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SUPPORTING PRIVATE INDUSTRY



Working Paper No. 1

Case Study on the Operation of Three Romanian Business Centres

**Private Sector Development Branch
Investment Promotion and
Institutional Capacity Building Division**

United Nations Industrial Development Organization

PSD Technical Working Papers Series

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Wilfried Lütkenhorst
Director, IPC/PSD
UNIDO
P. O. Box 300
A-1400 Vienna

Tel: +43 1 26026 4820/4821
Fax: +43 1 26026 6842
E-mail: wluetkenhorst@unido.org

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CASE STUDY ON THE OPERATION OF THREE ROMANIAN BUSINESS CENTRES

by

Richard M. Kennedy
UNIDO

**with Contributions from Philippe Scholtes, UNIDO,
and Casper Sonesson, UNDP**



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
Private Sector Development Branch
Investment Promotion and Institutional Capacity Building Division

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CHAPTER I:

The Context

A. Introduction

This case study describes the operations of three business centres that operate in three different cities and regions of Romania. These centres were established between mid-1994 and early 1995 to provide information and referral services, training, and counseling to small and medium enterprises (SMEs). They were established as private, non-profit organizations by the United Nations Industrial Development Organization (UNIDO) with modest, initial subsidies for startup costs, but with a mandate to be self-sustaining thereafter. Through a combination of fees for services, earned income, and local subsidies, they have managed not only to survive but to grow substantially in the four years since.

This case study examines how the centres have managed to survive and prosper, and looks especially at the following issues:

1. How sustainability is achieved.
2. The effects of sponsor involvement on the centres' operations.
3. Changes in centres' objectives and activities resulting from the sustainability requirement and sponsor involvement.
4. Crowding-out of the private sector.

B. An overview of business development services

The mechanism for delivery of business development services (BDS) is critical to any SME support effort. Business development services can be provided in a number of different ways, such as through business support centres, mentoring, clusters and networks, business incubators, specialized or general training programmes or institutions, and others.

The delivery agents for these services can be public agencies, academic institutions, the private sector or non-governmental organizations (NGOs). In recent years, however, the use of public agencies to promote SMEs has declined, while international NGOs and private sector organizations and firms have assumed a leading role. What ultimately determines the selection and use of one delivery mechanism in preference to another is a function of policy, budget and target SMEs.

Local business support centres, offering a range of BDS to a local clientele of businesses, are common elements of SME promotion in many countries. In the past, many of these centres have

been public institutions characterized by centralization, heavy bureaucracy, poor management and inadequately qualified personnel. Overall, lessons learned from these and other more experimental initiatives have shown that effective business support centres need to be demand-driven, small and decentralized in their operations and operated on sound business principles.

C. Good practices for business support centres

The concept of "good practice policy" is drawn from world competitive manufacturing where a good practice is one that is internationally competitive and more successful at achieving strategic objectives than alternative practices. Good practice in the field of SME support refers to approaches that deliver the most beneficial outcome in terms of SME development in an effective and cost-efficient way. Business support centres (as well as other approaches to BDS) that have a positive impact on client businesses and that successfully achieve other stated objectives can be characterized as good practice.

A good, general guideline for analysis of good practices is provided by *Business Development Services for SME Development: a Guideline for Donor-Funded Interventions*.¹ The overall theme of the paper is that donors should follow the same business principles that they seek to impart to SMEs, such as efficient planning, market and competitive analyses, and efficient delivery of services. The report mentions the following main performance criteria for BDS to be considered good practice:

- *outreach* - the number of individuals, businesses, organizations, etc., reached by the effort;
- *efficiency* - the cost-efficiency with which services are provided;
- *effectiveness* - in achieving the stated objectives of the effort; and
- *sustainability* - meaning both degree of self-sustainability of the services and the degree of durability of the changes in SMEs.

Concerning meso-level institutions such as business support centres, experience has shown the following factors to be of great importance in fulfilling the criteria mentioned above and successfully delivering BDS:

- *organizational capacity* - includes having a business-like vision and corporate culture;
- *managerial capacity* - includes decentralized structure and autonomy in combination with dedicated and competent staff;
- *technical capacity* - includes specialization in core areas of expertise;
- *financial capacity* - includes capacity to cover a high degree of total costs by charging fees and diversifying complementary sources of funding.

In addition to these factors, a number of key principles can be mentioned that are important to adopt and that have to be considered when determining what constitutes good practices in the delivery of BDS. These principles are planning, focus and targeting; sustainability; business-like and demand-driven services; replicability; outreach; impact and assessment; and a participatory approach. These are discussed briefly below.

¹ Committee of Donor Agencies for Small Enterprise Development, *Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions*, Summary of the Report to the Donor Committee for Small Enterprise Development, Washington DC, January 1998.

Planning

An initial needs assessment is critical for the development of BDS and is usually based either on understanding constraints to development (management, government regulatory, etc.) or an iterative process with various stages that develops motivation, abilities, ideas and resources.

A new BDS programme must perform an efficient marketing service that asks what the major needs of local businesses are, how they can best be served, which business sectors can most successfully benefit from an SME programme and which businesses are open to SME advice and services.

