

**University
of
Göttingen**

International Small Business Series 15

**Heiko Fähnel, Jörg Hartmann,
Wolfgang König, and Ralf Meier (eds.)**

**In Search of
New and Innovative Concepts
For Small Enterprise Development
In Third World Countries**

edited by:
International Department
Institute of Small Business
Director: Prof. Dr. Wolfgang König

Preface

This publication is the result of an expert conference that took place in Gottingen on October 29-30, 1992. The objective of the conference was to determine the position of German development policy in the area of small and micro enterprise development. It originated from a joint initiative of the German Federal Ministry of Economic Cooperation and the Institute of Small Business at the University of Gottingen. More than 20 German-language specialists from theory and practice met to work out new elements of promotion behind the background of their experiences and recent scientific understanding.

The conference was arranged in order to give priority to the discussion of problem questions, and the exchange of opinions was promoted at the expense of longer contributions. The publication is the protocol of a discussion that was unprejudiced and unbiased towards institutional interests. The compilation by the Institute of Small Business was made available to all participants for comments.

For their active participation, the conference participants must be greatly thanked. Thanks are also due to the Federal Ministry and the German Agency for Technical Cooperation (GTZ) for their support of the conference. The editors hope and expect that the publication¹ may provide useful impulses for the future design and implementation of measures for small enterprise development.

¹ A German version of this publication is also available from the Institute of Small Business: "Auf der Suche nach neuen Konzepten der Kleinunternehmensentwicklung in Entwicklungslandern – Ergebnisse einer Expertenkonferenz, Gottingen, Oktober 1992. Gottinger Handwerkswirtschaftliche Arbeitshefte, Nr. 27"

Contents

	Page
Overview	1
I. Current Situation and Problem Analysis	3
1. Characterization and Delimitation of the Target Group	3
2. Constraints on Small Enterprise Development	5
3. Negative Experiences	8
II. Reflections on Economic Policies and the Objectives of Promotion	11
4. Small Enterprise Promotion in Market-Oriented Development	11
5. Promotional Goals	14
6. Strategic Requirements	15
III. Methods and Measures for a Promising Small Enterprise Promotion	18
7. Positive Experiences	18
8. Future Priorities of Promotion	21
9. Future Methodical Orientations	23
List of Participants	27

Overview

From the participants' complex discussion, two crucial areas can be isolated that will, in the editors' view, lead to a pronounced shift in the emphasis of future promotion.

The first area refers to the basic question of promotion's self-understanding with respect to economic policies, and consequently to the frequently neglected problem of the context of promotion activities. It always has to be recognized that promotion is associated with interventions into economic processes, and that such interventions engender costs. Not only the direct costs that accrue to the promotor, but also the indirect, external costs that result from possible distortions of economic structures in the wake of interventions have to be taken into account. In any case, future decisions on promotion measures will have to pay more attention to the developing countries' framework conditions of economic policy and social structure.

The premise of a fundamental market orientation for this area was widely accepted. This is all the more important as experience has shown that small enterprises are frequently most strongly discriminated against by public policies. Conclusions for the institutional organization of promotion have to be drawn. With respect to the premise of market conformity, a strengthening of meso-level institutions, such as self-administration and self-help organizations of small entrepreneurs, seems to be appropriate.

The second area is concerned with the concrete implementation of promotion. As point of departure, it may be noted that some traditional approaches are outdated and more sophisticated ones are needed. This results in new guiding principles as to participation, creativity, and flexibility in project work. Again and again, the arbitrary transfer of Western patterns to developing countries should be prevented.

Important starting points for a new conceptual orientation are more strongly case specific oriented measures, and a preference for indirect and decentralized approaches with a corresponding selection of executing bodies. The contents of a promotion strategy should be worked out in a participative process together with the small entrepreneurs. Over time, public agencies have to give up direct and adopt indirect promotion. New

promotion structures should be designed jointly by private and public sector bodies.

Small enterprises are still highly relevant in the Third World. At the same time, however, promotion permanently has to take stock and provide a principal justification. If this is accepted, there will be considerable scope for a successful support of small enterprise development even in a market economy.

I. Current Situation and Problem Analysis

1. Characterization and Delimitation of the Target Group

Management as a Factor of Delimitation

A consensus was reached in determining a qualitative criterion for the delimitation of the target group, which proceeds from the central role of the entrepreneur or management, respectively. The delimitation from above, i.e. in comparison with medium sized enterprises, was defined as follows: once the management function is differentiated and split between several persons, an enterprise is no longer regarded as a constituent of the small enterprise sector. Thus, a characteristic of small enterprises is that they cannot continue to exist without the entrepreneur. In medium sized enterprises, on the other hand, the manager is interchangeable. Hence, these entities are more stable with respect to management than small enterprises.

