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**Private Sector Support
For Small Enterprises
- Some Conclusions -**

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Foreword

The paper assumes a recognition of the significance of small-scale enterprises (SSEs) for development. This assumption rests not merely on the ability attributed to these enterprises to ease the current problems relating to manpower absorption, but also on the strategic role this subsector plays in development terms in embedding the development process firmly in the populace. Even when overall economic development is good, one can only really speak of a sustained, positive process of development if the full breadth of the population is involved in the process, if all and not just a few are contributing to the pick-up in the economy as a whole. In purely economic terms, i.e. GNB growth, per capita income, export performance etc., this statement seems fairly irrelevant. From the point of view of ensuring long-term sustainable development, however, the participation of the broad masses in the development process is critical. Seen under the aspect of social justice, but also with regard to the need to create a broad basis for further economic progress, there is a consensus internationally that it would be undesirable for a dual economy to emerge, i.e. an economy split into a comparatively small but advanced, modern and dynamic section on the one hand and a traditional, or even backward, component related to the broad masses on the other.

The aim of the private sector support system for small enterprises, as presented in this paper, is a substantial increase in effectiveness and efficiency in promoting these enterprises. It is hoped to achieve this by dovetailing private self-help service structures (business associations, groups of producers, federations of co-operatives, etc.) with state support initiatives. These ideas spring from the experience gained in almost every country that:

- due to fixed organisational structure and procedure, ignorance of the variety of needs within a large heterogeneous target group and a lack of competence, state support agencies are little suited to reach or provide effective support for SSEs;
- non-governmental organisations who work on a decentralised basis and in close contact with the target group are relatively successful in their respective project areas;

- self-help is a key element in any enterprise, thus making it eminently preferable, when choosing the right support system, to opt for self-help organisations maintained by private entrepreneurs (business associations, chambers, trade guild etc.) than for the paternalistic approach of a state or private support institution.

An analysis of a possible dovetailing of public support institutions and private self-help service structures found that the primary constraints would be the absence of the right environment and the lack of organisation in this sub-sector, which in itself is a reflection of the SSEs' economic weakness.

More specifically:

- **Framework**

- a legal basis for small enterprise support is generally non-existent (one exception being the Philippines), which means the legal status of initiatives to set up industrial associations (at least in individual cases) may be dubious and state support for such an organisation's activities, if forthcoming at all, may be given on a discretionary and, therefore, selective basis;
- the political will to promote the setting up of private social groups is generally lacking, since in relations with the Government there may be certain differences of opinion on several developmental aspects, and the mechanisms to deal with such conflicts are, in most cases, inadequate.

- **Weaknesses in industrial self-help organisations in the small-scale enterprise sector**

- the organisations are at present largely unattractive due to their minimal capacity for providing support to their members, which in turn is due to low funding levels;
- danger of corruption or of the association's being alienated from its original purpose by individual influential members.

The constraints described above led to more detailed thought on a new approach with respect to the delivery system for SSE promotion and finally to a model which aims at a re-allocation of the various roles in promotion and the foundation of a private/public support agency (National Council or "National Body" as recommended by the UNIDO Conference on Small and Medium-Scale Enterprises in Bari/Italy, 9 -13 October 1989). It was considered essential in this context to ensure on a national level that **actual** requirements are covered and to tailor support measures to the **actual** absorptive capacity of the individual small-scale enterprises.

A model for an SSE self-help service structure which, whilst in essence private, would receive some state support (cf. Chart 3 on page V) would display the following features:

- the new structures would receive state recognition and be inscribed in law;
- target groups would form into associations, business associations, chambers, etc., according to region or trade, for the purpose of providing support for any of their members facing non-financial constraints;
- a state-recognised national body (or council) would be set up, consisting of representatives of the SSE associations and academic subject specialists (economists, business administrators), as well as government representatives, with the purpose of supervising the associations' activities and supporting these financially, as well as conducting a macro-economic dialogue with the competent government authorities;
- a state programme to support the promotional activities of associations, etc. would be set up, consisting of
 - decentralised advice, information, referrals to sources of know-how (private consultants, technological institutions, etc.) under a Government Support Service for Business Associations;
 - financial contributions to the business associations, commensurate with their self-help efforts, via the National Body.

The anticipated advantages of this model over **exclusively** state-run promotion or the implementation of measures by self-help groups **without** state assistance are:

- actual need of an individual target group ("felt need") provides the basis on which support activities are designed;
- the support activities are implemented by the target group itself in a manner and on a scale corresponding to its needs and absorptive capacity;
- the state apparatus is relieved of designing, implementing and evaluating numerous separate support activities;
- the self-help groups of the business community (business association, chamber of crafts, etc.) can turn to the state authorities during implementation of their support activities and programmes for advice and information;
- the activities of the self-help groups receive financial support from public funds via the National Body/Council;
- despite (indirect) state support, own initiative and self-confidence, which constitute key ingredients in any enterprise, are strengthened;
- the small enterprises have a competent voice in a dialogue on the macro-economic framework.

The danger of corruption or of the association's being alienated from its original purpose by influential members should be able to be countered with the help of adequate controls and supervision from the National Body (which administers the state grants).

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Introduction

While guided by the experience of other countries, ultimately each country must choose its own model for SSE support arrangements. The division of responsibilities and tasks and the decisions on who will implement support activities for small enterprises will depend on a variety of factors peculiar to a particular country.