Focus and targeting

Closely related to the planning of a new business support centre is the question of a broad or focused effort. The strength of a broad and generic approach is its applicability; it may be offered in many different countries and industrial sectors. The strength of a targeted approach is its sophistication and impact on the individual businesses.

The last twenty years' experience indicates that while broad programmes may make economic sense, singular, large, and uncoordinated approaches do not work well. They often fail the test of relevance, not meeting their clients' needs. Specificity and targeted approaches yield more concrete benefits and can be adjusted to changing times more flexibly.

In accordance with the importance of focus, BDS interventions are often more successful and cost-effective when they are targeted at the needs of similar and related groups of enterprises, be they "sub-sector" trade groups, or inter-linked enterprises serving one industry. Business associations, when representative, may provide a suitable basis for developing BDS services.

In this context, the selection of target clients of a business support centre is important. An entrepreneur who lacks the capability to understand or absorb BDS, or whose operations are either too small or too sophisticated, may damage more than his/her own training.

This brings forth the concept of *subsidiarity* - "who does what best?". This concept implies that business support centres should have a clear and relatively narrow focus and be decentralized but networked. When necessary, centres should be able to refer their business clients to other, more specialized service providers.

Sustainability

All principles of good practice are aimed at contributing to the achievement of a high degree of financial sustainability of the business support centres. These need to address the issue of sustainability from the very beginning of the planning stage in order to offer a realistic end to donor involvement and support.

While some services may be subsidized (either by revenues from other services or from other external funding), all services must have some payment component to guarantee client involvement and to reflect a true demand for the service. Effective programmes attract business people who value the service they receive and are willing to pay for that service. The level of user payment is the easiest and most effective measurement of BDS effectiveness.

Over time, an effective BDS programme should become increasingly self-sustainable as the market recognizes its value. If sustainability is not being approached, then the market has determined the weak value of the service. However, sustainability may take several years to achieve. A business support centre should charge fees early in its existence, some meaningful contribution of fees to cover costs should be apparent within three years. During this early period, donor assessment should be performed at regular intervals.

Business-like and demand-driven

Closely related to the issue of sustainability is the question of whether the business development services are demand-driven and provided in a business-like manner. Business development services must function in a business-like way, with the same understanding of economic forces and customer needs as SMEs. SMEs should perceive that the centre staff are business people. Without this approach and understanding the delivery of BDS cannot reach self-sustainability.

The SME clients must “buy into the process”. They should be involved in the development of the centres and willing to implement the advice they receive. As mentioned above, early needs assessments should determine the specific services that are offered by the centre. Since fees are charged, it should be apparent after some period of operation whether the clients value the services offered or not.

Replicability

Developing models and approaches for business support centres that are replicable and adaptable, at least in the local and perhaps regional context, is important. These models and systems can then be adapted to the specific needs in a somewhat different environment at a lower cost and with less effort.

Outreach, impact and assessment

It is critical that SMEs that are most likely to benefit from skills and technical assistance, are reached by the services of the business support centres. The positive impact is most likely to be higher on these kinds of businesses. Therefore centres should advertise and publicize their offerings, and be aggressive about informing potential clients of the services they offer.

BDS efforts must be result-based. For business support centres and SMEs, the same rule applies: *success must be measurable*. At the outset, effective measurements of success should be developed.

To develop success criteria, the business support centres and their partners (including donors) must first identify their goals and objectives and then base measures on them.

Participatory approaches

The efficient provision of BDS requires the involvement of manageable local groups (sub-sectoral groups, industrial groups, business associations), together with international expertise. Such a balance helps to guarantee that local cultural and sectoral needs are addressed while current international, technical and managerial skills are being provided.

The involvement of the client businesses themselves in the early planning of new interventions, is important to create greater ownership and a longer-term sustainability. Local expertise is more likely to guarantee local participation; foreign expertise guarantees relevance to international markets and new technologies and the experience of many countries. Heavy weighting on one side deprives the business support centre of the other's value. In the longer term and as local skills and capacities are built, the balance should shift in favor of predominantly local participation.

D. Background to the Romanian business centre programme

In 1991, UNIDO established a business centre in Bucharest to provide direct services to entrepreneurs. This was during the early stages of the country's transformation to a market economy. Few private enterprises existed and almost no information or support services were available to entrepreneurs or persons interested in starting a business.

UNIDO, with funding from the United Nations Development Programme (UNDP), the Government of Romania, and the Government of the Netherlands, hired and trained nine Romanians as business counselors. Operating from an office in central Bucharest, the counselors produced books and materials related to business registration and operation, organized and conducted business information seminars and management training workshops, provided loan packaging, business planning assistance, direct advice, and counseling to clients on starting and operating a business. All these services were not available from the beginning, since the counselors began with little business knowledge and no experience; as they received training and gained experience working with businesses, the variety of services increased.

After three years of operation, the ROM-UN centre had twelve counselors who had provided direct counseling to 1,600 clients, in all sectors but with a predominance of industrial enterprises, and had organized 70 seminars and workshops. They had helped almost 800 clients with business planning, including 110 completed loan applications, of which 45 loans were approved for over \$12 million.