Exercising Entrepreneurial Functions

The delimitation from below was formulated as follows: small and micro enterprises provide an income above the subsistence level. These enterprises are able to develop a self-supporting dynamics and to accumulate capital. Such properties are also crucial when promotion institutions undertake delimitations: suitability of enterprises for promotion depends on self-initiative and the survival chances in the long run. In any case, it should be assured that the target group consists of legally and economically independent units.

The delimitation from below helps to differentiate between programs motivated by social policy, and enterprise promotion programs. In this context, it was also stated, however, that delimitations only become necessary if subsidies are given. In commercially designed programs, the target group more or less demarcates itself.

Possible Differentiations within the Target Group

A differentiation *within* the small enterprise sector is rather difficult, especially when it comes to identifying the difference between micro and small enterprises. One suggestion for a stratification within the sector was:

- a) informal activities, self-employment
- b) typical artisans with little technical know-how
- c) innovative artisans
- d) modern, supra-regionally active small manufacturers

It was commented that the predominance of manufacturing enterprises should not prompt an exclusion of trading and service enterprises from the target group. The necessity of differentiating within the sector was controversial though. Generally, the promoters' difficulties with identifying the true structures of the micro enterprise sector might lead them to prefer somewhat larger enterprises, as their promotion appears more simple, agreeable, and promising.

Further Characteristics

To further characterize small enterprises, their socio-economic position was discussed: they are marginalized and play only a minor role in society, politics, and economics. One example would be their almost complete exclusion from an organised capital market. Other widespread characteristics are: informality, integration of household and enterprise, jointness of capital provision and risk bearing, reliance on local markets, labour intensive and simple technologies, integration into local social structures.

The round generally agreed that employing only one quantitative criterion is inadequate. Instead, in practice a combination of different criteria is needed. Delimitations must be handed flexibly depending on the kind of measure, the country, and the branch concerned. Especially quantitative criteria (e.g., 1-50 workers) that are frequently necessary have to be applied relative to the relevant market's size and average size.

2. Constraints on Small Enterprise Development

The Role of Bottleneck analyses

In order to be able to analyse constraints in a specific case, they have to be systematized. Concrete bottlenecks are always determined by the special characteristics of an enterprise, its branch, its location, and its socio-cultural environment. A bottleneck analysis becomes more difficult for the smallest units, as the integration into the social structure is particularly important for them. The external expert should therefore, in such a context see himself less in role of an evaluator than as action-oriented moderator.

The bottleneck factors that were mentioned in the discussion may be systematized as follows.

1. Constraints internal to the enterprise
 - management, organization, capacity to process information
 - entrepreneurial competence
 - creativity and technological potential
 - provision of capital
 - qualification level of workers
2. Constraints due to market relations
 - access to capital, know-how, raw materials and intermediate products
 - lack of demand
3. Constraints caused by framework conditions
 - a socio-cultural environment that is adverse to innovation and entrepreneurship
 - legal insecurity, lack of property titles, bureaucratic arbitrariness
 - lack of influence on economic policy decisions
 - exclusion from public procurement and public credits

Against the background of this categorization, the discussion concentrated on two areas: a) financing and b) organisation and self-administration above company level. These may, on the one hand, be seen as focal points of other constraints; on the other hand they offer approaches for solutions.

a) Financing

Ascertaining Financial Requirements

The discussion started with the observation that financing constraints do, to a large degree, reflect the enterprises' problems in the material sphere. It was stated that it is exceedingly difficult to 'objectively' determine the financial requirements of a small enterprise. This is not least due to the need to clarify first whether the entrepreneur is a 'profit maximizer' or rather a 'risk minimizer'.

Lack of Financing Options

Small entrepreneurs must almost completely rely on their own resources or depend on informal credit systems, as their access to the formal capital market is largely blocked. This entry barrier is frequently related to their difficulties in providing the securities that are demanded by commercial banks. For the most part, development banks also have not established relations with small enterprises.

Possible Solution Approaches

Credit guarantee funds or cooperatives may provide an answer to solving these problems. However, the experiences with them so far are not very encouraging. High administrative costs and default rates eat up the funds' assets and lead to a lack of sustainability. It was emphasized, however, that under the following circumstances such institutions could well be successful:

- * All the participants (creditor, debtor, and guarantor) are exposed to risk.

- * The guarantor has more information on the debtor than the creditor.