First of these factors must be the geography of the country, namely the extent of the territory and the degree of development in internal communications together with form of regional political organisation, which will determine the degree of decentralisation. It is desirable to have the maximum decentralisation as services delivered locally by those integrated into the local scene are most effective and generally evoke the most positive response. Where countries are divided politically into regions, provinces, states or localities this should influence the organisational breakdown and location of support arrangements.

Another factor must be the degree of development and size of the small industry sector and the strength of the private sector in general. The types and numbers of different enterprises and their distribution into sectors and sizes must also have a bearing on the associations and institutions to be created. Only if there is a minimum number of operators in a sector is a sectoral association feasible.

Government and the Private Sector

Above all a major factor will be the relationship between the government and the private sector. This could be decisive in determining the role that each of these will play in providing the services and support needed by the SSE sector. Preferring the private sector to implement a number of services should not be based on ideological considerations but rather on what arrangements would be more efficient and effective in delivering quality services and have them more readily accepted by the target group for whom they are intended.

This paper is based on a report prepared for the BMZ (Ministry of Economic Co-operation) and GTZ (Agency for Technical Co-operation) of Germany.

Efforts to bring in the private sector and to hand over more and more responsibilities in supporting the small enterprise sector are generally based on the assumption that such organisations:

- a) have greater access to the target group of potential beneficiaries and a broader appreciation of the needs of small enterprises.
- b) have greater acceptance by enterprises of services offered by such organisations to which they feel they belong rather than those offered by a government for which they generally harbour suspicions and have reservations as to their intentions.
- c) are less prone to direct political influences although it would be unrealistic to suppose that such organisations may not be influenced politically in different ways. However, the political influences in government structures tend to permeate public institutions down to such detailed matters of implementation as management, staffing and budget.

Private Sector organisations are more likely to be staffed by those with industrial and business experience and so should be able to offer more practical "hands-on" assistance. The strengthening of private sector organisations through transferring the implementation of a number of services to these bodies can be the basis for an appropriate division of responsibility and cooperation between the private sector and the government in providing together a realistic programme of support for small enterprises. The conclusions must be that there are specific functions and responsibilities that are best left to government and others which in an ideal situation in a more advanced economy may be carried out more effectively by the private sector and its representative organisations.

The **government** must provide the legal and fiscal framework in which the small enterprises will have to operation. The government must initiate, in consultation with the sector and its representative bodies, the incentives and environment needed to stimulate small enterprise development. Governments will be responsible for setting financial policies and taxation. The policy framework will be a basic factor in determining the economic and financial well-being of small enterprises.

It should also be the responsibility of government to provide basic education and skills training and to establish and operate an educational and vocational training network to guarantee an adequately trained and skilled labour force to meet the need of the various sectors of the economy. It may delegate some of these responsibilities to institutions outside the government, in the private sector or to independent institutions, but in the final analysis government must provide the resources and ensure an adequate volume and quality of training.

Beyond the need to ensure adequate training in technical and management skills, governments usually, through its public agencies, endeavour to disseminate information on programmes and schemes for regional development, on effort to promote more exports and the incentives and assistance it is offering for enterprise development. Some more enlightened governments may help to forge links between business enterprises and the research and technological development being undertaken in institutions of higher learning and public financed research centres.

Small enterprises if they are to develop successfully need a variety of services and forms of help. Apart from access to finance, they need assistance to upgrade their technology and skill, to make most effective use of financial help that may become available. They need help on how to make their operations more efficient and to improve the management of their enterprises and how better to market their products. In short, small enterprises need support services to whom they can turn for information, advice and assistance.

The following chart gives a broad outline of what might be respective roles in the provision of services between the government, the private sector (on a commercial basis) and the private sector membership organisations. It represents the situation that might exist in a more developed or middle income developing country with a fairly well developed private sector.

Chart 1: Roles of Service Providers to SMEs

	Government	Private Sector On Commercial Basis	Private Sector Representative Organisations, chambers, etc.
FINANCIAL	Grants, soft loans Subsidies, tax reliefs Export insurance Help with credit guarantees Savings facilities Information	Export and other insurance Banking Hire purchase/leasing Factoring – debt Collection Securities markets	Special Insurance policies Credit guarantees Credit unions Mutual funds Preparing applications for bank finance Help in credit Assessment Bulk purchasing
ADVICE AND INFORMATION	On regulation and legislation Economics and statistics Management advice (basic) Referrals to appropriate bodies Contact services (specialised, e.g. export)	Legal and accounting Special market data Consultancy Personnel recruitment	Promoting of sub-Contracting. Info on regulations. Tax and legal advice Market and export info Basic consultancy Referrals to appropriate bodies Contact services in broadest sense, office services

	Government	Private Sector On Commercial Basis	Private Sector Representative Organisations, chambers, etc.
TECHNOLOGY	Basic technology transfer Referrals for technological help	Licensing Contract R&D	Info on sources of new technology Referrals
TRAINING	Basic education Basic commercial & management skills. Owner training. Basic technical skills	Specific commercial and management skills, e.g. languages secretarial, export management.	Skills up-grading, including setting of qualifications and standards Management development

Note: The above is a proposal for breakdown of roles in provision of services for SME suitable for a middle-income developing country in a transitional phase of transferring more responsibilities of services to the private sector. It is based mainly on experiences in North America, U.K. and other European countries. Some of the roles given to the "Private Sector" may suit the situation in more advanced developing countries. The "Private Sector" in African countries would certainly be too weak to undertake most if not all these roles. However it should be regarded as the desirable breakdown of roles (with minor variations) at which to aim.

