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United Nations Industrial Development Organization

A Comparative Analysis of
SME Strategies, Policies and Programmes
in Central European Initiative Countries

A stylized, high-contrast map of Europe. The landmasses are represented by thick black outlines against a white background. The text "Part I" is centered over the map, indicating the geographical focus of the document's content.

Part I

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Preface

The Central European Initiative (CEI) Working Group on Small and Medium Enterprises (SME) requested the United Nations Industrial Development Organization (UNIDO) in 1995 to carry out a study of SME policies and programmes in CEI countries that would provide a systematic basis for identifying areas of mutual interest for cooperation and future action. In response, the UNIDO research project was initiated to provide a framework for developing collaborative future projects, and at the same time, to identify policy and programme elements (both good and bad practice) in the respective countries that could guide UNIDO and donors in fine-tuning their support efforts.

The approach followed by UNIDO was to carry out the study in close collaboration with the national institutions and agencies involved in SME development. Focal points in each country were designated to assist UNIDO by providing reliable information. The focal points coordinated the study at the national level and provided information and documentation on specific issues following the framework of investigation designed by the project. (The criteria for participating in the project was the readiness of the country to commit resources and personnel to carry out the research work in the countries concerned.)

Country reports were prepared for six Central European countries, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. The initial country reports represented an official descriptive view of the situation in various countries. As such, they raised only a few issues concerning future needs and development issues to be addressed. Therefore, to complete the analysis, country visits by UNIDO consultants were undertaken. In each country, consultations were held with the relevant ministries, institutions and assistance agencies, and representatives of small and medium enterprise associations. Some countries like Romania held follow-up workshops, with key institutions involved in support to the SME sector, to discuss emerging issues at the national level. Reports on SME policy and programmes were also prepared by Austrian and Italian focal points. These have been reproduced in the form in which they have been received by UNIDO.

A final workshop with national focal points and counterparts, to review the main issues emanating from the analysis, took place in February 1996, in Vienna, Austria. The present report incorporates the conclusions of that workshop and the subsequent comments on the draft Report discussed there. As a result the final report of the UNIDO project consists of:

- A description of the major issues that needed to be addressed in respect of policy, institutional and assistance development, in particular pointing to areas for action,

exchange and support. Thus, Part I of the report contains a comparative analysis of the individual country information produced by the participating CEI countries. It does not include analysis of the information from Austria and Italy although this is available in the form of country reports in Part III for comparative purposes;

- Part II comprises the matrices reflecting SME support systems and institutions edited in such a way that they could be easily used by countries to contact each other about various aspects of their small business support system. Addresses, telephone numbers and fax numbers are provided for all the institutions and types of assistance named. This information is also available on the UNIDO World Wide Web site on the Internet.
- Part III of the report consists of the eight country analysis adapted in a format to allow comparison (eight country reports, including Austria and Italy);
- The Report also includes the analysis of the 'entrepreneurs point of view' based on data from interviews with 50 companies in each country. For that purpose, the European Foundation for Entrepreneurship Research (EFER) was commissioned to provide information, via its bi-annual survey, on a number of issues including small firms attitudes to, and use of, government policies and programmes; involvement of associations; use of, and benefits from, various forms of assistance; as well as problems currently being encountered by growth companies.

The final report therefore reflects the two key outputs of the UNIDO research project, namely:

- A comparative analysis of SME strategies, policies and programmes;
- A critical appraisal of such policies and programmes based upon the impact on SME development in key areas.

The support and commitment of all of the institutions and persons listed in Annex I is gratefully acknowledged, in particular the assistance of Professor A. Gibb.

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INTRODUCTION

This report represents an overview of the results of a study of policies and programmes in support of the small and medium enterprises in the Central European Initiative (CEI) countries of the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. Information has also been provided on Austria and Italy although it is not incorporated into this overview report.

The objective of the research was to 'undertake a comparative analysis of small and medium enterprise strategies, policies and programmes in the designated Central European countries as a basis for complementary and collaborative development initiatives'.

It was expected that the added value of the research would be to:

- Provide a framework for the CEI group to coordinate their research and development activities and design complementary and collaborative projects in the future;
- Help in the identification of key elements of small and medium enterprise policy and programmes (good and bad practice);
- Provide UNIDO and other donors with guidelines for fine-tuning of their future technical cooperation.

APPROACH AND OUTPUTS

The key components of the study were the following:

- An analysis of the policies, institutions, programmes of assistance and perceived needs undertaken on a country basis by national institutions involved in SME development in the countries concerned. These units, and the personnel involved, are listed in Annex I. A detailed frame of reference for the study was made available to each of the contributors and is shown in Annex II. The country reports were designed to demonstrate policies, economic and industrial, as they pertain to small and medium enterprise development and their operation and coordination; institutional development (capacity and operation) as it pertains to small business;

the forms of assistance and their delivery; and perceived needs and priorities. The individual country studies constitute Part III of this report.

- A series of matrices for each country, providing a summary of key institutions and general forms of assistance (information, counselling, training, finance, provision of premises and promotion) for SMEs with special notes for start-ups, survival, growth, innovation and exports. It was hoped that these matrices would form the basis for future 'experience exchange' between the countries involved in the study. The matrices, setting out general forms of assistance constitute Part II of this report.

The commissioning of the European Foundation for Entrepreneurship Research (EFER) to provide information, via its bi-annual survey, on a number of issues including small firms attitudes to, and use of, government policies and programmes; involvement with associations; use of, and benefits from, various forms of assistance; as well as problems currently being encountered by growth companies. These data were collected by interviews with a sample of 50 growth companies from each country.

FORMAT OF THE REPORT

This overview begins with a brief statistical review of the position of SMEs in the various economies. The report then focuses on the issues that seem to be of common concern to the transition economies of Central Europe with particular reference to potential areas of improvement which might provide a focus for further collaborative effort and exchange as well as suggestions for donors support. These issues are divided into four groups:

- Those relating to the needs of small firms as evidenced by the results of the EFER survey and as problems perceived by respective country respondents. The ways in which the needs of the sector are monitored, communicated and analyzed are also covered;
- Those relating to policies, their focus, their development and coordination;
- Those relating to institutional development, operations and effectiveness;
- Those relating to the delivery of various forms of assistance to small business.

Comment is thereafter made on donor support. Finally, conclusions and recommendations for joint action by CEI countries and potential support of bilateral and multilateral donors are set out.

THE PRESENT POSITION OF SMALL BUSINESS IN CEI COUNTRIES

Data on firm size, employment and contribution to turnover are not readily available on a basis suitable for comparison with the European Union Observatory figures. It is, however, of major policy interest to know the degree to which the structure of business has changed and has moved towards that of the Western European economies as a result of market forces. The tables in Annex III endeavour to set out, in as near a comparable format as possible, with the available information. This information has been derived from official sources by the country contributing agencies.

The enormous growth of the micro enterprise sector (under 10 employees) in all of the countries concerned is reflected in a distribution of establishments by employment size very similar to that of the European Union as a whole (Table 1). In general 90% or more of all enterprises are now in this category. The data for Poland and the Czech Republic is difficult to compare because of differences in classification of employment categories associated with different official definitions of micro, small and medium businesses.

In terms of share of employment (Table 2) there are some sharper comparisons. It is, however, difficult to make comparisons of the small firms sector (11-99 employees) because of the non-comparability of data in several countries. In the medium firm sector (100-499 employees) there is generally a substantially higher percentage of employment than in the European Union. This may reflect the slow growth of privatization in this sector. Alternatively, it may reflect a stronger sector! It is also interesting to note that the large firms sector has, in most CEI countries, a bigger employment share than, on average, in the European Union.

Turnover data is not available for most of the CEI countries. What is available, however, tends to emphasize the relative weakness of the small and micro enterprise sector (Table 3).

It was hoped that comparable data would be collected on the growth of the SME sector over time; birth rates and death rates; the proportion of inactive businesses that are registered; and the size of the informal economy. It was not possible to do this in a sufficiently consistent fashion to facilitate a wholly adequate contrast. Nevertheless, it is clear that in many of the CEI countries, micro business continues to grow apace. In some countries, for example, Hungary and Slovakia, the pace of growth is slackening off. The registration and de-registration data have, however, less meaning than in the European Union as the incidence of 'inactive' registered businesses is very high. In Hungary and the Czech Republic it is estimated that close to 30% of those on the register are 'inactive'. The informal sector (unregistered businesses) is estimated at between 10% and 30% of the gross domestic product (GDP) in CEI countries. In

these circumstances it is extremely difficult to make fair comparisons of birth and deaths with the countries of the European Union.

Overall, it is not easily possible to make an adequate comparative statistical analysis of the health of the small and medium enterprise sector even in very simple terms. It is none the less quite clear that the distribution of businesses in all of the CEI countries is moving towards the norms of Western Europe although the reported strength of the micro enterprise sector must be in some doubt because of the high estimated number of 'inactive' business registrations. The large firm sector still contributes a higher than European Union average contribution to employment indicating that there may yet be some way to go in the contraction of that sector (which has been substantial over the past five years). The size of the informal sector is recognized as a problem although in some of the participating countries it seems to be no more substantial than in certain EU countries.

Finally, in several of the country cases the medium sized firm sector emerges more strongly than the European Union. This may demonstrate either a greater potential or the fact that privatization or possible downsizing of this sector still has some way to go.

Overall it is clear that there is some way to go if the objective is to produce inter-country comparable statistical data on the health of the SME sector.

THE NEEDS OF SMALL BUSINESS

The European Foundation for Entrepreneurship Research (EFER) survey

The EFER survey embraces the results of interviews with a sample of 50 businesses from each of the participating countries. They were selected by a sampling process from a database maintained by EFER. Therefore, the data they represent are indicative only.

By and large, the companies interviewed represent higher growth, owner-managed businesses founded by the entrepreneur from scratch (rather than privatized or bought from the state). They are not perfectly balanced between sectors. The proportion in manufacturing varies from two thirds in Slovenia to one third in Hungary; however, most combine their manufacturing, construction or transport activity with some kind of trade. The comparability of the data is also effected by substantial differences in average size. The companies interviewed in the Czech Republic and Romania were on average medium-sized businesses (158 and 151 employees respectively). In Hungary and Slovenia they were very much smaller (average 80 and 34 employees respectively). In turnover terms, however, the sample was more comparable, averaging around ECU 3.3 million a year (with the exception of the Czech Republic). The companies generally represented the 'top end' of small business in terms of the education and qualifications of the entrepreneurs (most with university or higher degrees and most with a technical or economic/business education background). Most of the respondents now have several businesses and, in the case of the Czech Republic, Romania and Slovakia, most started the business with less than ECU 5,000 (the average start-up capital was higher in Hungary even though the size of the business was relatively small compared with Romania and the Czech Republic). Although there is no direct information on the individual growth of the businesses it can be inferred from the data that businesses in the different countries have experienced different growth tracks. It is evident from a comparison of employment at the commencement of the business, and employment in 1994, that in the Czech Republic there has been significant growth of business, a more modest growth in Hungary and rather less change in Romania and Slovenia. ¹

It is clear that the companies studied by EFER are probably not strictly comparable (cross-country) in terms of size or growth. They do not constitute a representative or carefully matched sample. They generally represent the larger small business and certainly not the micro business or the substantial informal sector. Nevertheless they do represent recently started businesses and are the voice of the more articulate

¹ This interpretation is taken from aggregative data and this may mask the fact that some businesses in a group have grown very substantially in certain countries while others have declined over the period.

educated entrepreneur. As such their judgements and comments (below) may be more informed than average.