Finally, the following demands in the field of financing were formulated: the financial sector's ability to function at large should be strengthened to give small entrepreneurs access to financing possibilities. Individual saving incentives should not be undermined, and the target group's participation in the design of financing systems should be encouraged. A liberalised capital market was seen as a necessary, but not sufficient condition for an improvement in the capital provision of small entrepreneurs. In this context, an indirect approach that creates incentives for the relevant institutions to place credits seems more effective than direct interventions by the state or by external donors.

b) Organization and self-administration above the company level

Role of the Meso-Level

The underdeveloped meso-level in Third World countries is a major constraint for small enterprise development. The meso-level consists of the institutions between the individual economic subjects and the state. From the point of view of small entrepreneurs, their organizations above company level are particularly important here. On the one hand, these should, as self-administrative bodies, offer services for the members; on the other hand, they are supposed to advocate the small entrepreneurs' interests in the economic policy arena. Finally, from society's point of view they should foster participation and the formation of political opinions.

Strengthening of Institutions: a Priority Task

While at present there is considerable liberalisation on the macro-level, the institutional realization of these policies often remains unsatisfactory. In this connection, private sector organizations should usually be strengthened. It was emphasized that it is always necessary to base promotion on an exact analysis of the respective institution.

Private sector organizations above company level should

- * have a solid base among the members,
- * have an appropriate and target group oriented array of services,
- * take precautions against their bureaucracies becoming too independent, and
- * possess efficient organizational structures

However, three important qualifications have to be made. For one, excessive promotion of institutions must be avoided. Also, the uncritical transfer of Western modes of organization without prior adaptation should be viewed with caution. As a negative example for these two tendencies, some developments in the area of cooperatives were mentioned. Finally, public or semi-public institutions should not be excluded from cooperation beforehand, since they may also work efficiently. Furthermore, in many areas, for example in education, they are the only partners available.

The multitude of functions and tasks to be fulfilled on the meso-level may make it necessary to use decentralized institutions with limited responsibilities instead of building up centralised 'one window' institutions. It was finally discussed whether the institutions can be expected to finance themselves through appropriate services, or if at least the take-off should be assisted with financial aid.

3. Negative Experiences

Problems of 'Package' Approaches

The discussion of negative experiences commenced with the issue of 'package' approaches to promotion. These can be understood as standardised and globally applied packages of small enterprise promotion measures. Being primarily supply-oriented, the measures neglect demand conditions on unstable, risky, and fragmented markets. Packages of measures that are aimed at modernisation have frequently led to the problem of 'over-aiding'. When certain measures were not demanded by the target group as planned, donors have sometimes

reacted by increasing subsidisation, and have thereby further undermined the goal of sustainability. Standardised packages were also criticised for being a serious impediment to sectoral or regional orientations.

The critique of package solutions should not, however, induce donors to adopt overly narrow approaches to promotion. For example, subsidised credit offers which are not combined with relevant consulting services, might tempt the entrepreneur to undertake unprofitable investments that make repayment impossible.

Role of the Time

Further negative experiences were reported with respect to short time horizons in promotion. With the behavior of small entrepreneurs being largely determined by local and family social structures, their problems may be difficult and time-consuming to understand for external advisors.

Role of Local Personnel

Problems also arise because competent local personnel is sometimes not available. Better qualified project specialists frequently move into the private sector after a short period. This also applies to the most able employees of public administrations and other meso-level institutions.

Role of Information Exchange

Project experiences, e.g. in process and product development, are not sufficiently available. Therefore, the exchange of information in these areas should be intensified.

Role of Currency Credits

Negative experiences were reported when providing currency credits for financing local costs. The related exchange rate risks cannot be realized and borne by small entrepreneurs.

Transferability of Western Patterns

The applicability of Western institutions and structures was put into doubt. Such methods were said to demonstrate an underestimation of the complexity of local situations. For example, attempts at introducing German chamber or cooperative systems in developing countries were cautioned against. In this context, mixed experiences with programs of company-level cooperation were discussed. Without competent assistance, German small and medium entrepreneurs were frequently not able to prevail under the specific conditions and peculiarities of developing countries.

The following course of the discussion focussed on negative experiences with the methods of project planning and implementation. In particular, the following points of critique were mentioned.

Methodical Deficiencies in Development Cooperation

- * lack of acceptance, caused by missing target group participation
- * isolation of foreign experts
- * long time gaps between project planning and implementation
- * lack of continued project planning in the implementation phase
- * emphasis on deficits and not on positive potentials in the official German project planning procedure (ZOPP)
- * restriction of cooperation to a few, usually administrative bodies
- * formulation of deficits by experts, not by the target group

With the last point of critique, the participants' attention was directed at the problem area of paternalistic approaches and attitudes and of intercultural communication problems. Changes in the experts' mentality and behavior were deemed necessary. It was finally stated that the above collection of negative experiences can be interpreted as a self-critique of donors.

II. Reflections on Economic Policies and the Objectives of Promotion

4. Small Enterprise Promotion in Market-Oriented Development

The discussion led to an agreement on a number of arguments that can justify small enterprise promotion, and may be systematized as follows.