As countries develop, the private sector organisations can and should take over more and more of the direct provision of support services. However the main functions of such organisations - in many cases their very "raison d'etre" - is advocacy, namely transmitting the opinions and needs of their members, to the government in consultations on the setting of policies.

While "advocacy" may be the prime role, private sector organisations must keep their members informed on legal and taxation matters and on the availability of all forms of assistance that are being offered from whatever sources. They need also to provide information on new technologies and data that could be of assistance in the production and marketing of products and services. Private sector organisations would also be expected to provide

training opportunities in the upgrading of skills to complement the governments basic training schemes. Limited direct counselling and consultancy for small firms would also be within the province of the programmes of private sector organisations. The degree to which organisations are able to offer effectively such services at an acceptable quality level would differ from country to country. It might take time before a private sector organisation in a particular country would be able to offer all such forms of direct help to meet the needs of its members.

Private sector organisations usually also see as their role the forging of linkages between private small enterprises and government procurement and/or in sub-contracting with larger firms or with overseas partners for joint ventures or for obtaining technological help.

Help with Finance for Members

Because of lack of resources, finance is usually a much sought after form of help where it is most difficult for private sector organisations to provide assistance. Some such organisations may have at their disposal limited enterprise development funds made available by the business sector, from which small amounts of equity or credits for special purposes can be offered. Some NGOs including membership organisations do become involved with the provision of limited credit programmes with funding providing from external sources. In addition, a few of the more sophisticated private sector organisations may attempt the development of a financial institution or bank of their own, or in cooperation with some other banking organisation more favourably disposed to the small enterprise sector. More often private sector organisations would lack the resources to develop financial institutions on their own and would be advised rather attempt linkages with commercial or development banks or particular financial institutions such as cooperative, peoples, savings or development banks.

Well established organisations that have achieved status and credibility can hope to reach a point where their recommendations for assistance in preparing applications of member entrepreneurs for finance to banks can be of great help and even decisive in the attitude taken by the bank to the request. In

developing countries few associations achieve this situation. It takes a long time and persistent efforts to attain that degree of credibility in relations with financing institutions. The associations often face the problem of striking a balance between the desire to be of help to their members and analysing the request for financing from a similar objective perspective to that of a bank in examining a loan request. Organisations have to have experienced well qualified staff and adopt a clear policy to give its support and recommendations only to "bona fide" genuine applicants and viable projects. This is essential if it is to achieve that position of credibility with the banks, when it can be of real assistance to its members in their efforts to obtain financing.

Since in many cases lack of collateral is the major impediment to small firms obtaining bank loans, a more appropriate initiative by private sector organisations might be to develop credit guarantee or insurance schemes to assist members who apply for bank financing but are unable to satisfy collateral requirements. Craft Chambers in Germany and similar organisations in other European countries combine with local authorities and sometimes with those banking institutions that are more disposed to favour the small enterprise sector (e.g. cooperative or savings banks) to develop credit guarantee schemes which they help to administer. It should be recognised this is a sensitive and difficult operation.

Such credit guarantee schemes should be embarked upon only after careful preparation with sufficient "back-up" funding and after extensive consultation with the banking institutions that are expected to use the scheme. For developing countries, donor agencies especially the German foundations (the Frederick Ebert Foundation in particular) offer both "matching" funding and advice on the setting up of such guarantee schemes.

Guarantee schemes in the final analysis are only worthwhile if they provide financing to small enterprises who would not otherwise be able to obtain finance, for lack of adequate collateral. They face a major "hurdle" in obtaining the agreement of the banks to use them. In developing countries banks view these schemes with suspicion, lacking confidence that the "guarantees" will really be paid out in the event of a default.

Direct Private Sector Support

Apart from services offered by private sector organisations based on membership, in more developed countries, many support activities are offered directly by the private sector on a commercial basis. This includes more comprehensive consultancy services, help and advice in the financing of investments and working capital through the banking institutions and in some cases transfer of technology through brokers or firms involved in marketing such forms of help. As industry and the economy develops a greater proportion of services would be provided on a commercial basis. Even those provided through the private sector organisations would tend to acquire a more commercial character.

Advocacy

As stated, a closer cooperative relationship between the government and the private sector is an essential feature of successful governance and may be a vital element of economic success in a country. When governments impose an authoritarian regime with excessive regulation of all entrepreneurial activity, major disincentives will develop for the private sector. However, even when governments liberalise their approach in an effort to stimulate market forces and competition, they often lack the necessary information and rapport with private enterprises to forge effective policies. It is therefore of great value and even essential that there should be suitable vehicles of the private sector to express to government the real needs and problems of private enterprises in the economy.