Basic needs that can be inferred from the data

Management of human resources A substantial minority of companies recognize that they have training needs, particularly in respect of language, management training, and training in marketing and financial management. Such generalizations are to be expected and do not indicate that there is a keen demand for such training. The research also points, however, to the key to success in business being the experience of the owner and management team, their organizational skills, their ability to build good relationships with customers and clients backed up by the quality of the product and service. The development of these largely human resource aspects of the business can be seen to underpin growth. The management problems of firms are generally focused (but by no means wholly or uniformly) around issues of finance (between one third and one half), collecting payments, coping with government regulations and (most acutely in the Czech Republic and Poland) upon the availability of skilled workers. A substantial minority of the companies (in Poland over half) indicated that they had major problems in recruiting staff with suitable skills.

Finance The emphasis upon financial barriers to development must be expected and is not remarkable in the light of small and medium firms concerns worldwide. As might be anticipated, most of the entrepreneurs started their business with their own savings or borrowed money from family or other members of the team. Only in the Czech Republic, and to a much lesser extent in Romania and Slovakia, was bank money important. Moreover profits, rather than bank borrowing, had been the major source of development funding. Most of the firms in the sample were still seeking to expand with a substantial minority now looking for bank money. Here the non-availability of long-term credit at reasonable rates of interest together with cumbersome application procedures and collateral requirements were seen to constitute major barriers. The concern of preserving independence substantially limits the market for venture capital with relatively few seeking to use this form of resource acquisition.

Markets Virtually all of the companies were focused heavily upon the domestic market although it was clear that over the past three years there had been a movement towards exporting, almost totally focused upon Europe. Most of the planned expansion would also be within the domestic market. The rate of expansion of domestic demand was therefore seen as a constraint. Only a small minority of firms (except in Slovenia) were looking for expansion in international markets. Competition was regarded by the large majority of firms as intense. Skilled workers, organization, marketing and networks provided the main competitive advantage.

Regulations The obtaining of licences and permits for registration is not a major problem although it still takes time, in a substantial number of cases up to three months. As might be expected almost all companies thought that taxes were too high, did little to stimulate reinvestment of profits and did not provide enough incentive for the growing business.

The climate for business Most small businesses felt that those who operated the regulatory environment did not really understand small business. Business views of the broader environment were, by and large, no more encouraging. A substantial number of businesses in each country saw the attitude of the government, regulatory officials and managers of state enterprise as being negative towards private business and profit making. On balance the attitude of citizens towards profit making and private business was seen to be more negative than positive in the Czech Republic, Slovakia and Poland but more positive in Slovenia and Hungary. With the exception of Romania, businesses generally considered the present conditions for small business to be unfavourable. The climate in Hungary and Slovakia was almost universally felt to be unfavourable.

Government support The substantial majority of respondent businesses in each country felt that their government did not have a well-defined policy for support of small business and virtually all businesses felt that it should have such a policy. Three quarters or more of the businesses in each country felt that the government did not understand the small firm. Significantly in this respect many small businesses did not know which Ministry was responsible for small business development in their country; many thought it was the Ministry of Finance. Yet most small businesses felt that governments should have a role in providing services to small business. They could not, however, point to any outstandingly successful programmes. The kind of support they indicated they need focuses, unsurprisingly, upon tax incentives, loans, guarantees, market information and better regulatory environment conditions.

Communication with government Central to the problem of government gaining better understanding of small business is the issue of the channels of communication. In this respect the majority of firms saw (but by no means outstandingly) the Chamber of Commerce or Small Business Entrepreneurs Association as being the major vehicle for communication alongside the trade and industry associations. Most thought these channels were relatively or wholly ineffective in their communications with government, with the exception of Romania (and one in three companies in Slovenia). The key focus of need for communication was seen to be with the central government rather than with regional or local governments.

Association roles Most businesses were members of formal or informal entrepreneur associations. Only a minority had no desire to become a member of such associations. Most saw the Chambers of Commerce or the Entrepreneurs Club to be the main channel rather than the Local Enterprise Agency or local authority. The majority of firms were represented by Chambers of Commerce or industry-specific organizations

although the picture varied between countries. The main benefits perceived from such membership were information on markets, technology, laws, advisory services, networking and in the case of the Czech Republic and Slovenia political lobbying. These in turn were major motivations for joining an association.

Support services In general a substantial minority, and in the case of Hungary and Slovenia half to two thirds of businesses, had not used any special support services. Only a minority in each country had participated in consulting, training or special financial schemes. The most common form of assistance used was information. The feedback on services, where used, was generally good with the exception of Hungary. There was some awareness of the existence of special support programmes for the start-up, growth, export and innovation process. These were not, however, regarded by the majority of businesses as effective (with the exception of Romania). Over four out of five and in some cases nine out of ten companies could not identify outstanding support programmes. In identifying outstanding institutions in the locality that supported small business, there were varied answers with greater emphasis on the Chamber of Commerce in Romania and to a lesser extent in the Czech Republic and Poland and upon Local Enterprise Agencies in Hungary.

Overall, although the evidence is based upon a limited sample it supports the view that SMEs do not generally regard the economic climate as favourable. In particular, they have negative attitudes towards taxation and legislation. They are looking for improved sources of finance especially of a longer term nature (although in reality they will fund a great deal of their expansion out of profits). They feel that government has a positive role to play in small business development but do not feel it understands the smaller firm. They recognize the need for business associations as a means of communication, lobbying and source of information and advice but do not currently feel they are particularly effective. By and large, they cannot name outstanding programmes or sources of assistance for particular business development processes although they claim to be aware of them. Moreover there is seen to be a need to create a more positive climate among the population as a whole towards small business, profit and private enterprise. This is a reminder that a policy of support of SMEs is only likely to be successful within a broader macroeconomic and social programme.

Officially perceived needs

Many of the above needs are recognized officially by the CEI country governments. In its April 1995 strategic policy paper Poland saw the key SME problems as being those of taxation; high interest rates; an unclear and inconsistent legal system; the lack of competitiveness of SMEs linked with low demand; and skills and technology development deficiencies. In the Czech Republic the key need is seen to be finance. In Slovakia the problems are officially seen to be frequent changes in regulations, high insurance and tax levels and the lack of transparency of the regulatory environment. In Slovenia, constraints are seen to be those of finance, information, counselling, training and provision of premises, as well as support for exporting. In Hungary the issues are very much the same with recognized needs to support the development of a culture of enterprise and coordinate state support efforts, provide capital and create stability.

Monitoring the health of the small business community and evaluating the impact of government regulations and intervention

The ability to cope with the needs of the small and medium business community is, in the first instance, a function of the ability of governments to monitor the health of the community, investigate its needs and evaluate the impact of changes in the environment and of regulations upon its health. In each of the countries studied there was a recognized need to improve capability in all of these respects. In each country there is a growing body of research and information about the small business sector emanating from a variety of official, private and university sources. Nevertheless there are substantial gaps. There are also problems in pulling together what already exists to provide meaningful information for policy making at the national, regional and local level. The Polish report for example points to the 'inadequacy of information for policy making' while recognizing that there is information from a 'variety of sources'. In the Czech Republic there is an annual report on state policy and assistance to SMEs; this does not, however, constitute a monitoring document and there is a general view that there is 'insufficient analysed data' on SMEs with 'little hard evidence to back policy focus' and 'too little analysis of the impact of laws and policy'. In Slovakia the National Agency for Development of Small and Medium Enterprises (NADSME) prepares a twice yearly report on the state of SMEs covering a wide variety of information. There are nevertheless recognized problems in determining how effectively the information is used and the suitability of its format. In Romania there is some monitoring of data and reports on particular problems such as finance and exports. In Slovenia there is a yearly analysis of SME trends and 'state of the art'. In Hungary there is a similar situation with a great deal of research on a variety of issues, much of which is not coordinated.

In general there is not a shortage of information about SME developments in the countries studied. The problem seems to be one of information being provided in a sufficiently consistent form to be of value to policy makers and to interested stakeholders at all levels. There is a recognized need to benchmark progress in the Central European countries against the 'norms' of the Western economies in respect of the health of small business. It is argued in some countries, for example Hungary, that there is still a missing 'middle sector' of business: greater awareness of the nature and extent of this problem could provide a clearer policy focus.

There is also recognition that adequate information for policy development needs to embrace statistical analysis of births, terminations, growth, sectoral and regional performance; broader indications of SME health covering reactions to the competitive and regulatory environment; perceived problems and opportunities; attitudes and reactions to particular policies and programmes; evaluation of specific forms of assistance and interventions; and monitoring of the views of key stakeholder bodies including associations, banks, legal services, local authorities and local development agencies. Given the local horizon of most small and medium enterprises and their associated 'bottom-up' support structures, an adequate information system would need to have its roots in the local community and region. This remains a considerable challenge.

Communication with government and representation

Small enterprises are notoriously difficult to communicate with because of their sheer numbers and heterogeneity. In all of the countries studied there are mechanisms for involvement of small business associations, and particularly chambers of commerce, in policy making. It is recognized, however, that these are currently far from effective. The Polish report points to the fact that 'the organizations representing SMEs are not involved with government economic decision making processes but only in services'. There is provision for the association of entrepreneurs and the union of tradesmen in Slovakia to liaise with NADSME and the Ministry of Economy. In Romania, however, there is no strong communication channel for entrepreneurs although there is a National Council for Independent SMEs which includes ministerial and business representatives. This, however, has no major impact on SME policies. In Slovenia the Chambers via the State Council of the Republic are involved in discussions but claim that they are limited in their influence and are essentially only able to provide reactions. In Hungary, the Chambers are in the process of being re-established as compulsory membership organizations with mechanisms for feeding into policy via the Reconciliatory Council. This is, however, a discussion forum and not a decision making organization.