Justifications for Small Enterprise Promotion

- a) discriminating framework conditions
 - general legal insecurity
 - difficult obtainment and documentation of property rights
 - administrative discriminations
 - preferential access of large enterprises to promotion
 - limited access to the formal credit market
 - imperfections on input and output markets

- b) positive external effects
 - improvement of training and qualification
 - improvement of the employment situation of disadvantaged groups
 - development of human capital and entrepreneurial potentials
 - decentralisation of economic structures, contributions to rural development
 - ecological aspects
 - provision of poorer social strata with affordable goods

- c) specific dynamic aspects
 - improvement of competitive structures
 - balanced enterprise size structure
 - support for innovation and technological diffusion
 - dynamic efficiency and structural change

- d) socio-cultural aspects
- de-marginalisation through participation in society and economy
 - promotion of entrepreneurial attitudes
 - development of improved understanding of market processes
 - increased acceptance and stability of a pluralistic political system
 - preservation of local traditions

The Premise of Market Orientation

Some of the justifications of promotion can be related to the Orientation participants' individual approaches, or to the respective objectives from which those approaches are derived. Thus, the question of justification is hard to separate from the question of promotional goals and methodical approaches. Basically, promotion should only take place within a market-friendly economic order. There was also consensus that the market economy is not an open game but a complex mechanism that requires rules to function. Instead of 'deregulation', a reduction towards a simple but adequate framework should be strived for. However, even in industrial countries a general pattern cannot be discerned. Consequently, it is impossible to transfer a complete model of a market economy to developing countries. This makes it difficult to ascertain whether certain promotional instruments conform to the market.

In any case, promotional measures can only be justified if they have a prospect of success, in terms of the points listed above. The discussion therefore quickly concentrated on the conditions for success and the priorities of small enterprise promotion. It was emphasized that framework conditions are the most important factor influencing small enterprise development. Promotion so far has mostly neglected to sufficiently analyse and act upon them.

Influencing Framework Conditions

The notion that donors, especially in the area of small enterprise promotion, can exercise influence on the design of framework conditions, was met with criticism. However, several levels of framework conditions exist. Not only the government's economic policy, but just as well local administrative decisions result in a framework within which the small entrepreneur has to operate. Therefore, there also exist several levels in which projects of small enterprise promotion might bring their influence to bear. Moreover, it was suggested that by improving the coordination between donors and by putting conditions on aid, even the highest level of government could be affected. There was agreement that influencing framework conditions, e.g. by strengthening meso-level institutions, should be considered more important than direct measures applied to the enterprises' functions.

A debate ensued as to whether the smaller the enterprise, the more important framework conditions become. Small enterprises depend mainly on markets and are more exposed to external influences than larger units. At the same time, however, it was pointed out that foreign experts must be very careful when it comes to influencing framework conditions. This should be especially relevant in the present situation, where the strong dependence of many countries may lead to much power for foreign experts. Structures in developing countries are frequently too complex to be easily revised with simple policy interventions. In this situation, changes can only be effected in small steps.

It was suggested to aim at influencing framework conditions particularly through promoting meso-level institutions. The relative high stability and reliability of such institutions, compared to the political system, should most easily ensure a long-term representation of the small entrepreneurs' interests.

5. Promotional Goals

National Economy Level

A differentiation between micro and macro goals was the starting point of the discussion. On the macro level, the following goals were named: economic efficiency and growth, intensity of competition, establishment of a market-and enterprise-friendly atmosphere, distributional fairness and equality of opportunities, and increased employment. It was stressed that the possible conflict between distributional and allocational goals may be less critical in the area of small enterprise promotion.

Project and Enterprise Level

On the micro level, it is deemed necessary to distinguish between the level of the individual project and the target group level. Project goals such as administrative efficiency have to be realized by organizing projects accordingly. On the level of the target group, the enterprises' ability to compete and survive in the long run was emphasized. The creation of employment opportunities for the entrepreneur and his or her family can also be accepted as a goal. Basically, the removal of existing constraints can be defined as goal on the micro level. For example, technological consulting, stabilization of raw material supply, improvement of market information, or improvement of training were some cases.

Goals in the Area of Institution

The formulation of goals on the meso-level was discussed next. The establishment of representative self-help organizations can contribute to economic as well as to socio-political goals. The question then arises as to the hierarchy of goals, i.e. their classification in ulterior or instrumental goals. In the sphere of economics, meso-level institutions primarily have instrumental functions. Among other things, they may be needed as intermediaries between donors and target groups. In this role, effective institutions offer chances for the reduction of transaction costs and the control of behavioral risks. With respect to socio-political

goals, meso-level institutions that are really self-help institutions should have the function of strengthening democracy by greater participation in social decision making processes. It can be justified to subsidise learning costs that are incurred by the institutions for both areas of goals.