Suitable bodies are provided by representative membership organisations such as Chambers of Commerce and Industry, confederations of employers or of industries and other types of organisations such as sectorial associations. An effective dialogue between such organisations and the government can help the latter to understand the experience, thinking and requirements of the private sector. In "advocating" the cause of their members, private sector bodies have to recognise that governments have responsibilities for all sectors of the economy and all parts of the community, so that through an effective

dialogue the excessive demands of private sector organisations representing a sector must be mitigated to conform with the overall needs of all sections of society. Consultation and cooperation are the essential ingredients in the development of a policy framework to answer the needs of both society and the community as a whole, and at the same time provide a conducive ambience to stimulate the private sector so that it can fulfil its full potential and play a major role in the country's development.

Consultation between the private sector and the government cannot be left to "ad-hoc" arrangements if it is to achieve its purpose. In countries such as Germany and France where Chambers have public law status, consultations by government with the Chambers before enacting any legislation which might affect the members of these organisations, is mandatory.

In general in countries where Chambers are voluntary organisations such as in the U.K. or the U.S.A. no such obligation on government to consult Chambers exists. Chambers in these countries can of course mobilise support and effectively represent their members through well planned presentations and strong arguments. In the U.S.A. some legislation has been introduced to mandate regular monitoring of the impact of federal laws and policies on small business but that does not give special status to representative bodies. On the contrary in the U.S.A, the major role in assessing the direct effects of government regulation on small business and to make new legislative and new proposals has been given to a specially established Office of Advocacy in the Small Business Administration, a federal agency set up in 1953 to help small firms. Although enjoying no public law status, the U.S. Chamber of Commerce and Industry does manage to exert significant influence on policy makers through its well organised and widespread "lobbying" efforts.

In developing countries it would be appropriate to introduce legislation to mandate the government to ensure consultation with representative bodies of the private sector on all occasions of enabling new laws, on regulations which could have impact on small enterprises. However representative bodies must have support and minimum membership to be able really to present the views and needs of the sector they represent.

Training

Training is one of the first activities undertaken by private sector organisations in one form or another. Most Chambers of Commerce and Industry and Associations early on arrange short seminars and workshops usually on management subjects. After a time these often develop into longer courses, although in most cases private sector membership organisations advisedly refrain from longer courses which require costly equipment and resources to provide basic skills or certification in specific trades or professions. This is generally, and with some justification, left to governments or in some cases to professional organisations such as those that train accountants, production engineers or marketing specialists. In most cases these associations complement training and education provided in institutions of higher education.

Most private sector organisations that become involved in technical training usually do so at the level of technicians in trying to upgrade the basic skills acquired by small scale entrepreneurs or their foreman in vocational training institutions and/or through work experience in industry or through apprenticeships. Although in Germany and to some limited intent in some other European countries, private sector organisations have been empowered by government to provide comprehensive training in basic skills and to develop the curriculum and the certification of whole ranges of skilled craftsmen and entrepreneurs in most developing countries private sector organisations would lack the resources and ability to carry out these functions. It therefore would be more appropriate for such organisations in the field of training to fulfil the following functions:

1. Advise government and vocational training organisations and schools on the type of skills needed by the small enterprise sector.
2. Offer short, complementary courses to supplement basic training and industrial experience through introduction to latest technological developments, to higher standards and more sophisticated techniques of operations.

3. Provide management training through a range of seminars, workshops and short courses in various aspects of finance, marketing and production organisation.

Counselling and Advisory Services

This usually refers to direct advice and assistance given to individual enterprises to improve technical and management aspects of their operations. The term can be confusing because some organisations include under this heading what might generally be described as information.

Direct consultancy to individual enterprises is a costly business. Small enterprises are generally neither willing nor able to pay more than a modest fee, if anything. High quality consultancies require well paid staff and costly "backup" services. It would be inadvisable and unfeasible financially either for government or private sector organisations to maintain a large permanent staff of qualified consultant personnel so as to offer longer consultancies to individual enterprises whether members or not. This would be true even if some modest fees were paid by those receiving consultancy.

For this reason consultancy services that are offered should be of short duration, stipulating that the members are entitled to two or three – possibly up to five days - in which staff advisors from the organisation would visit the firm, discuss and diagnose the major problems and make proposals as to how they could proceed and from where they might obtain further help. Smaller, newer, local or regional organisations with limited resources might be advised to confine this consultancy down to one or two days free consultancy for members along these lines.

For the remainder counselling primarily involves provision of information and referrals; information might include such matters as:

- individuals or institutions from which further help on technological problems might be obtained
- sources of supply of equipment and new technologies
- legal and taxation matters

- how to export
- details of government programmes for the provision of credits, industrial premises or other forms of assistance
- opportunities of government procurement or of subcontracting
- how to make contacts with banks for the provision of finance
- where to go for private consulting help

These are just some of the examples of information/advice that might be offered by private sector organisations although in some cases they could be offered by public agencies as well. A cursory look at the type of information involved suggests that suitable staff in private sector organisations will probably be in a better position to offer impartial and objective advice which will be more readily accepted and regarded as credible by the recipient entrepreneur.

