnover not a problem
- 9** How did your sales turnover, average employment, investment (in plant, equipment and premises) and average selling prices in the past quarter compare with the same period in 2000? What do you expect to happen in the current quarter? Please complete the table by ticking 8 boxes only:

	ACTUAL			EXPECTED		
	July, August, September 2001 compared with the same period 2000			October, November, December 2001 compared with July, August, September 2001		
	UP	DOWN	SAME	UP	DOWN	SAME
Sales Turnover						
Average Employment						
Investment						
Selling Prices						

- 10** What is the MOST important problem facing your business today? Please circle ONE ONLY:  
 a. Inflation                      f. Low Turnover/Lack of Business                      k. Internal Management Difficulties  
 b. Interest Rates                      g. Competition from Big Business                      l. Cashflow/Payments/Debtors  
 c. Access to Finance                      h. Gov't Regulations and Paperwork                      m. Premises, Rents, Rates  
 d. Lack of Skilled/Trained Employees                      i. High Rates of Pay                      n. Other (Please specify)  
 e. Total Tax Burden                      j. Shortage of Materials, Supplies, etc. \_\_\_\_\_
- 11** Please indicate the sex of the owner(s) of the business:  
 a. Male                      b. Female                      c. Joint Male/Female ownership

Thank you for completing this confidential survey questionnaire.  
**Please return it to the Small Business Research Trust by 16th November 2001.**  
 Please note that this is a FREEPOST address (no stamp required).

(Source: Natwest)



*Annex 6*

**Outline of Report on Small and Medium-sized Enterprises, 2000-2002,  
Bulgarian Agency for Small and Medium-sized Enterprises**

1. Scope and Methodology of the Survey: General Characteristics of the SME Sector in Bulgaria
2. Macroeconomic Environment for SMEs Development
3. Main Characteristics of SMEs and Financial Indicators
4. Analysis of the Specifics of SMEs by Sectors and in the Planning Regions
5. Competitiveness of SMEs
6. Small and Medium-sized Enterprises in the Information Era
7. The Role of SMEs as Suppliers/subcontractors in Attracting Foreign Direct Investment to Bulgaria.  
Clusters Approach
8. Policies and Legal Framework for the Development of SMEs in Bulgaria
9. Financing of SMEs and Credit Schemes
10. SMEs in the Process of Integration to the European Union
11. Organisations in Support of the SME Sector
12. Conclusions and Recommendations
13. Annexes

(the latter include a survey methodology, a national SE strategy for 2002-2006 and an action plan)

*Source:* Bulgarian Agency for Small and Medium-sized Enterprises



### Common External Barriers to Start-up and Survival

MOTIVATION	IDEAS/MARKETS	RESOURCES	ADMINISTRATION AND ORGANISATION	PLANS
<ul style="list-style-type: none"> <li>- Cost of moving from informal to formal sector</li> <li>- Welfare and security in existing jobs</li> <li>- Societal view: too risky</li> <li>- Societal view: difficult, needs special qualities</li> <li>- Anti-entrepreneurial culture</li> <li>- Low status of entrepreneurs</li> <li>- Control by criminal elements</li> </ul>	<ul style="list-style-type: none"> <li>- Declining or stagnant general demand</li> <li>- Low local demand</li> <li>- Little chance to explore ideas with (potential) customers</li> <li>- High market entry barriers</li> <li>- Poor patenting laws</li> <li>- Poor legal framework for licensing ideas</li> <li>- No incentives to exploit research-based intellectual property</li> <li>- Procurement decisions large firms made elsewhere</li> <li>- Lack of incentives to add value within supply chains</li> <li>- Privatisation and downsizing processes of large (state) firms unfavourable for small enterprise development</li> <li>- Poor physical access to markets</li> </ul>	<ul style="list-style-type: none"> <li>- Inadequate financial institutions for the sector</li> <li>- Inadequate physical infrastructure for small enterprise development</li> <li>- Poor 'easy' means of funding asset acquisition such as leasing)</li> <li>- Inadequate payment guarantees</li> <li>- Corruption, bribery and mafia operations'</li> <li>- No bankruptcy laws</li> <li>- No credit rating systems</li> <li>- No or poor property rights regulation</li> <li>- Bank and other finance tied to over-sophisticated business plan formats.</li> </ul>	<ul style="list-style-type: none"> <li>- Lengthy and complex registration processes</li> <li>- Lengthy and complex licensing systems</li> <li>- Poor property rights and transfer regulation</li> <li>- Complex and overlapping tax regulation</li> <li>- Overlapping local and national legislation</li> <li>- Heavy social/welfare insurance charges</li> <li>- Inadequate understanding of small business by officials</li> <li>- Corruption and bribery by officials</li> <li>- Absence of or weak support for compliance with regulations, such as lawyers and accountants</li> <li>- Inadequate contract law</li> <li>- Lack of formal regulation on duties and rights of directors, shareholders, partners</li> </ul>	<ul style="list-style-type: none"> <li>- Excessive tying of permissions and start-up aid to business plans</li> <li>- Over-emphasis on and inadequate stewardship of plans by creditors and investors</li> </ul>