Necessity of Clear Determination of Goals

Before implementing any promotional measures, donor organizations must have a clear understanding of their objectives. Goals Is the project primarily meant to be concerned with enterprise promotion, social policy, or institution building? A binding hierarchy of goals developed jointly with the partner organization in the recipient country is a second important step in defining the objectives. Only if goals are congruent, effective promotion is possible.

The discussion round concluded that by using vague definitions of goals, interventionistic and package-oriented approaches to promotion would be encouraged. Even though small enterprises offer themselves as natural target group, opportunistic and distorting promotion must be avoided. A clear political conception should be the foundation of any small enterprise promotion.

6. Strategic Requirements

Demands on Promotion

Based on the objectives established above, the discussion group sought to develop a strategic model for promotion. As a first step, it was stated that any program would have to be specifically designed for the country in question, on the basis of an appropriate sector concept. For this again, a bottleneck analysis would be the starting point. Also, coordination with the recipient country and other donors was deemed necessary. This would primarily imply coordination with the target group, and not with the recipient country's administration. This principle must also govern the project's organization structure. Constant accessibility of the project administration, permanent

exchange, and iterative discussion of the project's activities by the target group are desirable. A basic requirement of promotion is given if the target group has already demonstrated self-initiative, e.g. by self organization.

In the following, fundamental orientations were developed with the help of some contrasting pairs of concepts.

Strategic Orientations of Promotion Concepts

- * demand- rather than supply-oriented
- * indirect rather than direct
- * through private rather than public intermediaries
- * oriented on institutions rather than on individual enterprises
- * long-run evolutionary promotion rather than ad-hoc-interventions
- * self-control within the target group rather than external control by donors
- * concepts worked out in a participative manner rather than ones that are presented from external sources
- * local rather than external advisers
- * functional promotion across the sector rather than selective promotion, applied to individual enterprises
- * bottleneck-oriented rather than package promotion
- * decentralized rather than centralized promotion

The Importance of Subsidies

After broad agreement had been reached on these points, the importance of subsidisation in promotion activities was extensively discussed. The starting point was the contrasting pair of concepts 'subsidisation versus pure market orientation'. Market orientation meant charging prices for services offered (credits, consulting, etc.) that would cover the costs. It was generally accepted that sustainable results, i.e. the enterprises' ability to persevere in the long run, should be aimed at. A fundamental contradiction between sustainability and temporary subsidisation was not accepted by all participants, however.

They argued for pragmatic approaches instead of an orthodox adherence to abstract political orientations. Under certain conditions, this would also allow subsidisation.

Arguments for Subsidisation

- * In the stage of enterprise formation, financing to overcome special start-up difficulties is appropriate (infant industry-argument).
- * It is also necessary to contribute to the financing of organizations above company level. As in industrial countries, they depend on a combination of three financing elements: a) market prices for services supplied, b) external subsidies or grants and c) 'private subsidies', e.g. as membership dues and honorary work.
- * In the area of vocational training, public contributions can be justified by large positive external effects.
- * For very small enterprises, fundamentalist' approaches of non-subsidisation are inappropriate.

On the other hand, the following considerations invalidate the case for extensive subsidisation.

Arguments against Subsidisation

- * Services that are offered free of charge or are strongly reduced in price may not be appreciated adequately. A perceptible contribution of the target group is necessary to prevent entrepreneurs from accepting services they do not really need.
- * High intensity of subsidisation restricts the efforts in pilot schemes, so that no broad effects may be achieved.
- * Inefficient structures cannot be discerned clearly and endanger the sustainability after the termination of promotion.
- * Even if subsidies have been planned as temporary measures, terminating them may fail, especially if the gap to market prices is

large. Subsidised institutions, too, will manage the transition to self-financing more easily if the intensity of subsidisation was low.

In the context of subsidisation, it was finally argued that a cautious allocation of promotion funds is advisable in any case. In addition, it was demanded that institutions and recipients should be made responsible of the consequences in case of misbehavior. As a last resort, this would include the termination of unsatisfactory projects.

III. Methods and Measures for a Promising Small Enterprise Promotion

7. Positive Experiences

The positive experiences that have been made in promotion were collected by means of examples, and can be conceptually arranged in four categories:

- * access to target groups
- * role of technology
- * role of the entrepreneur
- * role of the meso-level

Access to Target Group

Access to the target group is easier if the project structure is simple and transparent. Project administrators that are acquainted with local structures and readily available to the small entrepreneurs will lower the constraints on participation in project measures.

Programs that attempt to improve access to credit markets by supporting local financial intermediaries have a similar objective. In a way, they imply linking small enterprises to the formal credit market. In this connection, supporting local self-administered savings banks has also proved successful. If a contribution of personal savings by

members, self-formulation of statutes, and mutual control of members can be brought together, good repayment quotas can be achieved.