By 1994, however, it was apparent that the original rationale for having a subsidized centre was no longer as strong, since a number of private firms (as well as other donor-sponsored business advisory service providers) were then operating in the Bucharest market. UNIDO and UNDP made the decision to re-orient the project activities away from enterprise-level services toward building capacity of other organizations to provide business advisory services in markets that were not being adequately served by the private sector or other organizations. That is, the UNIDO counselors helped local groups establish business centres in judets (counties) outside of the Bucharest area.

Initially, UNIDO planned to establish 10 such centres, though eventually 16 were set up. The process began with round-table discussions in various judets with local groups to gauge the need for a centre and the interest of local sponsors in having such a centre. UNIDO agreed to initially set up each centre, including the preparation of legal documents; recruiting, selecting, and training staff; and providing the initial equipment required. Local groups, whether composed of government, private sector institutions, or local businesses, were then responsible for the leadership and support of the centre after an initial start-up and monitoring phase. A critical element in the decision to establish a centre was the commitment on the part of local sponsors

to make the centre sustainable, whether through a combination of fees, other earned income, or subsidies by local sponsors.

Although all 16 centres are still in existence, they have had varying degrees of success. The three centres included in this case study were among the first 10 centres that were established, and are the largest of the sixteen. These centres are located in the cities of Brasov, Buzau, and Galati, and although all have legal names, they will in this case study be referred to as the Brasov centre, the Buzau centre, and the Galati centre. All three are independent non-profit organizations, established by founding sponsors who still exercise governance of the operations. The centres provide business-related services to enterprises and potential entrepreneurs in their areas.

CHAPTER II:

The Service

A. Introduction

All three centres were created to provide the following services to SMEs:

- *information and referral*: providing walk-in or telephone clients brief answers to basic questions on starting a business, or explaining where to go to register their business, to get forms or instructions, or more detailed information;
- *general business counseling*: providing advice or assistance in dealing with specific issues or problems of a client, in areas such as marketing, market research, finance, production, taxes and governmental regulations, personnel, and equipment sourcing;
- *loan packaging*: providing assistance in preparing business plans or loan applications in order to apply for financing from banks, governmental programmes, or other financing sources; and
- *training*: organizing and conducting workshops and seminars on subjects related to starting or operating a business.

However, by mid-1998, although all three continued to provide these original services to SMEs, the mix of services had changed substantially.

B. The Brasov centre

Brasov has continued to emphasize its SME activities, and has expanded its facilities to include specialized services in market research, market information, and human resource development. However, the largest increase in activity has come from implementing related programmes on behalf of donors or other partners. For example, an import/export consultancy programme has been established within the Brasov centre, with co-financing from the EU Phare programme. The Brasov centre has also organized and operated training programmes paid for by private companies (marketing), the Soros Foundation (entrepreneurship), VOCA (agriculture), UNDP (microcredit), and the World Bank (business training for the unemployed). By 1998, the majority of the centres' services were provided under these sponsored programmes though the bulk of the activities of the centre were still related to its original mandate of providing services to SMEs or potential entrepreneurs.

C. The Buzau centre

Like the Brasov centre, the Buzau centre has continued and upgraded its SME work, but it has expanded into other areas as well. In 1996, it won an EU Phare tender to provide entrepreneurship training and counseling for the unemployed, and administer a revolving loan guarantee fund. This led to the centre transforming itself into a Local Development Agency, and undertaking sponsored projects not related to business for the Romanian government (work safety staff training), World Bank (social assistance; job creation), and Phare (communication and negotiation skills training; building capacity of NGOs; training for local development). While it continues to provide services to SMEs, a substantial portion of its work is therefore now in social or civic projects that may benefit from, but are not directly related to, SME promotion.

D. The Galati centre

The Galati centre has substantially expanded its business services since its inception, although they have not necessarily been for SMEs only. It has introduced new services in the area of market research, quality management (including ISO 9000 services), and asset appraisal. The Galati centre has also become a regional development centre, and diversified into activities financed by others. It implements an EU project management contract (Integrated Centre for Clothing and Embroidery), is a partner of the Chamber of Commerce in another EU project (to train staff to promote business partnerships in the EU), and operates a UNDP programme (microcredit). It has also participated in non-business projects for the EU (support to families with small children; support centre for elders). Despite its evolution into a regional development agency, however, the bulk of its work is still with SMEs.

CHAPTER III:

The Client Base

The management of each of the three centres was asked to provide information on the clientele of their centres, and this information is presented in the tables on following pages. The information refers to the recipients of business development services only, not to any other clients the centres may have.

Initially, the centres' clients were only SMEs, or persons interested in starting a small business. In 1994 and 1995, 100% of the clients of all three centres fell into this category. However, as the Brasov centre and the Galati centre expanded their line of business services, larger enterprises also became customers. In the case of the Brasov centre, 15% of the BDS clients in 1998 have been large enterprises, which are customers of the newer services developed by the centre, including customized selling and management training programmes, market research, feasibility studies, and human resource (employment) services. For the Galati centre, large enterprises have accounted for some 10% of the clientele since 1996, when it introduced services in market surveys, that have been particularly used by larger clients, and later asset appraisals, quality management and assurance, and services related to EU integration. The Buzau centre, which expanded more into non-enterprise services, has not provided services to any large enterprises (though it also recently signed a contract to begin providing services to one large client).