It is clear that official communication with small business and its representative associations still leaves much to be desired and that associations play a limited role in shaping policy as opposed to reacting to it. In light of this it may not be surprising that the EFER survey companies found their business associations to be relatively ineffective.

POLICY DEVELOPMENT AND IMPLEMENTATION

The research sought to cover the following key aspects of policy:

- The relationship of national economic, social and industrial development policy to small and medium business development (including the rationale for any interventionist stance taken);
- The departmental responsibilities for SME policy and the process of coordination with activities of other national and regional arms of government;
- The role of SME policy in respect of privatization and restructuring;
- Sectoral policies and their impact on small business;
- Organization and implementation of specific support policies for SME development.

Overall economic and social policy and SME development

In most of the surveyed countries a strategic policy for small enterprise development is still in the process of emerging. In all of the economies there are specific resolutions/acts of government which pertain to SME development.

In Poland, SME strategy has, as its main objective, the task of creating a 'competitive and decentralised market and improved mechanisms for resource allocation'. The small business policy embodied in the national strategy document of June 1994 sets out key targets, including increases in turnover higher than average and a significant growth in SME sector employment. However, there is, as yet still no clear criteria for 'market intervention' although it is stated that the Ministry for Industry and Trade will develop such 'criteria'. In the Czech Republic the Ministry of Economy has

responsibility for small business development but little power to control development. The interventionist focus on SMEs is minor within the Ministry of Economy reflecting the Government's free market orientation. There is an Annual Report setting out state policy on SME assistance and a statement of April 1992 which justifies support for SMEs in terms of preservation of market forces and a broad structure of business from small through to medium and large. The major focus of policy seems to be to create harmony with European Union practice and indeed with the Western European structure of industry and commerce. There is no specific SME industrial development policy.

In Slovakia the policy focus is within the framework of 'complex support of SMEs' approved by the Government in 1993 and broadly indicates financial support, institutional development and sympathetic legislation but with no detailed targets set out, although specific tools are available. In Romania, the policy implementation structure is being changed to incorporate SMEs within the National Agency for Privatization with a greater focus on medium sized rather than micro enterprises. In Slovenia the Government is still debating a 1994 strategy paper which has yet to be accepted. In Hungary there is little specific reference to SMEs in official social and economic policy. There is, however, general concern expressed for improving subcontracting, capital markets, information systems and key sector performance, for example, in tourism and agriculture. The Government is in the process of setting up an Enterprise Development Council with ministerial and independent representation. However, there are also broad statements calling for the development of a more comprehensive approach covering the removal of barriers to SME development including social insurance, financing systems, information systems and support for growth companies.

All the countries surveyed are working towards the establishment of strategic objectives for SME development. As yet, however, these fail to set out clearly the contribution that SMEs might make to broader national goals of growth, employment, productivity, balance of payments stability, price stability, employment, social justice and equality of opportunity. Neither is there a clear established criteria for intervention in the market. In most countries new institutions are being developed as a central focus for SME development (see below) and their role is still being worked out. In none of the countries does there appear to be a fully accepted set of strategies for each of the key areas of the 'process' of SME development, namely, the promotion of enterprise culture; the promotion of quality business starts; the enhancement of capacity to survive; the fostering of growth of the existing business stock and in particular its internationalization. There is, as yet, no clear statement (except in Romania) of the need to develop particular sectors relating to a 'balanced structure', for example the 'middle business'. One common preoccupation of policy, both explicit and implicit, is to reduce the very substantial informal sector which in some countries, e.g. Hungary, is contributing up to 30% of GDP.

Sector policy

Several of the countries have a broad sector focus. In Poland there is an emphasis upon tourism, international trade and technology; in the Czech Republic upon energy and medical practices; in Slovakia on energy, domestic raw materials, house building and transport as well as crafts; in Romania on furniture, textiles, leather, food processing, construction; and in Slovenia on tourism, transport and energy. In Hungary a government resolution has established the need for sector policies and targets, most of which have still to be worked out in detail.

Within these sector targets there do not as yet seem to be many specific policies and programmes for SME development other than for the craft industry.

Coordinating the focus of policy

Most of the surveyed countries have made recent adjustments to their ministerial/departmental focus on small and medium business. In 1995 the Polish Foundation for SME Promotion and Development was set up as a channel of communication for support of the development of SMEs. In the Czech Republic a rearrangement of responsibility in 1995 led to the establishment of the Agency for Enterprise Development (ARD) as a central 'service' support agency for small business. In Romania, the responsibility for small business development has recently been transferred from the Romanian Development Agency to the Privatization Agency and the impact of this on the variety of different players in the field of small business development has yet to be worked out. In Slovenia a Small Business Development Centre was established formally in 1992 but has yet to take off in terms of operation. In Slovakia NADSME has wide-ranging responsibilities for policy recommendation, business identification and selection, cooperation with external institutions, support of the local enterprise agencies (RAICs) as well as responsibility for links with Europe and for promotion and the channelling of aid. In Hungary the Foundation for Enterprise Promotion has also been established for a number of years but must still fight for its consolidation within the overall framework of governance.

Overall, the implementation of SME policies suffers in most of the countries from the constant change and overlapping responsibilities of different ministries and from 'competition' between ministries even though there are formal coordination mechanisms available. In all of the participating countries the Ministry of Labour or its equivalent plays a role in local job creation. Privatization ministries have some responsibility for SME development as do ministries of technology, education and environment. In several of the countries, responsibility for small and medium business development has been moved around within the ministries (not uncommon in the West). As a result there are ambiguities in the relationship of new central agencies to

certain ministries. Even in Slovakia where NADSME seems firmly established and its role widely accepted as central to the implementation of policy, some of the processes remain unclear. In Hungary the Hungarian Foundation for Enterprise Promotion has played a central non-governmental organizational role for some years but still suffers from ambiguity in relation to its place in overall policy making and implementation. The new Institute for Development of Small Business, recently reconstituted out of the Small Business Administration of the Hungarian Ministry of Industry and Trade, is designed to be the main policy think-tank although it has no major responsibility for any implementation. In Poland the Ministry of Industry and Trade is the major ministry responsible for SME development.

Overall therefore there remains a need in virtually all of the countries to underpin the policy and development role of emerging central institutions for small and medium enterprise development. It is by no means clear that establishment of these institutions will solve problems of inter-departmental rivalries and lead to greater coordination, although they do represent an opportunity to provide a stronger and more focused coordination effort for small enterprise development.

The regulatory environment

All of the countries surveyed recognized the need for establishment of a more sympathetic and stable regulatory environment for small and medium business development. In all of the countries there is pressure to create a more 'user-friendly' tax system to reduce and make less onerous social security and labour taxes, to provide incentives for investment, to provide an improved framework for the regulation of laws relating to late payment, to create a stronger focus in government for advocacy in respect of the creation of laws and to create greater flexibility in the labour market. There are also recognized problems in some countries relating to legislation on consumer protection and product liability. In general it seems that registration of business and the obtaining of relevant licences is now relatively easy. There is, however, a major concern about the growth of informal business, and particularly the impact this is having upon the exchequer. In addition a large proportion of the registered businesses (in several of the countries estimated at over one third) are no more than 'shadow' companies and reflect the attempt of businesses to avoid paying social security payments by the creation of self-employment status for employees.

There is major general concern for creating greater stability in the regulatory environment, and for making it more user-friendly for small businesses so that the transactions costs of compliance are reduced. There is a recognized need to improve the fair and equitable process of application of the law and to train staff of regulatory agencies accordingly. There is also a recognized need to provide improved mechanisms for encouraging investment and for reducing the social security liability linked with the employment of staff.

Privatization and restructuring

In all of the countries there is growing recognition of the important relationship between small and large businesses and its impact upon building a more competitive market economy. This manifests itself in a number of ways, in particular, concern for developing improved methods of facilitating subcontracting and an increasing recognition of the importance of restructuring large companies via processes of spin-off of 'small businesses' previously internalized under the old system. For example, in 1995 in Slovakia there was a pilot spin-off programme upon which a formal post-privatization restructuring activity would be built. Most of the countries are still struggling with the problem of making the large, former state companies more efficient (whether privatized or not). It is not, however, accepted by all of the countries that restructuring should precede privatization. It is argued, on the contrary, that privatization will itself force, via market forces, a process of natural disaggregation.

Overall there is increasing interest in mechanisms to improve subcontractor capability and develop supply chain management and purchasing partnerships. There is also a desire to explore the role that small business might play in the disaggregation and restructuring of large companies prior to, or in association with, the privatization process.

Enterprise culture

In none of the country reports was much attention given to the creation of enterprise culture via the education system or indeed to mechanisms for promoting this culture within the population as a whole. This may well be important if the views of small businesses (from the EFER survey) are more fully supported. They indicate that the society as a whole is still somewhat hostile to private and small business. There is also the issue of employment creation and development for young people through basic programmes in the education system, particularly within the vocational education system.

Therefore it would appear that there is some neglect of the issue of the development of enterprise culture in support of a transition to the market economy within and outside of the education system. In some countries, for example Hungary, Poland and Slovenia, some efforts are being made in this respect. However, the impact is, as yet small.

THE INSTITUTIONAL FRAMEWORK FOR SMALL ENTERPRISE DEVELOPMENT

The research identified a number of common issues of concern to each of the contributing countries. These were the role of the central support institutes for small business development; the optimum organization of regional and local support and the tension that may exist between bottom-up differentiated initiatives and top-down attempts at standardization; the related issue of effective networking at the local, regional and national level; the sustainability ultimately of institutions many of which are, or were, pump-primed by foreign donors and the effective management of such institutions.

The role of central support

As noted above the central support system for small enterprise development is currently being revised or is still under major reconsideration in several of the countries participating in the survey.

Central support for local enterprise development can involve a wide range of services to local agencies including updating of legislation and data banks; provision for exchange of information and experience; creation of region to region business links; support for special credit schemes; providing a conduit for foreign funds; lobbying and pressure group activity on behalf of small and medium enterprise interests; central purchasing; development, testing and dissemination of new programme models; benchmarking of best practice in support of small enterprise; monitoring the overall health of the small and medium enterprise community; evaluating the impact of legislation, 'support' initiatives and environmental change in general on the small business community; needs analysis; development of standards for trainers, consultants, support agency and regulatory agency staff and the provision of training facilities; small business advocacy in developing legislation; small business promotion and also the ongoing briefing and indeed training of bureaucrats, policy makers and politicians.

In several of the countries the central agency is emerging from a position where it was a major conduit for foreign funds (and therefore with an emphasis upon accountability and control), towards a model of a service agency for local enterprise development. The nature of any change in the balance of future activity in this respect will of course be a function of the degree to which central government continues to play a major role in the direct financing of enterprise development.