In the area of vocational training, positive experiences were made in cooperation with self-help institutions as well as with public and semi-public agencies. An unprejudiced analysis of institutions creates favorable conditions for later success. Demands for vocational and professional training are generally very high. To this end, the know-how of scholars from developing countries that return home after training in industrialized countries, such as Germany, may be utilized.

Self-help organisations that were successful from the point of view of target groups have frequently developed dynamics of their own. They have responded to the demands of their users and expanded and improved their service offers beyond the original promotion objective.

Role of Technology

In the area of technology, it appears that the local development of products and processes adapted to local needs and conditions can have good prospects for success, especially when compared to the unsatisfactory results of so-called 'down-grading'. South-south transfer, i.e. the diffusion of technology that has originated and is well-trying under similar conditions, should be particularly encouraged. The implementation and diffusion of technological innovations has generally been more successful when combined with appropriate financing mechanisms.

Role of the Entrepreneur

Positive experiences have been made with approaches that start from the central role of the entrepreneur and proceed on the assumption of his high proficiency in the respective environment. Based on that understanding, the entrepreneur should be offered the chance to apply and constantly improve his capabilities. However, this also requires

measures that apply to the competence of the enterprise's environment, e.g. by improving the competence of public administrations.

Experience has shown that a high share of the costs and risks of services used should be borne by the entrepreneur himself. This will not lastly contribute to a self-selection of the target group by overcoming the obstacle of having to contribute himself the entrepreneur demonstrates that the service is useful to him.

Role of the Meso-Level

The orientation of promotion measures on meso-level institutions has already prompted some positive results. It is apparently possible even with relatively small projects, to influence policy making and the design of regulatory frameworks. Self-help institutions of small enterprises have, under favorable conditions, proven their capability to play a greater role in society. As potential may be particularly useful if these organizations preserve their independence from government and if they are allowed a sufficient amount of time to work out autonomous activities. Even if positive experiences on the meso-level have primarily been made with self-help organizations of small enterprises, it may under certain circumstances be possible to also interest public institutions in modern approaches, despite their passive and bureaucratic image.

Credit guarantee funds and cooperatives are also meso-level institutions. They have been successful when they were firmly rooted in the country, debtors were adequately and consequently selected, and credits were accompanied by consulting. Furthermore, credit guarantee cooperatives should rather consider themselves as businesses than promotional institutions. They have their largest effects where markets are not distorted by subsidised credit programs.

8. Future Priorities of Promotion

The next step was to collect possible priorities of future small enterprise promotion. Most of these priorities follow from the preceding discussions. Therefore, it shall suffice here to report the results in the form of a table.

Technology

- * product development
- * making available technical know-how by documentation and diffusion
- * adaptation of process technologies to small scale production conditions
- * promotion of ecologically safe technologies

Financing

- * improving the legal and institutional framework conditions of the financial sector
- * application of market-oriented financing instruments
- * linking of the small enterprise sector to the formal capital market
- * introduction of innovative financial techniques, with simultaneous subsidisation of learning costs (e.g., rotation funds, decentralized credit guarantee funds, leasing, factoring)
- * introduction of new and variable techniques for securing loans (e.g. forms of joint liability)

Enterprise Formation

- * selection of suitable entrepreneurial personalities

- * selection of appropriate locations
- * improvement of infra-structure
- * promotion of internal capital formation
- * action-oriented learning in enterprise formation programs

Consulting and Enterprise Consolidation

- * coordination and networking of specialised service-offering bodies
- * consulting in the areas of management and production, improvement of information
- * availability in the area of marketing

Organizations above Company Level :

- * support for the development of authentic institutions (chambers, associations, trade groups)
- * strengthening of self-help and self-administration
- * preventing a dominant position of large manufacturers, traders, or the state

Vocational Training

- * consideration of employment prospects on the local labor market, in coordination with industrial policy
- * cooperation with self-administration institutions of small enterprises
- * improvement of the instructors' training and provision of appropriate teaching aids
- * creation of training institutions above company level

Relations to the State

- * regard for small scale suppliers in public procurement
- * simplification of bureaucratic and administrative requirements
- * attention to opportunities to influence framework conditions, including levels below the central government

9. Future Methodical Orientations

Under this heading, the participants developed fundamental orientations for future promotion policy in the area of small enterprises. The concepts may be systematically ordered by their levels of application:

- * level of donors
- * level of intermediaries
- * level of target group

Project Design

At the level of donors, demands on those institutions that design and finance promotion were formulated. Projects should be designed to operate with individual measures, oriented on concrete bottlenecks, instead of with packages. As a matter of principle, the framework conditions of small enterprise development should be given more weight in the future. This requires a much stronger orientation on indirect approaches, for example an improvement of property rights enforcement. In any case, a cautious dosage of promotion measures is called for to avoid the diverse problems that are associated with over-aiding.