Because of the high costs of providing individual consultancies to single firms, efforts have been made to offer advice and assistance on a collective base thus reaching a wider number of beneficiaries with less cost. Some organisations have brought together groups of entrepreneurs from the same sector, e.g. clothing, footwear, bakeries, metal working, etc. to discuss common problems and exchange views on how to manage different aspects of their businesses. Apart from the reduced costs of dealing with a number of beneficiaries as against the high costs of dealing with one enterprise at a time, this approach has the additional advantage of generating an effective interchange so that businessmen learn from one another's experience. It is sometimes argued that these small scale businessmen are too secretive and competitive to reveal a great deal in the presence of those in the same line of business. This can present a problem but with skillful guidance of such groups this mutual distrust can be overcome when participants realise the benefits for all of a frank exchange.

Apart from the group approach, consultancy groups can prepare written material on specific techniques of management which could be used in individual enterprises without too much adaptation. Accounting systems, cost control, production planning, plant layouts, sometimes on a sectoral basis, are

examples where suitably prepared material can be combined with direct individual advice and assistance.

Consultancy work can also be cheapened and made more effective through a judicious combination with training.

Most important of all consultancy or extension services of support organisations should regard themselves as "referral agents" primarily, directing or as it is now sometimes called "signposting" those with difficulties towards persons and organisations who can provide specialised help, even though this may be at some cost.

Most consultancy services are subsidised in some form. In Germany, the government provides a grant for over 50% of the salaries of those working in the Craft Chambers on consultancies for small enterprises. In other cases a fund is available to provide a proportion - usually around 50% of the costs of hiring private consultants - who have offered to work at a favourable fixed rate. There are strong arguments in favour of relating any grant from governments for advice and consultancy to performance, so that a subsidy is given for each consultancy undertaken, rather than a blanket support grant for this work without relation to the quantity or quality of the service offered.

Private Sector Organisations Structure

Private sector organisations representing industry and commerce will as has been already stated vary from country to country according to the special conditions prevailing. Although they vary in character they can broadly be divided into membership and non-membership organisations. The latter would refer to what are commonly called Foundations, namely organisations supported with resources from large scale business or wealthy, prominent individuals providing financial and non-financial help to the small enterprise sector. The "enterprise agencies" in the U.K., through which large enterprises help small businesses usually on a local basis, is an example of such organisations.

Representative membership organisations would include such bodies as Chambers of Commerce and Industry, Federations of Employers and Entrepreneurs of Businessmen, Small Enterprise Associations organised on a regional, provisional or sectoral bases and in a few cases special craft organisations or chambers. Unfortunately in several countries these organisations are fragmented resulting in more than one organisation with similar purposes appealing to the same target group even in the same localities.

In Germany under conditions of obligatory membership there are 57 district Craft Chambers (Handwerkskammer - HWK) with an average membership of 13,000 each. The smallest Chambers have 4000 to 5000 members and the largest 25,000 - 30,000.

In France there are 104 Chambers of small businesses and crafts established under public law and to which all firms with less than 10 employees in one of 96 listed trades and professions are obliged to belong. Employment size, it should be noted, is not used as defining membership of Craft Chambers (HWK) in Germany, rather belonging to a specified list of trade and crafts. Although there are Handwerk members with hundreds of employees, the average statistically is eight employees per member. Statistically it appears the French Chambers have on average a smaller number.

No special qualification certificate is required in France to start a business as in the case in Germany. In the U.K. and U.S.A., also there is no such restriction on starting a small business. However in France the Chambers play a larger role in vocational training and apprenticeships than in the U.S.A. or U.K.

In both France and Germany apart from the Small Business Chamber (HWK in Germany) there are separate Chambers of Commerce and Industry for larger businesses.

While it is difficult to specify staffing requirements since this will depend on the number and type of activities undertaken and services provided, it would appear from the experiences in Europe that a minimum of 10 professionals with suitable supporting staff would be required to run an effective

programme of services for its members for an organisation of each 2000 - 3000 members.

There are a number of major issues which need to be addressed as to the structure of membership of these organisations. Again it is difficult to prescribe clear guidelines to suit all circumstances although a recognition of the factors involved can be helpful in deciding what is most appropriate in particular circumstances.

Among the major questions are:

1. Is it better to create and operate larger organisations in which businesses of all sizes are members or to have organisations set up to cater for different size of membership?
2. Should membership be encouraged on a voluntary basis or is it advisable to introduce legislation to give public status to certain organisations and oblige all those belonging to certain groups which the organisations are supposed to represent to become members?
3. How can one best organise these membership organisations to ensure that the leadership is fully responsive to the desires and needs of the members to minimise internal conflicts, fragmentation and the development of authoritarian controls by small groups or individuals?
4. What safeguards can be developed to ensure that these organisations play their full role in the promotion and strengthening of new enterprises and do not limit their activities solely to protecting and supporting those firms already in operation?
5. What is the most effective relationship between these organisations and government and public bodies to ensure that they work cooperatively for the national benefit?
6. How can one ensure adequate staffing and finance to facilitate the effective operation of membership organisations and the delivery of quality support services. What is the most desirable and appropriate composition of sources of financial support'?

The above may not be all the major issues but they comprise some of the central more pertinent questions that need to be resolved to ensure effective operation of the private sector organisations.

Organisations Relating to Size of Members

Like most of these issues this can be a sensitive question. There are benefits both in developing organisations for large and small together and for maintaining the separateness of small enterprise organisations. In Chambers of Commerce and Industry, the organisations that cater for both large and small members, have more resources and have more suitable candidates for leadership positions. The whole organisation can attain a higher profile and status in the community. Furthermore a common membership of large and small in a single organisation can sometimes lead to beneficial linkages and even useful advice and guidance for smaller businesses. However there are many cases where such organisations are taken over by the large and powerful and smaller members feels that the organisation does not cater to their needs nor respond to their particular problems.