Although only Galati has a significant proportion of large enterprises among its clientele, it is the only centre that has also increased the percentage of its clientele in the "small" category. Medium-sized enterprises have decreased. The Brasov centre, on the other hand, has shown a decrease from 55% in 1995 to 30% in 1998 in the number of "small" enterprises, and, in the case of the Buzau centre, the share of small clients has also decreased, from 65% in 1994 to 46% in 1998.

The clientele of the three centres initially consisted almost entirely of privately-owned businesses, but the Galati centre has attracted a significant percentage of state-owned businesses since 1996, especially for asset appraisal and other services needed for the process of privatization. In 1996 and 1997, 24% of its clients were state-owned enterprises, decreasing to 16% in 1998. 80-95% of these state-owned enterprise clients were about to be privatized. As Romania is still in the midst of its privatization programme, asset appraisals for state-owned enterprises have developed into a high-demand service, and one which generates considerable revenue for the Galati centre. Neither Brasov nor Buzau have developed a significant clientele among the state firms.

Of course, all of the above refers to end-user clients, i.e. enterprises or entrepreneurs receiving services developed by the centres. A significant proportion of all three centres' clients in recent years include donors, government agencies, NGOs, and private and public sector institutions that, while they do not receive services directly, are in effect paying for services that the centres deliver to others, some of which are businesses or potential entrepreneurs.

CHAPTER IV:

The Market

The markets for the centres' BDS services are primarily local, although some expansion into other geographical markets has been undertaken or is planned. Generally, all three centres provide a mix of general business services that includes counseling, feasibility studies, business planning, loan applications, along with special services unique to a centre, such as market surveys, asset appraisals, human resource services, and special training or management programmes. Their potential clients are, therefore, enterprises and potential entrepreneurs in the area, which generally corresponds to the "judet", or county, territory. In Brasov, there are approximately 640,000 residents, and 27,500 registered companies, up from only 19,000 in 1995. In Buzau, the population was about 510,000 in 1997, with the number of companies increasing from 8,700 in 1994 to 12,500 in 1998. In Galati, the population is about 640,000, with companies increasing from 12,000 in 1994 to 17,500 in 1998.

Neither the market for BDS services nor the supply of BDS service providers seem very large in any of these counties even though they all have a reasonable size and an apparently fast-growing number of enterprises. While it is difficult to make a definitive statement in this regard since no thorough analysis has been undertaken, there are a number of indications that this is the case:

- 1) None of the three centres has any indication that there is demand for its services going unmet, despite their being the main providers of these types of services in their area. This suggests that, despite the rapid rise in the number of companies, the number of enterprises recognizing the need for counseling services, and having the funds to pay for them, is still relatively small.
- 2) As part of this case study, an attempt was made to identify potential competitors to the centres. Often, those named by the centre managers, sponsors, clients, or other competitors were not private sector firms but other NGOs or non-profit institutions. While there are certainly many firms providing audit and tax-related services (which are required by law and therefore have a steady demand) there are few BDS providers in the private sector dealing specifically with SMEs, or else their visibility is low.
- 3) A small number of private sector competitors were identified and interviewed, and few expressed any concern over the competition by the centres. In most cases, they saw themselves as having a different, specialized niche, while the centres were seen as providing a comprehensive range of services, primarily for smaller enterprises that were unlikely to be their clients in any event.

- 4) The fact that founding sponsors of all three centres include Chambers of Commerce or Business Associations is an indication that the private sector perceived a need for such services, in a market not being adequately served by existing firms or institutions.

In Bucharest, there is a thriving market for BDS services, and a rapidly increasing supply of service providers. In the outlying judets, such as Brasov, Buzau, and Galati, however, the demand for services, and the supply of providers, seems to be much more modest. Initially, all three of these centres were established with start-up subsidies from UNIDO and the Government of Romania, and some still receive support from local governments. Accordingly, attention needs to be given to the effects of the centres on the growth of the private sector BDS providers.

At this point, however, there is no indication that the centres are having a significant crowding-out effect on the private sector.

CHAPTER V:

Financial Viability

A. Introduction

The original mandate given by UNIDO and UNDP to the three organizations was to provide services to SMEs and potential entrepreneurs, and to become financially sustainable without additional UN support. It was left to the local sponsors of each centre to determine how sustainability was to be achieved, whether through fees for services to SMEs, other earned income, or subsidies. After almost four years of operation, all three centres have shown substantial growth, as measured by their annual employment and revenue totals. Employment has increased from 2 employees in 1995 to 11 in 1998 in Brasov, from 4 in 1994 to 16 in 1998 in Buzau, and from 5 in 1994 to 31 in 1998 in Galati. The total revenue of the three centres has grown from a combined \$77,000 in 1995 to \$305,000 in 1997, and 1998 totals will exceed \$400,000 by a large margin. In addition, the centres have more than covered their costs, as shown by the increase in their net worth over time.