Each of the country agencies is currently positioning or repositioning itself in respect of the portfolio of activity noted above. It is not necessarily the case that all support services to local agencies will be offered from the centre or indeed by the same agency. For example, in Hungary the National Institute for Small Business is charged with monitoring SME development and policy research in contrast to the Hungarian Foundation for Enterprise Promotion which has a strong orientation to local enterprise support. The situation in Hungary raises the broader issue as to the degree to which a central support agency should be autonomous from the government and reflect a balance of private and public interest with broad representation. It is clear that political skills will be important in the survival and development of central agencies, particularly in terms of achieving a continuity between governments of different ideological makeup and in managing the 'interests' of different government departments. (In this respect it is interesting to note in the EFER survey a large number of small businesses think the Ministry of Finance is the dominant small business agency.)

Overall there is a need for central agencies to articulate clearly their role in local and small enterprise development in the light of many other central interests that influence policies in this respect and the changing and differentiated needs of local economies and local agencies. This obviously demands an emphasis upon strategic thinking, strategic planning and the continuous education of those with the power and resources to shift the balance.

Regional/local development initiatives and small enterprise support

Local enterprise development is essentially a bottom-up phenomenon. Flexibility is needed to allow policies and programmes to reflect differentiated local and regional needs and to achieve synergy at the local level between different institutions.

In each of the countries there are major challenges in this respect. These largely relate to the twin issues of the relationship between emerging regional and local development policy and the relationship between local and regional development and small business development. Hungary, Slovenia, Slovakia and Poland all aim to strengthen regional policy and decentralize powers to the regions, via local or regional government or via regional development agencies. There are, however, common problems in terms of

local governments taking major initiatives because of their weak financial position although steps are being taken to encourage local councils to come together in support of broader regional programmes. In the Czech Republic there is as yet no clear statement of regional development policy. Although there are networks of local agencies they look to central government for support. In several of the CEI countries it is unclear as to how the new thrust for regional development and the creation of regional agencies will effect existing arrangements for support of small enterprise development. This is an issue that is further complicated in some instances by the involvement of different government departments. A key issue also is the degree to which local and regional authorities will be given separate powers for raising finance and powers to use this finance independently for the purpose of local development initiatives. It is clear that new initiatives in regional development will, in many areas, have a major focus on job creation, on restructuring and upon indigenous business creation. They will also lead to differentiated programmes as regional problems vary. It is also clear that the move to develop regional policy and new configurations of support is influenced by hopes of gaining access, in future, to regional development funds from the European Union.

At the local level these regional developments create challenges for local small business development agencies in terms of positioning themselves in two respects. Firstly, whether to broaden their role from small business support to local development and/or create partnerships to this effect at the local level. Secondly, to position themselves in terms of emerging new regional agencies and authorities. Successful positioning in both of these respects may be important to their ultimate survival. There does not always, however, appear to be clear strategic visioning as to the ultimate configurations and outcomes.

There is a clear need for strategic thinking and planning related to a number of key issues, including the future relationship between regional and local development agencies; the relationship of existing small business support agencies and organizations (private and public) to this configuration; how to build out from the existing base; the powers of regional and local authorities for fund raising at the local level and their freedom to use their resources for SME and local development; the degree to which differentiated regional activities catering for very different regional needs will emerge which will in turn demand greater flexibility by local support institutions; the building of the necessary relationships between different government departments for this process to be successful and finally the scope for achieving higher levels of private and public partnership and autonomy in such developments.

Sustainability of small business support at the local level

The above issues and their resolution have major implications for the ultimate sustainability of much of the small business support in the participating countries. In each of the countries over the past five years, networks of local advice and delivery centres for small business support have been developed: in Poland the Business Support Centres, in the Czech Republic the RPICs, in Slovakia the RAICs, in Hungary the Local Enterprise Agencies, and in Romania a variety of Small Business Development Centres. In Slovenia there are plans for such a network of centres, building upon existing configurations. In all of the countries, these local centres have been built up with considerable external donor support acquired mainly through the centre (although some individual bilateral initiatives are now emerging). A central issue each of them face is the degree to which they can continue to undertake essentially 'not for profit' work (relating mainly to small business creation, promotion, helping the unemployed and supporting survival and early growth), or whether they must move to a stronger 'for profit' focus which would mean positioning themselves 'upmarket'. Their ability to continue to provide a broad range of services will be a function of finding extra resources in circumstances where external donor funds are likely to decline. In practice this means attracting public funds, for example by working with local employment initiatives through Department of Labour offices or from local authorities (usually not in a strong financial position to provide such support) or via central government initiatives. There are other alternative forms of revenue raising, for example, by managing incubators, managing finance schemes, for which service charges are available, or by the running of commercial businesses. External donor support for local small business initiatives has been less substantial in Slovenia. However, these issues will be strategically important in the future if the proposed networks of Small Business Advice Centres are to be sustainable.

Overall there is a common concern for the future sustainability of local enterprise support in the light of diminishing donor funding over the next five years. The key issue is how the current 'not for profit' activities of local agencies will be sustained and alternative revenues attracted.

Networking for small business development support

An important common issue, directly linked with the question of sustainability, is that of the future role of the different agencies at the local level and their arrangements for working together. The most important players are the chambers of commerce and crafts, the local enterprise agencies/business service centres, local and regional public authorities and development agencies. A central issue concerns the future role of chambers; in this respect national strategies differ and countries are moving in different directions. Slovakia intends to move the chambers from compulsory to voluntary

membership whereas Hungary has been moving in the opposite direction. Where chambers of commerce enjoy public law status with compulsory membership they will ultimately become the focal point for a wide range of services (expected of them by their constituent small business members). This places them in a strong competitive situation with other local enterprise agency-type organizations; they will almost be in a position to close other agencies down. Even where chambers are voluntary they may still be in a strong competitive position. In some countries, for example in Romania, the 'competitive' situation is exacerbated by the fragmentation of the 35 small business centres into 'families' supported by different donors. In Slovenia where a pattern is just emerging consideration will need to be given to the relative position of small business advice centres and the chambers and local and regional authorities.

The issue of cooperation versus competition and the optimum configuration of local support has not been fully resolved in many western countries and still creates a number of problems and some confusion for small enterprises. Unless there is a firm commitment to continuing public sector support for 'not for profit' activities there will always remain a question of sustainability. This can be resolved by strong local partnerships or by demarcation of specific areas of support or by the creation of 'one stop shops'. In several of the CEI countries there is as yet no clear indication of strategic resolution of this issue. In such cases the absence of clear strategic thinking even threatens the position, present and future, of central support agencies. Merely having representatives of 'stakeholder' agencies on the board of local or national enterprise development institutions does not solve this problem and indeed may exacerbate it.

Therefore in most of the participating countries there is a need to determine strategically the future network configuration of support for small enterprise development at the local, regional and in some cases national level and to determine the way in which overlapping interests may be resolved for the benefit of the ultimate consumer, the small business.

The management of institutions

The issue of uncertainties surrounding future local network configurations is a major reminder of the importance of flexible entrepreneurial management of local support institutions. There is little direct evidence from the research as to the degree of satisfaction with the management of small enterprise support agencies at the national, regional and local level. This is a major issue given the extremely flexible market and environmental conditions that managers face. This demands entrepreneurial management of the highest order embracing the selection of key personnel as board members and their effective utilization; the use of networking skills and of 'know how'; the need to position the agency in the network; a requirement for strong

promotional and public relations abilities; a capability for entrepreneurial gap spotting and innovation in programme development along with leadership ability to motivate and retain staff. Finding outstanding leaders for local agencies that match up to this profile is not easy, given the generally low salaries available. Retaining good leaders is even more difficult. The culture of many local organizations has in the past been influenced by the emphasis upon accountability and control relating to central provision of resources rather than upon reliance on local marketing skills. There is some evidence to demonstrate that the most successful business support organizations are those which match the entrepreneurial cultures, values and approaches of their small firms customer.

It is clear that the quality of management will be a major factor in the development and growth of small enterprise agencies in the participating countries. In particular their ability to behave entrepreneurially and respond flexibly to changing configurations of support and networks at the local, regional and national level will be a key factor in success.

ASSISTANCE FOR SMALL ENTERPRISE DEVELOPMENT

Each of the participating countries offers a wide range of services to small businesses at the local level. These cover information, advice, counselling, training, soft loans, in some cases equity/venture capital, provision of premises, incubators and support for technology, exporting and internationalization. The depth and strength of these services varies between countries and within countries, between regions and localities. There are a number of common issues of concern, in particular, the maintenance of standards for the delivery of counselling and training programmes and of quality assurance in this respect; the bench marking and dissemination of best practice (of sound models of training and support); the efficiency and effectiveness of 'soft' finance schemes; the nature of the necessary and desirable integration of services at the local level; and the provision of special services such as incubator, innovation and technology support and support for exporting.

Ensuring quality standards in service delivery

In all of the participating countries there is concern to improve the quality of local enterprise development support, in particular of counselling and training services. In none of the countries is there, as yet, nationally accredited programmes comprehensively ensuring quality and standards. However, in each country there are

basic programmes for the training of trainers and counsellors. In Poland for example, there is now an Entrepreneurship Counsellors Association and there are moves towards accreditation. In each of the countries over the past five years the training of trainers, consultants and counsellors has been substantially undertaken by foreign consultants. There do not appear to be established local 'Centres of Excellence' capable of providing a continuous stream of high quality trainers, counsellors and consultants for the small business support effort or indeed of local enterprise development agents who demand wider skills. The need for such a provision is recognized particularly because of the high turnover of consultants and trainers and the increasing need for local agencies to have sound mechanisms for selecting good 'local providers' from the free market.

Advice and information for small enterprise is provided not just by specialist counsellors and consultants but also by a wide range of other agencies including employment officers, local government officers and business associations. There is thus a 'market' for these services with a wide variety of different providers.

Overall there is a need to ensure the provision of quality standards for counselling, for training and local development support at the national level in participating countries. There is recognition of this need and in some of the countries steps are being taken to meet it.

Benchmarking models of good practice and dissemination

A variety of training programmes for small enterprise support at the start-up, survival and business development phases are now available across Central Europe. It is clear however, from the investigation, that there are few, if any, examples of 'best practice' models complete with materials and manuals suitable for the further development of competent trainers. There are also few natural 'centres of excellence' in small business development which could form the base for such model programme development. An exception to this is Slovenia with its GEA College which already plays a major role in national training for small enterprise development. The Czech Republic has the National Training Foundation which could in future provide a base. Without such centres for the accumulation of experience and best practice there is a danger that the 'intellectual property' from the experiences of the past five years will be dissipated as agencies and key personnel come and go. It is also recognized that as the number of programme offers increase it will be particularly important to ensure that these offers are especially designed for the small firms market and embody the 'best practice' and the 'best competence'.