This latter problem may be resolved by maintaining a single organisation with separate divisions and affiliates according to size. If suitably organised this could, under certain favourable conditions, lead to the benefits of "cross-subsidisation" of activities for the smaller members from the fees of the larger participants and yet maintain a suitable framework for adequate expression of the interests and concerns of smaller members. Affiliates of course can be organised according to size or, as is often the case, according to sectoral groupings in cases where there are sufficient active members from a particular sector with special interests.

While not wishing to prescribe clear guidelines for all situations, the suggestion for an organisation with open membership to all sizes yet with specific divisions or affiliates based on size and/or sector could be considered as a first stage. Based on the experience that ensues, further decisions on this organisational question can be made and where cooperation between large and small-scale members does not develop, a separatist movement for a distinct association for small enterprises will almost certainly follow.

Obligatory or Voluntary Membership?

As is well known even in developed countries there are differences of opinion on this subject. European countries including Germany, France, Italy, Holland favour public law status for Chambers and acquiring as an obligation, membership and payment of fees by all operating business within the prescribed sector. In the English speaking countries, U.S.A., U.K., Canada, Australia, Chambers have developed as voluntary associations and there have been strong arguments against imposing obligatory membership.

There are strong points for and against obligatory membership and these are well known. It is clear that voluntary membership imposes problems in building up a viable membership that is sufficient to finance and support an organisation able to provide useful services to its members. On the other hand, most developing countries, as distinct from the situation in Germany and other European countries, private sector membership organisations have not yet been able to work out a suitable cooperative relationship with a government and to carve out for themselves a responsible status in the community. Obligations in general are not observed to the same extent as in some European countries. This is borne out by the difficulties in collecting taxes and the wide spread incidence of tax avoidance. One may assume that collecting membership fees might not be any easier. If this is imposed in the form of a registration fee to permit a new enterprise to start operating the result might be a further increase in the informal sector and illegal enterprises so prevalent in developing countries.

As indicated when discussing the role of advocacy, public law status for representative private sector organisations leads to mandating of government to consult with representatives of the private sector before enacting legislation and regulations and can ensure the designation of a **single** organisation as representing the sector. This can reduce fragmentation into a number of small ineffective bodies.

The conclusion must be that there is a need to enhance the status of private sector organisations, first and foremost vis-a-vis the government, according them full recognition as to their representative role. This can be helped considerably by transferring to them some statutory functions. This will create

a suitable framework to attract members. At the same time whether membership is voluntary or obligatory, the organisation will still need to win the support of those who become its members.

Even in developed countries, i.e. in European countries, there has been some tendency among enterprises to identify the sector organisation to which they are obliged to become members with government. As stated in a recent publication, "In Germany, Austria or France one certainly will find Chamber members who look upon their Chamber rather as a part of public bureaucracy than as a self governing institution of the private sector"¹.

The same publication also refers to a major discussion on the subject of obligatory membership of Chambers in Austria, a country where Chambers have public law status and all who work within a sector must belong to the Chamber representing the sector. The chambers cover industry, agriculture, commerce, physicians and other professionals. In the face of criticism of the imposition of obligatory membership, the Austrian authorities have defended this by insisting that this is the only way to ensure that the interests of all sectors in the economy are duly represented. As many trade unionists have argued in the past in favour of "closed shops" (i.e. every worker in an unionised enterprise must belong to a union) the alternative is for non-members to benefit from the efforts of representative organisations without paying their dues.

While undoubtedly obligatory membership can ensure more adequate resources to represent the sector properly and to deliver effective services, there could be a resulting "alienation" of the leadership from the members if, enterprises are forced to belong to an organisation from which they feel they are deriving little benefit.

Despite these reservations, one cannot deny the major difficulties involved in mobilising sufficient membership on a voluntary basis to create an organisation capable of adequately representing the interests of the private small-scale sector and providing a wide range of support services of the quality needed by SME. On the basis of European experience it needs around

¹ M. Pilgrim. "Institutional Representation of Small Business in Industrialised Countries." International Small Business Series 8 and University of Gottingen. 1991

4000 - 5000 members or at least a minimum of 2000 to build up approaching viable effective organisation. This should be taken into account in planning the areas to be covered by particular Chambers or Associations. In the early years this would probably mean a potential membership target group of at least 30,000 to preferably 50,000.