The viability of the organizations depends on many factors, but certainly a centre's financial position at any given time is the best indicator of its viability. A review of the year-end balance sheets of the three centres presented in Table 1 indicates that the organizations have all succeeded in increasing both total assets and their capital accounts over the period. The increased assets indicate an increase in the capacity of the organization, and the increased capital account indicates greater financial strength.

The review of the past few years' history, plus the current financial condition, suggest that the centres have not only survived but done well enough to position themselves for continued growth. A review of the revenue summaries of the three centres presented in Table 2 shows that this apparent sustainability has come through three different strategies.

From 1994 to 1996, the Brasov and Buzau centres did quite well financially as a result of the loan packaging activities. Loan packaging was a profitable business activity because there were a number of subsidized credit schemes for small businesses operating in Romania. Because entrepreneurs were receiving loans, or had real possibilities to receive loans, they were willing to pay for the costs associated with applying, and the centres benefitted from this. In addition, many of the clients who came in for loan applications returned for other general counseling services.

Table 1
Year-end balance sheet summaries of business centres
(US\$)

	1994	1995	1996	1997	1998 ¹
Brasov					
Total assets	-	2,327	12,961	12,635	23,173
Total liabilities	-	1,138	3,770	4,790	14,435
Net worth	-	1,189	9,191	7,845	8,738
Total liabilities & net worth	-	2,327	12,961	12,635	23,173
Buzau					
Total assets	1,535	4,450	22,066	23,758	38,796
Total liabilities	1,331	2,700	4,373	15,964	23,213
Net worth	204	1,750	17,693	7,794	15,583
Total liabilities & net worth	1,535	4,450	22,066	23,758	38,796
Galati					
Total assets	-	2,065	5,857	28,171	53,506
Total liabilities	-	2,065	5,857	23,897	49,232
Net worth	-	0	0	4,274	4,274
Total liabilities & net worth	-	2,065	5,857	28,171	53,506

¹ Up to 30 September

Table 2
Annual revenues of business centres
(US\$)

	1994	1995	1996	1997	1998 ¹
Brasov					
Information	-	140	0	0	0
Training	-	2,490	8,600	3,655	5,099
Loans	-	5,871	16,194	9,993	5,769
Consulting	-	3,331	3,686	829	12,518
Non-SME	-	0	8,947	830	45,134
Other	-	796	6,784	26,248	67,380
Total	-	12,628	44,211	41,555	135,900
Buzau					
Information	0	0	0	0	0
Training	0	0	2,618	10,553	0
Loans	12,959	18,132	13,537	2,114	4,500
Consulting	0	8,194	7,171	1,182	5,878
Non-SME	0	0	2,792	0	0
Other	0	0	34,468	166,134	140,149
Total	12,959	26,326	60,586	179,983	150,527
Galati					
Information	-	0	0	0	0
Training	-	0	0	0	0
Loans	-	13,196	23,050	7,955	8,895
Consulting	-	100	1,717	0	654
Non-SME	-	3,750	6,802	15,722	3,812
Other	-	20,140	113,641	60,059	96,817
Total	-	37,186	145,210	83,736	110,178

¹ Up to 30 September

By 1996, interest rates had risen substantially and the subsidized credit schemes were either eliminated or significantly reduced. This resulted in a gradual decline in fees for finance-related services, and provided impetus for both the Brasov and Buzau centres to increase the range of their services and to look at other sources of income. The Brasov centre, in particular, increased its services in general counseling and training programmes, while both Buzau and Brasov increased their non-enterprise services. The Brasov centre's fee revenue increased from \$12,000 in 1995 to almost \$70,000 in the first 9 months of 1998, while most of its "other" revenue arose from contracts related to specialized consulting services. The Buzau centre, by winning tenders to provide project management and other services, saw dramatic increases in non-enterprise revenue, from zero in 1994 and 1995, to \$135,000 in 1997.

The Brasov and Buzau centres, therefore, had an initial strategy that was quite similar, to cover costs by providing business services to SMEs, especially in loan packaging. When this strategy stalled, they took somewhat different paths. The Brasov centre increased the range of its business-related services and therefore its fee revenue, whether paid by clients or by others, while the Buzau centre branched out into various non-business related income-generating projects. Both saw substantial increases in revenue and centre size as a result.

The Galati centre has taken a completely different strategy for sustainability. Although founded and still governed by four sponsors, it has linked itself with the Galati Chamber of Commerce. Initially, the Galati Chamber of Commerce provided subsidies in cash and in kind to the Galati centre, so that it could offer free or subsidized services to local businesses. In 1995, for example, fees amounted to only \$17,000 which was less than the \$20,000 of cash and in-kind subsidies provided by the founders, primarily the Chamber of Commerce. As the expertise of the staff grew, the Galati centre was able to provide services to other groups that the Galati Chamber of Commerce served, including large enterprises. It was also able to do substantial work for donors and Chamber partners, which led to increased income for the Galati centre. In 1996, fees increased to \$32,000 but subsidies and earned income generated \$113,641.