There is a recognized need to provide support for the bench marking of good practice in the training, delivery and packaging of sound approaches to small business development. There is also the need for a base from which such 'best practice' can be disseminated.

Financial support

Each of the countries has experimented with a variety of innovative financing schemes covering loan guarantees, soft loans (low interest or interest-free periods), venture capital (to a limited degree), and in some cases privatization and liquidation funding (enabling transfer of assets from one party to another). Some of these schemes involve partnerships between government and private banks; others are administered by local enterprise agencies (particularly finance for micro businesses). It was not possible from this research to ascertain the effectiveness of these schemes; the indications are that there are some that make a major impact while others are less effective. There is a major gap in small firms financing, particularly for growth businesses focused upon the availability of longer term loan finance with terms and procedures attractive to the small and medium business. It is doubtful, given the current situation in most of the participating countries, that venture capital will play a major financing role in the foreseeable future. A major issue raised in connection with loan finance for small businesses in several of the countries was the development of the suitable competence of lending officers. In none of the participating countries was there specialist bank training available for lending to small and medium business other than in the area of micro, soft loans (largely offered outside of the banking system).

Overall needs were identified to evaluate more carefully the experience of the past five years with credit guarantees and soft lending with a view to improving organization and performance; to support the emergence of extra-banking facilities for the financing of small business development outside of existing micro lending schemes; to reappraise the availability of longer term finance for small enterprise development; and to review the appropriateness/adequacy of training bank management to build a closer relationship with small and medium business.

Integration of support services

The integration of financial services together with information, advice, consulting and training was raised in the context of provision of small business support in several of the participating countries. In certain countries, for example in the Czech Republic, via the Czech-Moravian Guarantee and Development Bank, finance is available for consulting and feasibility study purposes at low rates of interest. In general, however,

there does not seem to be wider discussion of the desirability of close integration of 'software' support (information, counselling, advice and training) with 'hardware' support (loans and the provision of equity and other capital). In Hungary theoretically there is such integration in micro credit schemes but a recent survey found that a large minority of respondents felt that the integration concept had no strategy behind it and a third thought that it was complex. In several of the countries however, micro credit schemes provide some measure of integration particularly when offered via employment and ministry of labour offices. Training may be tied in with 'allowances' for small enterprise development. In other countries, for example Slovakia, there seems to be a preference for specialization of institutions rather than integration. There is, as yet little information on the effectiveness or otherwise of integrating lending and 'software' schemes. Yet research in this area would help to answer the critical question as to whether provision of information, counselling and training ultimately leads to better business performance and therefore makes decisions on lending easier and the stewardship of loans more reliable.

There is little knowledge concerning the effectiveness or otherwise of providing linkages between finance and other forms of assistance and therefore the desirability of developing 'integrated' approaches. Further, research and exchange of information would help to answer this critical question.

Specialist support

In all of the country reports reference is made to the development of support for small business via the provision of incubators, innovation centres and technology parks along with general support for the export and internationalization process. Each of the participating countries has experimented in this respect. In Poland there are 30 business innovation centres and a national association. In the Czech Republic there are 10 'accredited' science and technology parks; in Slovakia there are 13 as well as 4 business and innovation centres. In Slovenia the Slovenian Business Incubator Group has 15 members, some providing premises as well as services. In Hungary there are many incubator houses and a growing number of science and innovation parks. Within each of the countries there are mechanisms for experience exchange but there was little evidence produced in the report of evaluation of the effectiveness of various forms of incubator other than in simple 'output' terms. However, the real issue is whether they 'add-value'. There is obviously scope for experience exchange in this respect.

All of the participating countries pay lip-service to the concept of encouraging the exporting activity of SMEs. In reality, with perhaps the exception of Slovenia, the export potential of small business remains small, largely linked with the absence of a substantial middle-sized business (no data was provided from Romania in this respect). While there were general schemes for support of exports particularly focused on credit

guarantee systems, there seems to be no targeted special efforts made to encourage the exporting of the small and medium sized firm other than via information centres. Little information was provided about performance in this respect.

There seems to be scope for experience exchange between participating countries in the field of incubator development and in particular the degree to which they 'add-value'. There is also a need for clarity in the degree to which such incubators focus on general business services, on technology transfer, on innovation, or are more broadly based on the 'science park' concept. There is obviously considerable looseness in definition (shared in the West). The absence of focus on encouraging the export and internationalization of small and medium business, except via formal information provision, provides an area for further development.

ISSUES RELATING TO DONOR SUPPORT

It was not the purpose of the study to evaluate donor involvement with the participating countries. This indeed would involve separate and wider ranging research. It was, however, the intention to provide feedback to donors on critical issues relating to small enterprise development. Inevitably, because of a wide donor involvement (multilateral and bilateral) across the full range of support services to small and medium enterprise development in the countries concerned, there were elements of feedback on the nature and impact of donor intervention. It is clearly the case that a great deal of programme and institutional development was made possible through donor support over the past five years. Each of the countries had experienced wide involvement with multilateral and bilateral donors. The feedback from the country reports and follow-up interviews indicate a number of areas for improvement, in particular the following:

- The difficulties caused by individual donors focusing on specific schemes and specific developments leading to overlap, competition and some confusion. This is, for example, clearly seen in Romania with the development of 'families' of small business centres across the country linked with particular donors, although it manifests itself elsewhere;
- The inevitable focus upon control and accountability, often from the centre, tied in with business plans and some, not inconsiderable, element of bureaucracy;
- The need for donors to consult with each other carefully before agreeing on approaches in particular countries, leading to overlap;

- A lack of flexibility in terms of use of resources and response to local differentiated needs;
- The dominance of external consultants in provision of support and in the management of support with consequent weakening of the role of counterparts in these respects and their ability to build upon Western experience on a continuous basis;
- The varying quality of donor assistance and consultants;
- The need for a broader strategic focus to influence policy alongside bottom-up flexible development rather than focus on specific schemes;
- The need for more in-depth evaluations rather than the focus upon immediate outputs or indeed inputs (numbers of trainees, numbers of persons provided with information etc.).

These issues are common issues relating to small business support and not particularly linked with donor provision in Central Europe. They nevertheless need to be addressed. It is undoubtedly clear that each of the participant countries could see the need for further support across the range of small business services but in a way that provides maximum emphasis on the development of indigenous country capability and sustainability.

CONCLUSIONS AND PROPOSALS FOR FOLLOW-UP

Overall the study has met its two key output goals by providing:

- A comparative analysis of SME strategies, policies and programmes;
- A critical appraisal of such policies and programmes based upon their impact on SME development in key areas.

It also provides a framework for the CEI group to coordinate future research and development activities and provides UNIDO and other donors with guidelines for the fine tuning of their support activities.

The report has covered the following key areas of:

- Needs of small business as perceived by small businesses themselves and the governments as well as mechanisms for identifying and communicating needs;
- Policy development, implementation and problems in this respect;
- The institutional framework for small enterprise development;
- The forms of assistance;
- Issues relating to donor support.

By the above process of examination, key needs have been identified as outlined below.

The needs of small business

The tentative evidence from the EFER survey shows that:

- Small firms recognize the need for support in key areas of management, particularly marketing, finance and general management;
- They have plans for expansion but can perceive a number of barriers including that of shortage of skilled labour;
- Major external barriers to their development relate to the growth of the market and equally to the regulatory and financing environment;
- Major problems are perceived with the taxation, social security and labour law systems among others;
- The implementation and operation of the regulations by the authorities is not always clear;
- Most firms will use their own capital and savings/profits for initiation and development of their business;
- As businesses grow, bank lending becomes more important but there are major barriers to provision including absence of long-term credits, bureaucratic application procedures, 'unreasonable' collateral arrangements and high interest rates;

- Small firms do not see governments providing clear policies for support of their sector, yet they look for this;
- They cannot identify outstanding support institutions in their countries;
- The majority think that the culture of society is not sympathetic with small business and private enterprise;
- They look for support, particularly to their business associations, chambers of commerce and trade associations;
- They do not regard these associations as particularly effective.

Many of these problems, particularly those relating to the regulatory environment, are recognized by the governments of the participating countries. Within the considerable current financial constraints, steps are being taken to improve the situation, albeit slowly. There appears to be less recognition of the inadequacy of representation of small business interests in government. The arrangements made for lobbying in the participating countries in theory provide scope for representation. In practice they do not involve small business associations heavily in the decision making process.

While there is a growing amount of information available about the small business sector there is an absence of clear, comprehensive data monitoring the health of the small business, of its needs, of its reactions to particular programmes and of its attitudes to the policy environment. In the light of the above it is recommended that steps be undertaken to:

- Set up a working group of representatives from the participating countries to focus (perhaps via an initial workshop) on the needs and potential for the more effective monitoring of the small business environment covering such aspects as births and deaths by sector and region; the life span of firms; types of ownership; growth of businesses by sector; perceived problems of small business; the reaction to key aspects of legislation and support; ongoing identification of problems; and perceptions of the support framework, of the representation framework and of their effectiveness. Opinions as to the health and problems of small business sector may also be collected from key agencies on a regular basis. It is recommended that this information is collected with due regard to its 'bottom-up' value and its value also to a wide range of stakeholders including associations, chambers, local government and indeed small businesses themselves;
- Benchmark progress in small business development against the 'norms' in the European Union countries;

- Focus upon the issue of effective communication between government and private industry and the role of associations in this respect (covering communication of associations with business members and non-members and with the wide range of stakeholders including government).

Policy coordination and development

The research indicates that major strides are being made towards the development of coherent policies for small enterprise development. In almost all of the countries surveyed, changes were being made in this respect leading to new configurations of representation and support, the setting of strategic objectives and the creation of new centres for small enterprise development within, or adjacent to, government. It is clear, however, that there is still some way to go particularly in respect of:

- The ability to relate small business policy to the wider economic and social goals of growth, equality, competitiveness, productivity, regional development, balance of payments, employment and price stability;
- The lack of clear focus as to which areas are most important, for example, in respect of the pre-start up process; start-up; survival businesses; growth businesses; internationalization and innovation in business;
- The great concern about the substantial informal economy in several of the participating countries with no great potential for solving the problem;
- The lack of a clear stance on whether market intervention in support of small business ought to take place, why it ought to take place and where it ought to take place on a temporary or continuous basis;
- The major problems that remain in respect of ensuring adequate small firms advocacy in government. As a result legislation is produced which is not 'user friendly' to the small firm and adds to the instability of its environment;
- Problems in achieving interdepartmental coordination of SME policy despite formal procedures for so doing. The achievement of improved coherence in this respect will be a key factor in ensuring the success of the emergent national institutes;
- The lack of a clear indication as to how policy is to focus on creating a culture in the wider community and in the education system for support of enterprise and small business development.