### Common Internal Barriers to Start-up and Survival

MOTIVATION	IDEAS/MARKETS	RESOURCES	ADMINISTRATION AND ORGANISATION	PLANS
<ul style="list-style-type: none"> <li>- Personal fear of failure</li> <li>- Unwillingness to risk personal assets</li> <li>- Lack of contacts/friends in the business</li> <li>- Absence of family experience in business</li> <li>- Lack of family support</li> <li>- Low personal achievement orientation</li> <li>- Low desire for autonomy</li> </ul>	<ul style="list-style-type: none"> <li>- Ignorance of what makes a sound business idea</li> <li>- Inability to scan the environment for ideas</li> <li>- Low orientation to customers and their needs</li> <li>- Lack of awareness of sources of business opportunities</li> <li>- Poor understanding of marketing and selling</li> <li>- No concept of appropriate market research</li> <li>- Low resources for marketing</li> </ul>	<ul style="list-style-type: none"> <li>- Lack of personal savings</li> <li>- Lack of acceptable collateral for formal sector loans</li> <li>- Lack of appropriate premises</li> <li>- Lack of resources for reaching the market</li> <li>- Unwillingness to risk personal assets to acquire resources</li> <li>- Lack of friends, acquaintances and family willing to finance the business or guarantee it</li> </ul>	<ul style="list-style-type: none"> <li>- Inadequate record and book-keeping systems</li> <li>- Inadequate invoicing, credit and debtor control systems</li> <li>- Inadequate methods of monitoring of cash flow, costs and profit</li> <li>- Inadequate formal and informal communication systems</li> <li>- Inadequate control systems to monitor utilisation, efficiency, quality and wastage</li> <li>- Inadequate personnel records</li> <li>- Inadequate arrangements with partners and shareholders</li> </ul>	<ul style="list-style-type: none"> <li>- Inability to produce the kind of plans demanded by banks and other stakeholders</li> <li>- Inability to negotiate on the basis of the plan to achieve flexibility</li> <li>- Failure to adjust plans in relation to what is learned from the market</li> <li>- Failure to renegotiate arrangements with creditors, partners and investors on the basis of changed circumstances</li> <li>- Failure to think strategically from the start ('what if this or that happens')</li> <li>- Failure to focus on critical issues like cash and breakeven points</li> </ul>





## Index of Additional Annexes Part I

(Full copy of these annexes can be accessed on [www.oecd.org/daf/istanbulcentre](http://www.oecd.org/daf/istanbulcentre) and <http://www.oecdistanbul.org/en/Publications/Library.htm>)

- 9.1 A Qualitative Definition of Small Firms
- 9.2 Examples of SME Statistical Monitoring and Presentation
  - 9.2.1 Extract from UK Department of Industry Statistics Publication on SMEs
  - 9.2.2 Example of Statistical Monitoring – The European Observatory
- 9.3 Selection of Small Business related Internet Websites
- 9.4 Examples of Monitoring Culture and Health of SME sector
  - 9.4.1 The Global Entrepreneurship Monitor Survey
  - 9.4.2 Example of EU European Barometer Survey Questionnaire and results
- 9.5 Some basic principles to guide the role of the Central Government in MSSE support?
- 9.6 Checklist. Measuring regulations against the five Principles of Good Regulation (UK)
- 9.7 Examples of Enterprise Education Programmes in Central and Eastern Europe
- 9.8 Private Sector led Partnerships for Development (PSPD) in support of SMEs. A Concept Note.
- 9.9 A note on the Office of Advocacy, US Small Business Administration
- 9.10 Stages of Regulatory Impact Assessment
- 9.11 A Note on engaging the Micro, Small and Medium Enterprise
- 9.12 The USA Office of Advocacy: Mission, Organisation and Functions
- 9.13 Exploring methods of encouraging Private Sector led Development via Supply Chain Development
- 9.14 Example - Range of Association Services
- 9.15 Business Development Services for Small Enterprise. Guiding Principles for Donor Intervention.
- 9.16 CGAP. Format for appraisal of Microfinance Institutions
- 9.17 Organising and Managing a Counselling Support Service for SMEs – A Guide
- 9.18 The Policy Review and Planning Process. The Donor Challenge
- 9.19 SME Development Policy Review Checklist



## **Index of Additional Annexes Part II**

(Full copy of these annexes can be accessed on [www.oecd.org/daf/istanbulcentre](http://www.oecd.org/daf/istanbulcentre) and <http://www.oecdistanbul.org/en/Publications/Library.htm>)

- 10.1 Examples of Monitoring the Health of the SME Sector
  - 10.1.1 Example of Quarterly SME UK survey undertaken on behalf of the British Natwest Bank
  - 10.1.2 Example of in depth survey of SME needs
- 10.2 Linking Support Policies and Programmes to overall Economic Social and Economic Objectives.
  - 10.2.1 Examples of Linking SME Start up Support Policies and Programmes to overall Economic Social and Economic Objectives.
  - 10.2.2 Examples of Linking Regulatory Environment Support Policies to Overall National Economic and Social Objectives.
- 10.3 Setting out Specific Targets and Actions to be taken. Example: Improving the Quality of Existing SME stock.
- 10.4 Example 'Barriers to Growth' Framework.
- 10.5 Example of Key Headings in an Annual Report on Small and Medium Enterprises
- 10.6 Logical Framework
  - 10.6.1 Logical Framework Guide
  - 10.6.2 Logical Framework Example