Project Preparation

Before the conception of a promotion program, a sector analysis should be undertaken to improve the level of information as comprehensively as possible. However, benefits of information must be weighed against costs and time spent, and the market should be used as a low-cost source of information whenever possible. Cost efficiency, in any case, must be paid attention to in the area of information gathering and planning, too. Further demands on behavior and procedures of donors were specified as follows:

Further Demands on Donors

- * proximity to the target group and cost-efficient execution by strongly favoring local over foreign inputs
- * consideration for unusual micro-economic behavior of the target group
- * creativity in project planning
- * scientific project monitoring
- * readiness to adapt the project design to current experiences
- * exchange of experiences and coordination with other donors

Finally, it was insisted that donors must be consequent in their actions. A donor should neither be persuaded to start projects under unfavorable framework conditions or despite of bad planning, nor should he shrink back from imposing sanctions, including termination, on failing projects. This requires fixing criteria for an assessment of a project's success.

Selection of Partner Organizations

At the level of intermediaries in the recipient country, i.e. local partner organizations, the following demands were formulated. Basically, a cooperation with private or market-oriented institutions should be preferred. They should be firmly integrated into the country's social

structures, and accepted by state and target group. The principle of subsidiarity is to be observed, meaning that cooperation with institutions on the lowest possible level should be aimed at.

Local Relations of the Partner Organization

The local partner organization should adapt its consulting offers to the needs and capabilities of the target group. That should prove easier if the socio-cultural background of advisers coincides with the target group's. It also implies a preference for local staff. Self-help organizations, in particular, must be able to define their own objectives and tasks, and to engage in a dialogue with all groups in society.

Multiplicity of Tasks vs. Specialisation

With respect to the concrete cooperation with local partner organizations, one should be careful not to overload them with tasks that are cost-intensive and hard to coordinate. Co-existence of several institutions with specialised offers is preferable. However, with many institutions, the problem arises that no 'one stop-service' is available to the user, i.e. the small entrepreneur, who might therefore incur high transaction costs.

Self-Initiative and Participation

At the level of the target group, the following demands on cooperation have to be made. A prerequisite of promotion is that it can proceed from the target group's own initiative, and that their personal contributions are large enough to be perceptible. These document the target group's interest in promotion and secure the orientation of measures on real needs. Activities such as the self organization of the target group are proof of an actual demand for promotion measures.

The participation of the target group in project planning, i.e. as against the donor, as well as in project implementation, i.e. as against the intermediary, is absolutely necessary. A possible approach would be to separate the German project planning procedure (ZOPP) into two

phases, the first being conducted without the participation of foreign experts. In any case, participation requires the ability to articulate interests, which again is best acquired through self-organization.

Social Environment

Generally, it can be observed that the more stable the social environment, the better promotion projects will work. To some extent this can be explained by the advantages of the mutual control of beneficiaries over external control, especially with respect to reducing the risks of behavior detrimental to the group. Such a social environment will also create incentives for positive behavior that is advantageous for the group as a whole.

Termination of Promotion

It was finally emphasized that promotion, whether on the level of intermediaries or on the level of the target group, can be most easily justified if it is designed to terminate in a smooth manner. According to experience, getting out of promotion can mean a host of difficulties. It should therefore be a priority concern to strive, in the medium to long run, for independent economic sustainability of the promoted units.

List of Participants

Dr. G. Braun
FB Wirtschaftswissenschaften
Universität Rostock
Parkstr. 6
2500 Rostock

Mr. H. Fahnel
BMZ
Friedrich-Eben-Allee 114-116
5300 Bonn 1

Dr. A. Frenz
Integration
KleinerHirschgraben 10-12
6000 Frankfurt/Main 1

Mr. D. Gagel
Karlsruher Str. 46
6900 Heidelberg

Prof. Dr. H.-G. Geis
Mdllerpfad 9
1000 Berlin 37

Mr. H.-P. Hansen
Saseler Kamp 881
2000 Hamburg 65

Dr. T. H. Hilker
Friedrich Naumann Stiftung
Margarethenhof
Postfach 4027
5330 Kdnigswinter 41

Mr. G. Honscheid
Carl-Duisberg-Gesellschaft
Hohenstaufenring 30-32
5000 Koln 1

Prof. Dr. W. Kdnig
Universität Gdttingen
Volkswirtschaftliches Seminar
Platz der Gdttinger Sieben 3
3400 Gdttingen

Mr. R. Kolshorn
GTZ - 404.3
Dag-Harnmerskjld-Weg 1-2
6236 Eschborn 1

Dr. Maier
Konrad-Adenauer-Stiftung
Rathausallee 12
5205 St. Augustin 1

Dr. P. Mayer
Friedrich-Ebert-Stiftung
Godesberger Allee 149
5300 Bonn 2

Dr. Mohnhaupt
Kreditanstalt f. Wiederaufbau
Palmengartenstr. 5-9
6000 Frankfurt 11