The viability of the Galati centre was therefore initially founded on the subsidies of the Chamber of Commerce, and although it remains closely associated with the Chamber, the sustainability of the Galati centre, at least at its current levels, is closely related to both subsidies and its ability to continue earning fees for managing projects with donors and partners of the Chamber of Commerce.

B. Subsidies

There were large subsidies involved in the startup of the network of judet business centres. UNIDO national staff spent several months visiting judets to discuss the need for a business centre, identified judets with groups that were both interested and willing to sponsor a business centre, and then helped to organize the centre. This included providing legal assistance for the preparation of the founding documents, recruiting and selecting staff, and providing the staff with training and materials. After startup, UNIDO staff supervised the operation of the business centre, for two days a week, during the first four to six months of operation. Following this, UNIDO provided support on an occasional basis, at the request of the centres, particularly for the training of staff. For example, at the end of 1997, UNIDO organized a training-of-trainers course for all interested centres to update the training skills of the judet centres' staffs.

A cash subsidy was also provided to each of the centres prior to startup. UNIDO, or in some cases, such as the Brasov centre, the Romanian government, provided a package of equipment that included computers, printers, copying machines, faxes and modems, telephone systems, and one vehicle. The subsidy totaled about \$13,000 for each centre.

Other than the startup and subsequent training subsidies provided by UNIDO and the Romanian Government, direct subsidies by sponsors or donors have constituted a small part of the support provided to the Brasov and Buzau centres. The major item of subsidy at the Brasov and Buzau centres has been the provision of a Peace Corps volunteer, for varying lengths of time. In terms of other cash or equipment subsidies, however, Brasov has received less than \$10,000 to date, primarily from private companies and the Peace Corps for logistical support, and Buzau has received even less. In Galati, however, subsidies have been the primary means of support, and the Chamber of Commerce, in particular, has provided both in-kind and cash subsidies for the centre. The Galati centre is housed free of charge in the Chamber of Commerce offices. The Galati Chamber of Commerce has provided more than \$250,000 in subsidies since 1994, and the Galati County Council has provided both cash and in-kind contributions as well, totaling about \$80,000. Non-monetary subsidies, in the form of association with sponsors and founders, were also mentioned by many interviewees; this gave centres easier access to decision-makers and increased credibility with clients.

One important consideration is that all three centres now rely heavily on income earned, directly or indirectly, from outside projects or programmes for their financial support, and it is often difficult to determine whether these are, in effect, subsidies or not. In this case study, it was assumed that funds given to an organization to support their usual work with SMEs was a subsidy, but that income obtained from work won by tender, or which supported a specific programme designed by another organization, would not be considered a subsidy. The value of these external contracts lies not only in the financial support they provide, which results in profits and assets that remain with the centres after the project ends, but also in the training and upgrading of skills received by the staff of the centre. Most of the recent training of centre staff has come, at no additional expense to the centre, as a result of the external projects that they have won, usually through a competitive process, and implemented.

C. Fees

All three centres have, from the very beginning, charged clients fees for services. In the case of Brasov and Buzau, the fees have been an important part of their total revenue, but with Galati, direct fees to clients have been a small part of their revenue.

The fees are not set strictly on an hourly basis, but are generally on a per-service or per-activity basis, for all three centres. For this study, estimates were made as to the fees that were generated in each centre per hour of consultant's or professional's time. As shown in Table 3, there is nothing charged for basic information and referral, as only minimal time is spent per client for this service. Loan packaging and counseling are generally the lowest paid services, though in the case of Brasov they have increased to about \$10 per hour. Training services, on the other hand, are the most profitable, because several clients can be served, and charged, at once, and because custom training programmes are developed for larger clients, who can afford to pay higher fees.

Table 3
Fees charged by the business centres for specific services
(US\$/hr)

	1994	1995	1996	1997	1998 ¹
Brasov					
Information/referral	-	-	-	-	-
Training	-	7	40	40	30
Loan packaging	-	4	10	10	10
Consulting/counseling	-	4	10	10	10
Non-enterprise services	-	-	8	8	10
Buzau					
Information/referral	-	-	-	-	-
Training	-	-	10	20	25
Loan packaging	-	4	4	5	5
Consulting/counselling	4	3	3	4	5
Non-enterprise services	-	-	10	20	25
Galati					
Information/referral	-	-	-	-	-
Training	-	-	-	-	-
Loan packaging	4	4	5	5	5
Consulting/counseling	-	4	5	3	5
Non-enterprise services	4	4	5	30	30

¹ Up to 30 September

One component of the pricing strategy of all three centres is to differentiate between clients in the level of fees. All three have a policy of charging less to smaller clients, and covering those costs from revenues obtained from larger firms or from contracts. In the case of the Galati centre, Chamber of Commerce members are entitled to free services, while fees for contracts and non-enterprise services are quite high.

D. Product Development

Initially, the three centres had common services, which were approaches to loan packaging and business planning, counseling, and training that were provided as part of the initial training and staff development programme at startup. For example, there were standard modules, with printed materials, for workshops on business startup, basic bookkeeping, and marketing. In some cases, diversification was part of the regular BDS programmes of the centre, especially in Brasov and Galati. Most product development, however, has occurred in the context of the contracts and external programmes that the centres have implemented. As a result, the product development costs have been minimal, being mostly absorbed by the organizations awarding the contracts.