It is therefore recommended that:

- An attempt be made to create a high level workshop for key policy makers from the participating countries (politicians and senior civil servants) to explore the wider issues of how small business can and does contribute to the achievement of broader economic goals other than simply employment creation. Such a workshop might also focus on issues of governments' creating greater empathy with SME culture, communicating more effectively and giving stronger support to basic education for small enterprise development;
- Heads and departmental counterparts from central small business agencies are brought together to focus upon the strategic role of the central organization in policy development and implementation and to review the range of central support services required at the local level along with the necessary cooperation with related departments in the light of experience and best practice in the CEI countries;
- Some further work is undertaken into the management of key aspects of the regulatory environment (taxation, labour law, consumer and product protection and development, health and safety) This should focus upon how to make these 'services' more user friendly in a way that will reduce costs of compliance and therefore the size of the informal economy. This would also consider, in particular, the training and development needs of staff of regulatory agencies;
- Particular attention be given to combining best practice in restructuring of large companies via the privatization process to bring out, in particular, successful examples of restructuring via spin-off, disaggregation and the creation of small firms;
- With the help of relevant donor support a seminar is convened on the best ways of developing enterprise culture within the education system (in the light of existing practice). This should particularly focus upon developments in the vocational educational and training system;
- In respect of the development of enterprise culture, leading business schools in the region might be brought together to focus on the strategic issue of creating greater capacity for small enterprise development in their training programmes and within their graduate agenda alongside methods of embedding themselves more fully into the local and regional community;
- UNIDO may in discussions with the key small business development centres, represented in the study, seek to identify common areas of key sector development need with a view to undertaking more detailed studies to identify the optimum means of support.

Institutional development

The research identified a number of problems and opportunities in this respect, in particular:

- The need to review the nature and culture of central support for local enterprise development to cope with a stronger response to 'bottom-up' initiatives rather than 'top-down' control of resources;
- The need to help solve the overlaps that are occurring between local development, regional development and small business support, particularly in the light of new regional configurations being developed by respective governments;
- The need to solve the problem of local and regional networking (who does what), particularly in the light of the different stances that have been made as to the role of the Chambers of Commerce and Crafts and the emerging regional authorities;
- The need to address the question of ultimate sustainability of local enterprise agencies, business advice centres/business service centres following the withdrawal of donor funding, in particular, focusing on the desirability and means of sustaining 'not for profit' activities and finding revenues for this purpose building upon 'best practice';
- The need to create more entrepreneurial management of local enterprise institutions and greater effectiveness in actively involving the governing and supervisory boards at the local, regional and national level.

It is therefore recommended that:

- Work is undertaken on a guide to the nature and extent of central support services involving central service institutions and embodying the existing best practice. This might be produced in liaison also with a representative group of local agency representatives from the Central European Initiative countries;
- A workshop is held for business associations and local enterprise agencies and regional development agencies to focus specifically on the range of tasks to be undertaken at the regional/local level in support of small enterprise development; how best these tasks might be allocated in the light of membership structures and best practice elsewhere, and what support needs to be given for collaborative

initiatives in this area designed to overcome problems of overlap which threaten the sustainability of institutions;

- Consideration be given to the collaborative development of specific training programmes for heads of local agencies on the effective use of members of governing and supervisory boards, covering selection, recruitment, personal communication, motivation, resource acquisition and use for specialist subcommittees;
- A common programme be developed for the entrepreneurial management of small business support institutions and local development institutions focused on bottom-up creation of an enterprise culture and not upon the business planning top-down formats previously associated with donor support. Such workshops should lead to the achievement of flexible plans and strategic thinking for survival via combinations of 'for profit' and 'not for profit' activities, generation of local donor support and resource acquisition and the development of revenue generating activities such as the operation of loan schemes, incubators and business services.

Assistance for small enterprise development

A number of common issues were identified by the research as follows:

- The need to provide national quality standards for trainers and consultants at the local and national level;
- The need to build up 'intellectual assets' in small business development by identifying and benchmarking good practice and programmes, packaging these and using them as a basis for wider dissemination and the training of local enterprise agents, trainers and counsellors;
- The need to solve some of the problems of achieving greater effectiveness of financial support schemes in small firms, particularly in loan guarantees and soft lending. The need to improve methods of processing and reduce time wasted in cumbersome application procedures;
- The need to find improved ways of supplying longer term finance for small business;
- The need to develop bank managers' and other lending agents' abilities to work with the small firm via 'relationship banking';

- The need to explore and exchange information concerning the added value and effectiveness of the range of different types of incubator developments;
- The need to consider more carefully support to the internationalization of the limited number of small businesses with capability in the light of the apparent dearth of innovations in this respect in the participating countries;
- The need to explore the added value that might be gained from closer integration of various services (provision of finance, counselling, training, information and advice) in the light of best practice.

The following recommendations are therefore made:

- That support is sought for studies aimed at identifying 'centres of excellence' in each country that may be the base for collecting intellectual property relating to good practice in small business development, benchmarking such practice, developing packages and programmes, developing standards for trainers and counsellors, training trainers to train counsellors and trainers and developing support materials;
- That support be found for exchanges of best practice in managing loan guarantee schemes and in particular ways in which additional long-term funding provision may be found for small business development in CEI countries;
- That consideration be given to the development of banker training modules focused upon relationship management, and these to be made available to banks and other financial institutions in the member countries;
- That support is found for an evaluation study of 'integrated' forms of support for small enterprise development in the CEI countries with the building of a number of cases which might be used for training and collaborative workshops in this area as well as experience exchange;
- That a comparative analysis be undertaken of added value from various forms of incubator development in Central and Eastern Europe with an associated emphasis upon cost effectiveness and the role they might play in community development;
- That support be given for the creation of business to business networks across CIE countries, the development of highly personalized and user-friendly information and exchange schemes for these purposes and the identification of how existing experience of small business in internationalization can be harnessed for the benefit of companies wishing to emulate the experience;

- Overall there is a need for focus of donor support on strategic issues that can add value and for support of bottom-up initiatives that can be used to benchmark good practice.

ANNEX I

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ANNEX II

BRIEFING NOTES FOR COUNTRY CONSULTANT TEAMS

INTRODUCTION

These briefing notes constitute the final version of the earlier notes sent to all participating countries, in the light of the discussions during the initial briefing workshop held in Vienna, Austria on 9th June 1995.

OBJECTIVE OF RESEARCH

To undertake a comparative analysis of small and medium enterprise strategies, policies, programmes in the designated Central European Countries as a basis for complementary and collaborative development initiatives.

OUTPUTS

Two key outputs will be:

1. Comparative analysis of SME strategies, policies and programmes;
2. Critical appraisal of such policies and programmes based on the impact of SME development in key (broad) areas.

In addition it is expected that the research will:

- Provide a framework for the CEI group to co-ordinate their research activities and design complementary and collaborative projects in the future;
- Help in the identification of different elements of small and medium enterprise policy programmes (both good and bad practice);
- Provide UNIDO and other donors with guidelines for fine tuning of their support efforts.

FOCUS OF RESEARCH

The major focus will be on manufacturing and industrial service businesses (insofar as this is possible). Micro enterprises and self-employment initiatives will be excluded except insofar as they spill over into the manufacturing sector.

The aim will be to try and provide particular information on: start-ups; survival; growth; internationalisation (particularly exporting); and innovation. Policy programmes and activities specifically relating to restructuring of large companies into small will also be covered.

The emphasis should be, as far as possible, upon providing information as to what works and what definitely does not work.

THE CUSTOMERS FOR THE RESEARCH, THEIR NEEDS AND THE UTILITY OF THE RESEARCH

The major customers are the CEI Working Group on SME; policy makers in CEI countries; institutions concerned with small and medium sized development; donors; business associations; and researchers.

It is hoped that the research will:

- Provide a framework for the CEI group to co-ordinate their research activities and design complementary and collaborative projects;
- Help identify different/common elements in SME policy and approaches including good and less effective models;
- Provide UNIDO and other donors with guidelines for fine tuning of technical co-operation efforts;
- Provide a simple contact guide on who is doing what in SME development which can be updated for key areas such as start-up, exports, innovation growth so that agencies can get in touch with each other across national boundaries and exchange experience;
- Lead to the benchmarking of a good programme model, as a basis for workshops on these and the transfer of good practice;

- Lead to the identification of the potential for a more positive support for SME development in respective countries and ways in which policies and guidelines might be developed to support SME growth;
- Provide information as to common needs relating to the development of trainers, counsellors, local development agents and the regulatory authorities, namely all those who support the small and medium enterprise process;
- Provide contacts between agencies concerned with particular aspects of small enterprise development which may in turn lead to better business collaboration;
- Provide a frame for SME policy making;
- Provide information on evaluation and cost effectiveness of what works and what doesn't;
- Overall provide the basis for a guide to the support of enterprise culture;
- Provide indication of where there are specific gaps, either overall in the CEI countries or in particular countries;
- Provide the basis for good experience exchange and transfer from the practices in Italy and Austria.

LOGISTICS AND RESOURCE REQUIREMENTS

The logistics diagram (Exhibit 1) has the following implications for those who are undertaking the field work:

1. A draft country report should be available by 15 September (Friday) 1995. This report will be sent to UNIDO. The report should follow the guidelines identified earlier addressing the questions in the sequence provided. There will be some overlap but this will be sorted out later;
2. This report will be reviewed in the light of reports from other countries. Some need for further clarification may be identified. Some gaps may be identified. Some exciting developments about which further information can be collected;
3. Comments will be sent to the country focal points: and dates will be set for a one week visit of UNIDO staff and/or international expert to the country;

4. These visits will probably take place in October 1995. The purpose will be to: discuss various aspects of the report in the light of the comments from other countries; discuss aspects of presentation; visit institutions where further information may be needed; and help in the final preparation of a workshop to be organised with entrepreneurs and other key institutional providers and policy makers to review the key issues raised in the country report. The date and composition of the workshop will be discussed following receipt of the report in September;

It is estimated that collection of the data will take at least six to eight weeks of full-time work - perhaps more, depending upon accessibility. It will be important therefore that there are resources available for this work, in recognition of the fact that the country focal points who came to Vienna were senior and are very busy people.