Dr. K. Muller
Institute of Small Business at the
University of Gdttingen
GoB1erstr. 12
3400 Gdttingen

Mr. E. Oehring
FUNDES
Haus Inseli
CH-8867 Niederurnen/Schweiz

Mr. Olef
Zentralstelle f. gewerbliche
Berufsfdrderung (ZGB)
Kathe-Kollwitz-Str. 15
6800 Mannheim

Dr. J. Peters
Universität Gdttingen
Volkswirtschaftliches Seminar
Platz der Gdttingen Sieben 3
3400 Gdttingen

Dr. M. Pilgrim
Stiftung fur wirtschaftliche
Entwicklung und berufliche
Qualifizierung (SEQUA)
Belderberg 5
5300 Bonn 1

Mr. M. Rast
FAKT
Gansheide 43
7000 Stuttgart 1

Mr. Reuter
Carl-Duisberg-Gesellschaft
Hohenstaufering 30-32
5000 Kdln 1

Mr. Schunke
Deutscher Entwicklungsdienst (DED)
Kladower Damm 299-327
1000 Berlin 22

Ms. Rosenberg
Deutsche Investitions- und
Entwicklungsgesellschaft (DEG)
Belvederestr. 40
5000 Kdln 41

Dr. habil. U. Slawinski
FB Wirtschaftswissenschaften
Universität Rostock
Parkstr. 6
2500 Rostock

Mr. Schmidt-Arendts
Auf der Engelhardt 30
5276 Wiehl

Assistance and Documentation:

Mr. J. Hartmann
Universität Göttingen
Volkswirtschaftliches Seminar
Platz der Göttinger Sieben 3
3400 Göttingen

Mr. R. Meier
Institute of Small Business at the
University of Göttingen
GoBlerstr. 12
3400 Göttingen

**Publications of
the Institute of Small Business
University of Gottingen**

International Small Business Series

- No. 1: **Development of Small-Scale Business in Developing Asian Countries - Policy Environment and Institutional Infrastructure** -, by Chee Peng Lim, Gottingen 1990, 28 p.
- No. 2: **The European Common Market and German Small Business**, by Gustav Kucera, Wolfgang Konig, Gottingen 1990, 26 p.
- No. 3: **External Financing of Small-Scale Enterprises in Developing Countries - Reforms and Innovations within the Commercial Credit Business in Colombia-**, by Wolfgang Konig, Michael Koch, Fred May, Gottingen 1990, 29 p. (out of print)
- No. 4: **Internationalization of Small Business in a Microeconomic Perspective**, by Joachim Peters, Gottingen 1990, 17 p. (out of print)
- No. 5: **Informal Small Business in Rural Areas of Developing Countries**, by Jorg Hartmann, Joachim Peters, Gottingen 1990, 32 p.
- No. 6: **Commercial Loans for Small Manufacturers in Latinamerica - Empirical Evidence on Formal Sector Credit Markets in Colombia, Ecuador and Peru-**, by Michael Koch, Gottingen 1990, 34 p. (out of print)
- No. 7: **Small Businesses as exporters: Survey results from Lower Saxony, Germany**, by Jorg Dieter Sauer, Gottingen 1991, 43 p.
- No. 8: **Institutional Representation of Small Business in Industrialized Countries**, by Markus Pilgrim, Gottingen 1991, 35p.

- No. 9: **Proposals for a Private Sector Support System for Small and Medium Enterprises in Developing Countries**, by Jacob Levitsky, Gottingen 1992, 41 p.
- No. 10: **Techniques and Criteria for Classifying Small and MediumScale Industries by Size**, by Wolfgang Konig, Klaus Billand, Gottingen 1992, 19 p.
- No. 11: **Credit Guarantee Scheme for the Small Business Sector - An interim assessment after five years in Latin America**, by Eckart Oehring, Gottingen 1993, 31 p.
- No. 12 : **Key Factors in the Design of Policy Support for the Small and Medium Enterprise (SME) Development Process - An Overview**, by Allan A. Gibb, Gottingen 1993, 41 p.
- No. 13: **The Case for a New Approach to Small Enterprise Promotion**, by Ralf Meier, Gottingen 1993, 32 p.
- No. 14: **Small Business in Tropical Rainforest Areas**, by Jorg Hartmann, Gottingen 1993, 24 p.
- No. 15: **In Search of New and Innovative Concepts for Small Enterprise Development in Third World Countries - Results of an Expert Conference**, Gottingen, October 1992, by Heiko Fahnel, Jorg Hartmann, Wolfgang Konig, and Ralf Meier (eds.), Gottingen 1993, 28 p.