CHAPTER VI:

Funding Strategies

From the point of view of the original donors (UNIDO, UNDP, and the Government of Romania), the strategy was to establish centres that would not require continued subsidies from international donors. There was no expectation that the centres would be completely self-supporting from fees and earned income, but there was an expectation that the centres would be sustainable using local resources. That is, to the extent that subsidies would be needed, they should be provided at the local level, by those who would presumably benefit from them. To that extent, the strategy has been successful, since the centres have not only survived but managed to expand the size of their operations.

A second, and related, component of the funding strategy was to front-load the subsidy, rather than to provide regular support over a longer period of time. The reason for this was to emphasize the local responsibility for the project by not paying any regular operating expenses; from the day the doors of the centre opened, local sponsors were responsible for its governance, including meeting payroll, if necessary.

From the point of view of the founding sponsors, the centres have also been successful. Their strategies were generally to support the centres so that economic development in the area would occur. In most cases, these sponsors have provided important support, through cash and in-kind subsidies, but also through governance of the centres.

Of course, the strategy of front-loading the donor subsidies, and shifting all operational and governance responsibility to the local level, has led to changes away from the original SME objective. While all three centres continue to provide SME services, and certainly continue to think of themselves as business service providers for SMEs, the need for sustainability and the influence of local sponsors has led to diversification into services that are sometimes far afield from the original SME concept. Galati provides services to large enterprises, including state-owned ones, and is very involved in issues like EU integration, while Buzau has branched out into project management, even of social assistance projects. Brasov has remained closest to the original business centre concept, but has also developed larger clients and undertakes an increasing number of activities on behalf of donors, NGOs and other organizations interested in buying project management expertise.

CHAPTER VII:

Institutional Analysis

The mission of all three centres has been to provide BDS services to small and medium enterprises, and potential entrepreneurs. At the original donors' wish, this mission is imbedded in the by-laws of all three organizations. And, as noted above, all three centres remain committed to this mission, even if the need for sustainability, and the desire of some founding sponsors for broader economic activities, led them into other areas.

The governance of the institutions is based on the fact that they are incorporated under the Foundations and Associations Law in Romania, which makes them private, non-profit organizations. Such foundations are exempt from some taxes related to specific services; if, at the end of the year, their revenue exceeds expenses, they are subject to taxes on the difference.

All three centres are governed by a Board that is composed of representatives of the founding sponsors, one representative per sponsor. In the case of the Galati centre, there are four founding sponsors (Galati Chamber of Commerce, Galati Prefecture, Galati County Council, and Dunarea de Jos University) and the Board of Directors is made up of representatives of these four sponsors. The same is true in Buzau, where the Board consists of representatives of the Chamber of Commerce, the Buzau Prefecture, the Buzau Country Council, Buzau City Hall, and one private company. Brasov has adopted a different approach, however, in that only five private businessmen, all members of the founding Association of Entrepreneurs, make up the board of the Foundation.

The day-to-day operations are run by a centre manager, and it is notable that each centre has one strong executive who is, to a great extent, responsible for the centre's success. In the case of the Brasov and Buzau centres, one manager has been there from the beginning and has played the dominant role in the growth and diversification of the centre. In the case of the Galati centre, there have been several managers, but the head of the Galati Chamber of Commerce has exercised primary control over the centre's operations, and has been responsible for the funding and operational strategy the centre has followed.

The staffing levels of the three centres, over time, are shown in Table 4. This shows that staffing levels have been kept at a minimum in terms of overhead costs. For the first two years, the Buzau centre employed no secretarial staff, and none of the three has employed more than two secretarial staff at any time. Professional staff have grown quite rapidly in the last two years, in response to the increased work from contracts and new services.

Table 4
Staffing levels of business centres
(No. of persons)

	1994	1995	1996	1997	1998 ¹
Brasov					
Total, of which	-	2	6	8	11
Manager	-	1	1	1	1
Finance counselor	-	-	1	1	1
Marketing	-	-	-	1	2
Other consultants	-	-	2	3	5
Secretarial	-	1	2	2	2
Buzau					
Total, of which	4	6	10	14	16
Manager	1	1	1	1	1
Finance counselor	3	2	3	3	3
Marketing	-	1	1	1	1
Other consultants	-	2	4	8	10
Secretarial	-	-	1	1	1
Galati					
Total, of which	5	19	24	28	31
Manager	1	1	1	1	1
Finance counselor	1	4	5	6	6
Marketing	-	1	2	2	2
Other consultants	2	12	14	17	20
Secretarial	1	1	2	2	2

¹ Up to 30 September

Finally, it should be noted that none of the centres operates in a vacuum. A network of centres has been created, to provide mutual support to each other. These are primarily the 16 centres created by UNIDO and UNDP, with Romanian and Dutch government funding, but also some centres that were established by other donors. A central liaison and coordinating organization (which uses the acronym FAIR) was established to market the services of the network centres, and to organize training and information activities on behalf of the network. At present, the centres (which are themselves the founders of FAIR) feel that they receive little benefit from the organization. In the future, however, it is possible that FAIR will play a central role in ensuring that the centres undertake joint activities to increase their capabilities and to strengthen their financial position.