EFER STUDY

The EFER study of growth entrepreneurs will complement the work undertaken by the country teams. EFER will send a questionnaire to 150 companies, previously interviewed in each of the transition countries other than Romania. Special arrangements will need to be made for Romania. Ideas for additional questions have been sent to EFER and response is awaited. The nature of these questions was discussed at the meeting in Vienna of country representatives on 9 June. In addition to the postal survey of 150 companies, EFER will interview 50 additional companies in each country (including Romania). This will allow for more in-depth discussion of some of the issues that are outlined in the note handed out on 9 June.

The EFER interviews will be completed by mid-September and data provided on these in time for a draft review. The data from the survey it is hoped will be available at the end of October in time to be included in the final report in November/December.

THE FRAMEWORK FOR THE STUDY

The framework is as shown in Exhibit 2. Within this framework there will be a distinctive focus on small business policies both as processes and as outcomes.

Policies

The following questions need to be addressed:

Broad Economic and Social Policies

The most important objective here is to provide an overview of policy towards the private sector in general and an evaluation of the degree to which it is sympathetic to private enterprise and small enterprise in particular. Documents should be made available, if in English, on general policies, policy reviews or research into policy. As objective a view should be taken as possible. Information should be collected which will provide the following:

- i. Indicate which government ministries and which departments have prime responsibility for SME policy and describe that responsibility;
- ii. Indicate which other government departments have small business development roles or programmes and describe these briefly;
- iii. Provide information on the degree of coherence and cooperation between different government departments;
- iv. Is there a current clear statement of government economic and social policy and priorities in general;
- v. If so does this contain specific references to SME development?
- vi. Is there a clear statement of industrial development policies and what is this policy?
- vii. If there is does it set out any specific targets or roles for SME development?
- viii. Is there any clear statement of regional development policy?
- ix. Are there specific targets or roles for SME development set out within this?

- x. Is there an overall statement of policy for SMEs? If so please spell out what the priorities are?
- xi. What is the process by which policy and small business strategic development goals are set (who is involved)?
- xii. How is this strategy implemented and reported upon?
- xiii. What information is available to policy makers concerning the monitoring of the health of the SME population? Who uses it for what purposes? Does this provide sector analysis, of what kinds? Please broadly describe information available;
- xiv. What kind of needs do policy makers seem to think that SMEs have (what can be inferred from SME policies)? Is there hard evidence for this?
- xv. Is there a vision as to the long term sustainability of what is going on in small business policy and programme development? Who has this vision? Why is it sustainable? If there are problems please describe.

Regulatory Policy

In this section, the main objective is to provide an indication of what are seen to be the major issues in creating the proper regulatory environment for small business development, whether there is a policy for this, and what are the priorities as well as the processes by which this is managed. Key questions are as follows:

- i. Is there any statement of clear priorities needed for changes in the regulatory environment (tax, property, registration/licence, labour law, health and safety, planning, finance, company law, contract law, worker insurance and social security, business insurance, transport, consumer protection, export trade regulations, product liability, etc.)?
- ii. Within this, is there any specific account taken of SME problems (recognised problems and planned actions to alleviate them)?
- iii. Is there any particular part of government that has a responsibility for small business advocacy (namely to make sure that laws are written in a way that does not create exceptional difficulty for SMEs)? If so, how does this work? If there is not, how is it that SME needs are taken into account in the design of regulations?
- iv. What communication is there with SME representative associations about problems and what evidence is there?
- v. Are there any research studies of the problems of SMEs in respect of the regulatory environment? If so, what do they say?

- vi. What are the major problems that small firms have in the process of conforming with regulations and what are the priorities for change.

Specific Support Policies for SME Development and their Rationale

- i. Is there any official definition of small and medium enterprise and what are these definitions used for (Particularly relating to manufacturing and industrial service businesses)?
- ii. What specific problems, policies and programmes are focused upon SMEs (manufacturing and industrial service) covering the following areas:
- Special finance schemes (grants);
 - Special finance schemes (lending);
 - Special finance schemes (venture or seed capital);
 - Special finance schemes (loan guarantees);
 - Special fiscal tax incentives;
 - Incubators (special premises or workshops);
 - Science parks and innovation support schemes for SMEs;
 - Special training programmes;
 - Special counselling/consulting schemes;
 - Special advice and information schemes;
 - Special promotion activities;

For each of these please set out the: objectives of the scheme; the target groups; the eligibility criteria; what specifically is offered; the extent of the national coverage.

If they are in a priority area please indicate the criteria used for priority.

Also please describe overall budgets and volume. Describe also any evaluation data in terms of both throughput (number and type of participants) and studies of effectiveness.

- iii. What resources and powers (particularly financial) do regional and local authorities have for local development? Describe;
- iv. Are there outstanding examples of regional and local initiatives for small enterprise development led by such authorities?
- v. What are the specific policies focused on particular stages of SME development. Where is the emphasis at present, and why? For example: on start-ups; on survival and

growth; on innovation technology; on exporting; on privatisation and restructuring from large to small. (Programmes will be described in more detail below).

Institutions

- i. Using the attached matrix (Exhibit 3) as a guide, could you please map out in general which are the key institutions and types of assistance involved in a national framework. Obviously you cannot deal with individual local initiatives. Here, however, initiatives - such as Business Advice Centres - which are planned nationally should be included even if they do not as yet have full national coverage;
- ii. Repeat this simple matrix exercise specifically for programmes which are in support of:
 - Start-ups and survival;
 - Growth and business development;
 - Exports;
 - Innovation.
- iii. Please fill out the matrixes following the example of the Netherlands report. (The report is attached to the hard copy which has been mailed to you);
- iv. To what degree are there major variations by region? For one region you may seek to provide an example. You may choose one region, ideally a major one, to provide an example;
- v. Describe the key SME representative associations such as Unions of Entrepreneurs, Chambers of Crafts, etc. Indicate their strengths and what they deliver.
- vi. Indicate the major areas where foreign donors are involved, both multilateral and bilateral;
- vii. Indicate what degree of integration there is are for different services (finance, training and counselling); Is there any strategy to integrate services? If so, what is the strategy?
- viii. Provide a view of the coherence of support measures, specifically noting whether they are co-operative, whether they compete and where they overlap;
- ix. Provide a view on sustainability of SME support in your country; Who will cover SME development in the long run? Which institutions currently appear to play a major role? Is there a well defined strategy to support them? If not, what are the problems in supporting them?
- x. Overall to what degree are the key specialist institutions clearly sustainable in the field in the future without foreign donor support?

- xii. In line with the above, provide views from the Centre as to who will be the key future players in SME support; Who will it be: the Chambers of Commerce, Business Associations, the Local Authorities, special government centres, others? Why? What are the problems in this respect?
- xiii. Where there are a series of Business Advice Centres or Local Enterprise Agencies across the country, can you indicate what kind of central services are provided to them? To what quality standards from a central agency and indicate the role of these centres/agencies in detail? A checklist of potential central services is provided in Exhibit 4;
- xiv. Please indicate the strength of local authority or regional authority support;
- xv. Indicate to what degree there is effective collaboration or otherwise between the institutions at a national level; Provide indicators of any joint ventures that are particularly successful;
- xvi. Are there institutional arrangements to involve SMEs in the running of entrepreneurial support services? If there are, please provide examples; If there are not explain why;
- xvii. What kind of evaluation evidence and monitoring procedures are there on an ongoing basis in relation to any of the programmes described?
- xviii. Please indicate what seem to be the views, if any, as to the future shape of the institutional environment, particularly in respect of :
- The degree to which such an environment should be standardised at the local level as opposed to differentiated;
 - The degree to which the support should be provided on a public basis or a purely private basis or on a mixture (and if a mixture indicate how);
 - The degree to which institutions should be membership institutions or operated as quasi autonomous non-governmental organisations (quangos) and if so what are the problems getting representation on boards from different interested parties;
 - What are the views as to whether institutions should be integrated or specialised at a local level;
 - What are the views concerning whether institutions should be for-profit or not-for-profit organisations;

- To what degree do institutions reflect bottom-up as opposed to top-down pressures. Please comment;
- What are the views as to whether local enterprise development institutions should concentrate upon small business development or whether they should be more widely concerned with supporting regional development;
- To what degree are institutions operating in competitive isolation as opposed to being well networked together. Provide both examples of isolation and networking;
- To what degree is the design of small business institutions an issue: are they too bureaucratic to deal adequately with the small business, or too entrepreneurial to be responsible;
- What are the future resource issues in the development of institutions. Should they and will they be centrally resourced or will they have to depend more on local sources? Please describe, explaining why you decided on your answer.

Assistance

The types of assistance have been broadly described under the matrices earlier but there may be a number of special issues to be brought out as follows. These might cover:

- i. Is there national provision to develop the competency of those who deal with small business such as trainers, counsellors, bankers and the regulatory authorities? Are there good training programmes on a national/regional level?
- ii. If not what are their needs in this respect? Are they widely recognised? Who is involved in training counsellors/consultants, trainers and bankers to deal with small businesses? What support do they need?
- iii. Are there outstanding models and manuals for small business training available that are widely used and generally thought to represent good practice (for the support of start-ups, exports, innovation, growth)? Where are the benchmarks of good practice that might be modelled or converted into a manual and disseminated more widely?
- iv. Are there outstanding institutions in any particular field in the country? For example, is there any institution which is outstanding in innovation support, in export support, etc. Please indicate why they are outstanding. Criteria to be used: do they have a good track record over several years; are they well thought of by small businesses in particular; are they copied by other people in the country; do they employ innovative methods or particularly highly competent staff and that they are commonly regarded as

a flag ship for this particular kind of help. (These are the kinds of institutions that may be visited in cross-country exchanges).

- v. Which of the various assistance methods have been clearly evaluated and with what results. Please describe.

Needs and Needs for Change

Overall provide any of the literature in English or summaries thereof of:

- Surveys of SME needs;
- Policy articles on SMEs;
- Statistics on the growth and changes in the SME economy;
- Any sectoral studies of relevance to SMEs;
- Any evaluation studies;
- Any strategic government documents or terms of references for key agencies which identify needs;
- Studies particularly of the banks and SMEs and of the regulatory authorities and SMEs.

KEY ISSUES TO SEEK TO BRING OUT

1. Policies: Key issues would be:

- Coherence/cooperation between different government departments;
- Vision as to the longer term sustainability of what is going on;
- Data on monitoring the health of the SME population and its use;
- The kind of needs that policy makers seem to think that SMEs have;
- The evidence that they have to back this up.

2. Regulatory environment: Key issues would be:

- What are the major policy priorities in the regulatory environment and why;
- How, if at all, do they take account of the needs of SMEs;
- What concern is there for the efficiency and effectiveness of those who manage the regulatory environment. Are there any training schemes for example.