There may be situations reached in some developing countries where a suitable relationship has developed between the private sector representative organisations such as Chambers of Commerce and Industry and the government and where the former have built up a substantial membership and a recognised authority borne out of a proven ability to deliver services, where it might be appropriate to consider imposing an obligation on all enterprises to become members. In the meantime, probably the most effective approach to this issue is for the government

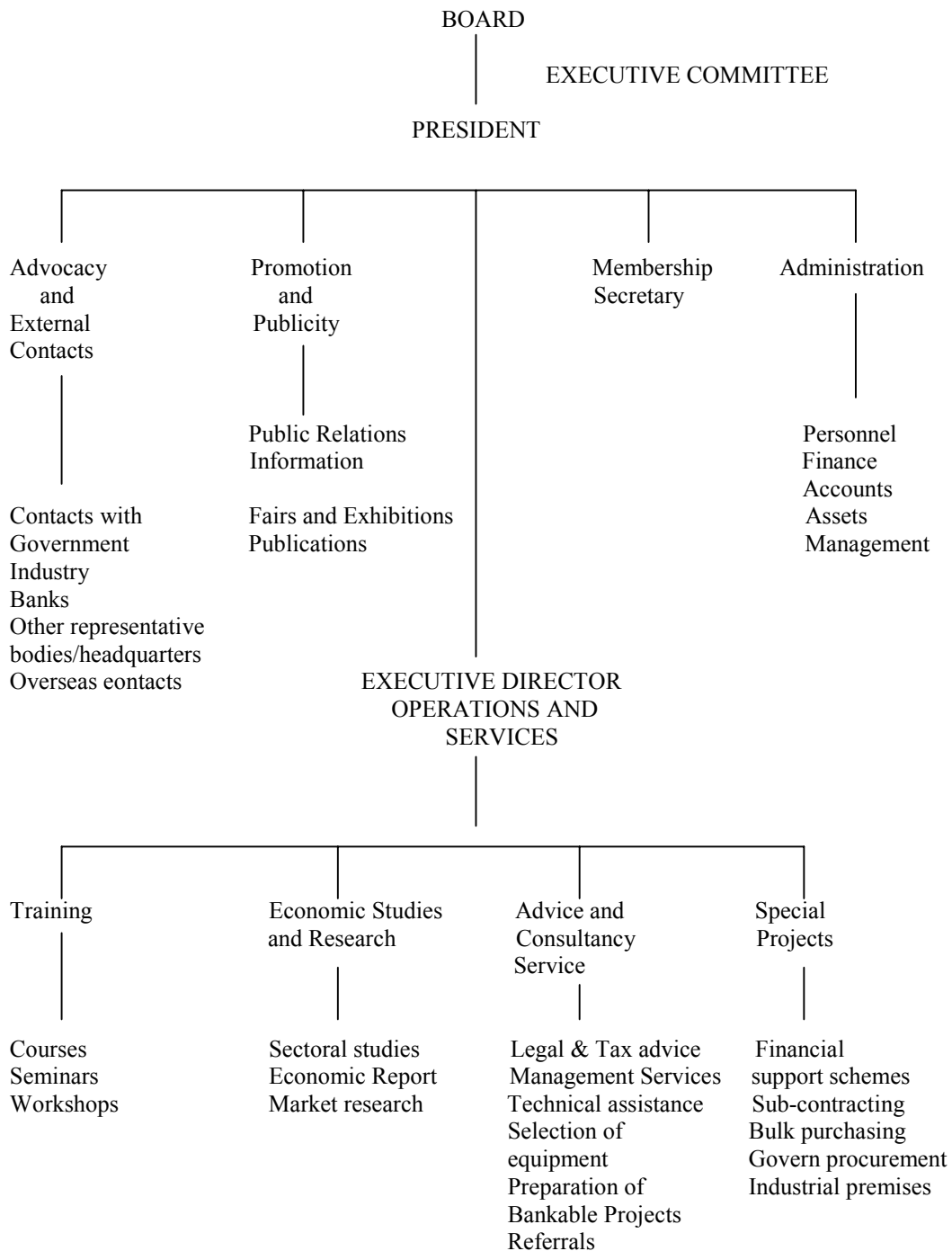
- a) to recognise the role and status of the private sector organisations as a partner in economic development, and as a voice and spokesman for the body of private enterprise to be consulted on all major issues and policies effecting this group.
- b) to transfer some limited statutory obligations possibly in the field of certification of technicians and craftsmen as regards the origin of products. Private sector organisations may also play a role in processing of taxation assessments of small and private enterprises.
- c) use the private sector organisations for various promotional activities such as screening of suitable government suppliers, authorised lists of sub-contractors, organisation of groups for industrial estates and clusters, as vehicles for bulk purchasing and collective marketing, credit guarantee schemes, export promotion, etc.

The above indicates ways in which these organisations can achieve status vis-a-vis potential members and provide them with help and services to the extent that entrepreneurs would consider it worth their while to be members. Ultimately when a considerable body of membership has been achieved and the status of the organisation is assured, the possibility needs to be explored of introducing legislation to impose obligatory membership. It would be

advisable to sound out members, as well as the sector as a whole, on their attitude to obligatory membership, explaining the advantages that might materialise from legislation to this effect.

The chart below gives an example of a possible organisational structure for a representative organisation to aim at in a transitional phase of development.

Chart 2: Proposed Organisation of Local/Regional Representative Body of Private Sector in Transition Phase of Expanding SME Support Services



Leadership of Organisations

Private sector membership organisations must be democratically constituted so that those occupying the leadership positions are democratically elected at regular intervals. This also means that they can be deposed if sufficient numbers of members feel that they are not effectively performing their functions or guilty of actions prejudicial to the good interests of the membership. There are dangers that problems of this sort may develop, especially where membership is small and it is easy for a person or a small group effectively to manipulate the election process. The only real answer is of course is to have a vigilant membership body and, although there may be exceptions, it generally is against the interests of an organisation to have the same person or small group of individuals in the leadership position for indefinitely long periods.