CHAPTER VIII:

Impact

All three centres measure their performance on the basis of enterprise-level or client-level services. None have any indicators that attempt to measure any effects on the wider economic or social environment of the areas in which they operate. This is the case even though all have expanded beyond BDS to undertake local or regional development activities.

An estimate of the enterprise-level impact that the centres have achieved during their short existence is provided in Table 5.

Despite the lack of information on wider economic effects, the fact that the original sponsors are almost universally pleased with the performance of the centres, and that they continue to support them with extensive time and resources is an indication that they believe the centres are having an impact on the groups they support. In the case of the prefectures and other government bodies, they are generally interested in wider regional or local development, while the associations and chambers of commerce are also interested in support for their members.

Table 5
Enterprise-level impact of business centres

	1994	1995	1996	1997	1998 ¹
Brasov					
No. of clients	-	158	290	370	360
No. of jobs	-	117	190	110	125
No. of trainees	-	20	125	75	105
No. of loans	-	22	15	10	12
Value of loans ²	-	1,113,732	5,646,114	3,919,020	26,982,139
Buzau					
No. of clients	143	331	513	1,119	859
No. of jobs	36	242	465	94	35
No. of trainees	20	16	204	723	614
No. of loans	14	52	82	25	26
Value of loans ²	428,125	3,328,617	4,310,000	464,895	170,176
Galati					
No. of clients	65	75	102	120	124
No. of jobs	10	115	250	283	114
No. of trainees	-	-	-	-	-
No. of loans	13	19	22	30	25
Value of loans ²	505,770	1,778,539	5,754,496	3,475,696	48,641,060

¹ Up to 30 September

² In US\$

SUMMARY

The opening of 16 business centres in outlying judets of Romania in 1994 and 1995 was intended to provide needed services that would be supported by local groups interested in the development of the SME sector. Three of these centres were in Brasov, Buzau, and Galati, and, four years later, they are still in business, and expanding, despite little additional support by the original donors, but with extensive support at the local level, from a combination of government agencies and private sector institutions.

- Although all are doing well, there is no indication that any of them could have achieved a self-supporting status solely from selling business development services to the original target group, SMEs.
- They have achieved sustainability in different ways. Brasov's experience seems to suggest that a centre may become self-supporting from fees, if the market is expanded to larger enterprises. Galati shows that the services of a business-like centre can be important enough to businesses that an association of businesses (in this case, the Chamber of Commerce) will find it in its interest to subsidize the operations on behalf of its membership, and the general business community. The Buzau centre's experience indicates that sustainability is also possible by increasing revenue through diversification outside the general area of business services. What is needed, apparently, is for each centre to find the appropriate mix of fees for BDS, earned income from other sources, and subsidies that will support it financially.
- For all three, identifying sources of revenue, besides fees from enterprises, was important, and probably accounts for most of the growth of the three organizations. Whether in SME or business-related areas, or not, identifying and winning contracts or projects from donors, government, NGOs, and other institutions has been important. In Buzau, this was critical because the subsidies provided to the centre were very small. In the case of the Brasov and Galati centres, the earned income was not as critical, since they could probably have survived serving larger clients or (in Galati's case) receiving subsidies, but certainly both centres would have been much smaller without the external income.
- The work done on behalf of the donors and non-SME clients has also been instrumental in building the size and capability of the centres' staff and in developing new services, both of which provide increased capacity for the future. In many cases, these capabilities are related to SME services, though in others, particularly in Buzau, the services are in social or regional development activities, not in SME services. This was done at no cost to the centres, since these development costs were part, or a by-product, of their contracts or projects.

- The business-like orientation of the centres was important to ensure that costs were kept low enough in the early years for the centres to be supportable with low fees and small subsidies. It is likely that this business-like approach has also made them attractive partners for the donors, NGOs and other organizations that need work done in particular fields. Centres that are trying to improve the efficiency and productivity of SMEs bring that attitude and style to their own work.
- All of the centres have retained their original mission of support to SMEs, despite having expanded into other areas and clients. To some extent, this is a result of the original agreement with UNIDO in which the requirement was made a part of the by-laws of the centres, but it also reflects a commitment on the part of the sponsors to economic development in their areas. However, given the recent growth in income from project and contract work, it will be interesting to see how the mission changes in the next few years.
- It is not clear to what extent the three centres have adversely affected the growth of private sector consulting and advisory firms in their areas. Certainly, the possibility for market distortion exists, especially as the centres earn outside income that can be used to subsidize some business services. Still, there are no strong indications yet that the centres are having much effect on competition, perhaps because there have not been many potential competitors in the markets.
- Perhaps the most promising about the three centres is that their sustainability is based on support by those who are in a position to judge the value of the services they provide. Large subsidies are now provided only in the case of the Galati centre, presumably because the Galati Chamber of Commerce feels that SMEs in general, and its membership in particular, benefit enough to justify the subsidies provided.