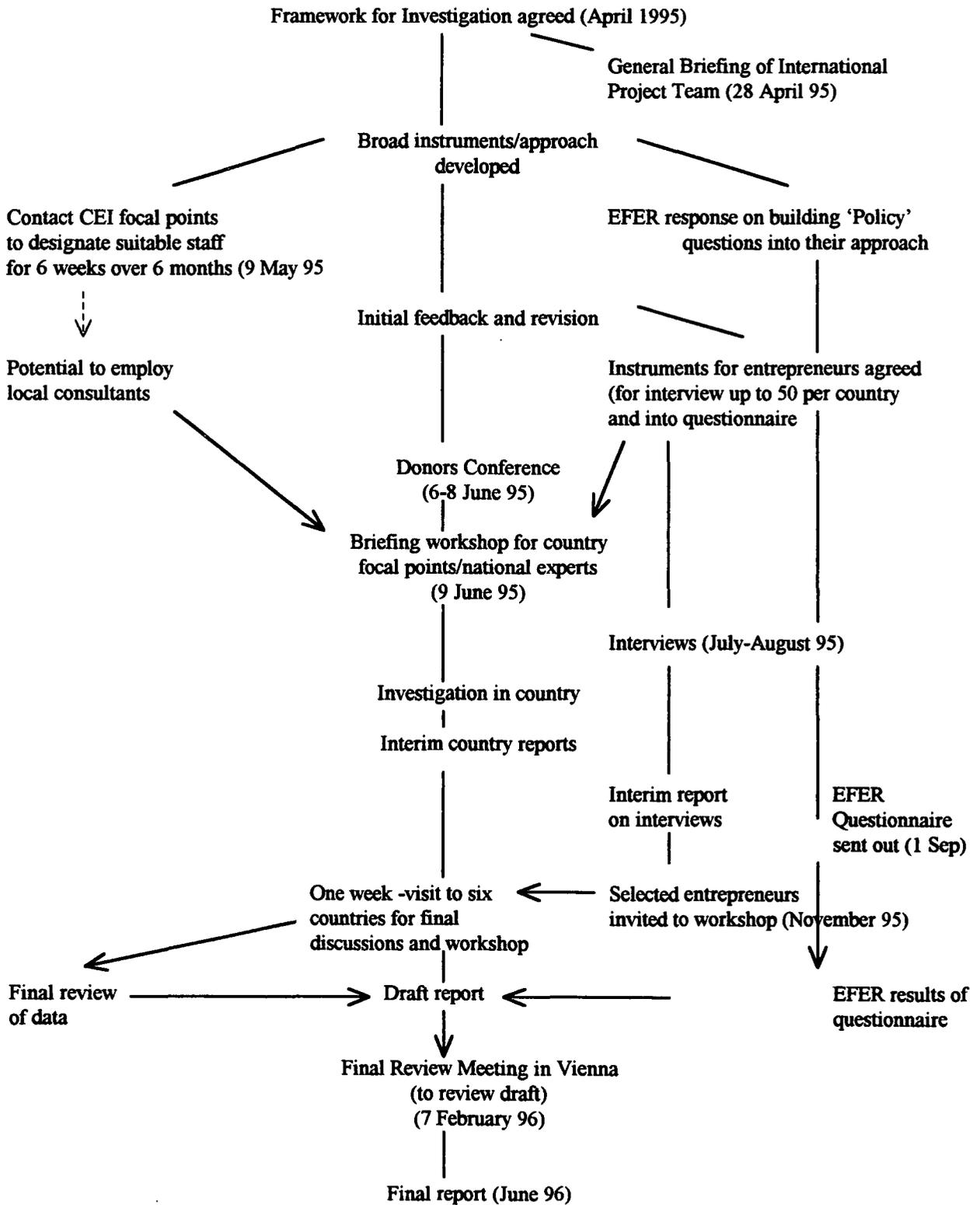
3. Special policy: Key issues would be:

- Have the special policies an underpinning philosophy of interventionism. What is this philosophy?
- What degree of integration of different services are there (of finance, training and counselling);
- Provide a view of the coherence of support measures, whether they are co-operative or indeed overlap and compete;
- Provide views on sustainability, who will cover SME development in the long run, which institutions;
- Provide views from the Centre on who will be the key future players in SME support (the chambers, associations, local authorities, or specialist centres and why);
- Where there are a series of business advice centres or local enterprise agencies across the country, indicate what kind of central services are 'ded to them, to what quality standards, from a central agency, and indicate the role of this agency in detail.

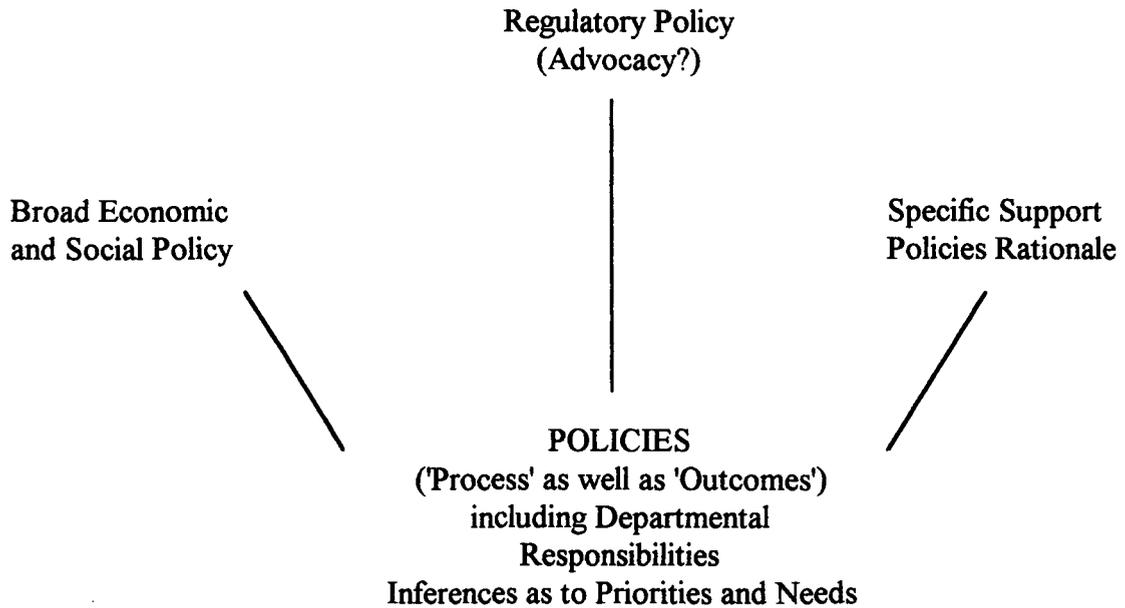
4. Institutions:

- To what degree is there effective collaboration between the institutions at the national level - any evidence of joint ventures;
- To what degree is there effective collaboration between key institutions at the regional and local level - extent of cooperation;
- To what degree is there a shared view of regional and local priorities;
- To what degree are there key specialist institutions clearly sustainable in the field in the future;
- In the case of advice centres, is there a clear view of what the regional priorities are?
- What are the key strategic views of needs and priorities in the future (overall) in the economy?
- Is there a view of the key institutional changes that need to be made?
- What is the nature of the linkage between banks and other financial institutions and the other aspects of support such as training and counselling, if any?
- What kind of evaluation evidence and monitoring procedures are there in an ongoing basis in order to measure effectiveness?
- Are there any institutional arrangements to involve SMEs in the running of entrepreneurial service support? Provide examples.

EXHIBIT 1
UNIDO Project XP/RER/95/022 - SME POLICY RESEARCH FRAMEWORK



**EXHIBIT 2
FRAMEWORK FOR INVESTIGATION**



INSTITUTIONS
(Regional/National
(Private/Public
(Regulatory/Support
NGO's
Business Associations
Banks
Professions
Regional and special
SMM development
Agencies

ASSISTANCE
Information
Advice
Counselling
Consulting
Training
Finance
Premises

NEEDS

Societally determined
Priorities

Needs of Entrepreneurs
from Manufacturing and
Industrial/Professional
Services

Donors Roles - Impact

**EXHIBIT 4
POTENTIAL KEY AREAS
OF CENTRAL SUPPORT FOR ENTERPRISE DEVELOPMENT**

PROMOTION (MATERIALS)

LOBBYING / ADVOCACY

EXPERIENCE EXCHANGE

INTERNATIONAL CONTACTS

INTERNATIONAL FUNDING

STAFF TRAINING

SYSTEMS DEVELOPMENT

UPDATING TECHNOLOGY

BUSINESS TO BUSINESS DATA

NEW PROGRAMME DEVELOPMENT

NEEDS ANALYSIS

EVALUATION

TRANSFER OF OVERSEAS APPROACHES

BENCHMARKING GOOD PRACTICE

LEGISLATION UPDATING

TRAINING OF REGULATORY AUTHORITIES

COHERENCE IN POLICY

ANNEX III

**BASIC COMPARATIVE STATISTICS ON ESTABLISHMENT
AND EMPLOYMENT STRUCTURE**

Table 1
Distribution of Enterprises by Employment Size (per cent)

	EU 1994	Czech 1994	Hungary 1994	Poland 1994	Romania 1993/94	Slovakia 1994	Slovenia 1994
Micro	0 - 10	92.4	98 (0 - 24)	96 (0 - 24)	80.89 (0 - 5)	93 (6 - 50)	88.9
Small	11 - 99	7.0	0.4 (25 - 99)	18.54 (25 - 99)	3 (11 - 50)	6	7.9
Medium	100 - 499	0.5	0.8 (51 - 300)	0.57 (50+)	0.8 (51 - 300)	0.65	2.8
Large	500+	0.1	0.2 (300+)	-	-	0.12	0.5

Table 2
Distribution of Share of Employment by Enterprise Size (per cent)

	EU 1994	Czech 1994	Hungary 1994	Poland	Romania 1993/94	Slovakia 1994	Slovenia 1994
Micro	0 - 10	32	28	-	27	26	8.4
		30.8 (0 - 24) 10.9 (25 - 99)					
Small	11 - 99	25	11 (10 - 50)	-	32	13	16.9
Medium	100 - 499	15	17 (51 - 300)	-	41	23	37.4
		23.8)))
)))
Large	500+	28	44 (300+)	-	38	38	37.3
		34.5)))

Table 3
Distribution of Share of Turnover by Enterprise Size ¹

	EU 1994	Poland 1994	Romania 1993/94	Slovakia 1994	Slovenia 1994
Micro	24	27 % ² (0 - 300)	2	2.9	19.5
Small	25	21 % ³ (51 - 300)	28	16	17.3
Medium	21	-) 70	25	30.5
Large	29	-)	30	32.5

¹ Data not available for the Czech Republic, Hungary and Poland

² of GDP

³ of GDP