Where local or regional organisations are subjected to manipulation in the manner referred to above, there should be some procedure whereby the national federation to which the regional body is affiliated can be appealed to by its members to take steps to rectify the situation. There is also the case for some national council - a proposal referred to later in this paper - that might be in a position to examine the situation and intervene where subsidies, grants or support funding are involved.

While it is as well to be aware of problems that may arise of the character outlined and to have a mechanism in place to correct situations when they arise, ultimately the operation of democratic procedures and the responsiveness of leadership will depend on the active participation of the members and sufficient of them being concerned to take action when needed.

New Enterprises. There is a tendency in some private sector organisations to emphasise activities which protect and help its members in a ways which means that support is given mainly to those enterprises that are already in operation. Promoting new enterprise development is a major need of all developing countries and it is important that it is laid down in the constitutional role of these organisations that the purpose of their existence is not only helping members already active in business but also helping the creation of new enterprises and mobilising new members. There may be some

occasions, hopefully not too numerous, when problems may arise as the development of new enterprises is perceived as damaging the interests of existing members through unreasonable competition. It should be possible for far sighting leadership of organisations to make clear that safe-guarding the interests of existing members cannot be the sole purpose of the organisation if it is to make its full contribution to the overall national economic development. Ultimately it should be explained, the organisation will be strengthened through the promotion of new enterprises.

Relationship with government. As has already been indicated the small enterprise sector can only suffer in the long term from an adversarial relationship between government and private sector organisations and lack of cooperation between them.

The problem exists on both sides. Whatever the political complexion of the government, there are always bureaucratic vested interests in almost all countries that are reluctant to make resources available from the public treasury to organisations operating within and representing the private sector. In some cases the short term considerations prevail and bureaucratic structures and public agencies are maintained rather than transfer functions and decision making even on rather minor issues to outside the government framework.

On the side of the private sector hereto there are a number of private businessmen who have deep seated convictions, some of an ideological nature and sometimes based on professed experience that government is the "adversary" of the private sector and at best to be tolerated as a necessary evil to be opposed on most issues. Hopefully these are not the views of the majority of members as it is difficult to reconcile such strong views on the role of government with an active programme of cooperation but that is what is required for the private sector. As has been shown, there is a clear important and essential role for government and it is the task of the private sector representative to convince all those in government that the private sector can and will be an effective partner in furthering economic development.

Decentralisation of private sector institutions is desirable for effective operation so that cooperation with government on a national scale should be supplemented by closer collaboration between local or regional private sector organisations and the public authorities within the local or regional government structure.

In practically all cases private sector organisations cannot carry out their full role both in "advocacy" and the provision of services of members financed only from membership fees and income generated from services.

It will therefore be necessary for private sector organisations to receive some financial support in one form or another from governments both national and regional. It is also in the government's interest to develop a collaborative relationship based on mutual recognition and respect since many activities and services sometimes undertaken by Government can better be carried out by the private sector.

Each partner - government and private sector - have their own special interests. They are entitled to put these forward and to criticise the other side where they consider their actions are counter to the national interests and where they consider they have been guilty of waste or inefficiency. However more will be achieved if efforts are made by each side to bear in mind that they are both ultimately working for the benefit of the community of small private enterprises and that they should be helpful to each other in working out ways in which each can be more effective in fulfilling their roles.

Central National Body for SME Development

As it is proposed that support services for small enterprises should be a collaborative effort by both government and the private sector, it is advisable in each country to set up a central national body of representatives of government and public and private sectors. Such a National Council for SMI or SSE or its equivalent in different forms already exist in a few developing countries. Ghana has a National Board for Small-Scale Industries and the Philippines laid down in its "Magna Carta" Act for SME that a Small and Medium Enterprise Development Council would be set up. The UNIDO

consultation meeting on small and medium-scale enterprises held in October 1989 in Bari, Italy concluded both that "non-government organisations such as associations of small and medium-scale enterprises, chambers of commerce, etc. have a vital role to play ... through institutionalised interaction in Governments ..." and that a central national body or council should be set up to promote, coordinate and supervise all programmes supporting SME development.

The central national body to be set up should be composed of representatives of the government and the public and private sectors involving participants from financial, training, technical and scientific institutions who are engaged in one form or another in programmes of activities in support of the SME sector. Such a National Council would act as a central national supervisory body for the SME sector. It would exert responsibility and operate through a smaller Executive Committee and a small full time Secretariat for coordination and monitoring of the various public and private NGO's engaged in programmes in support of the SME sector. The Council should act as a conduit for government financial support for this purpose. The National Council, and the Executive Committee, **should have at least 50% representation of the private sector.**

This Central National Council or Board would receive all requests for government or public assistance to develop programmes of support for SME, would discuss the feasibility of the proposals and assess the capacity of the organisation making the request to carry out the activities for which funding has been requested. The Council would decide on allocations and through its Executive Committee and Secretariat receive regular reporting so that it could monitor programmes implemented with public funding whether by public or private sector organisations. The Council would also discuss government policies and new measures, regulations and initiatives as they may impart on the SME sector as well as special issues or problems as they arise.

The history of the performance of some central bodies in developing countries has generally not been good, usually due to difficulties in convening these bodies and/or getting them to operate in a decisive manner.

While the whole council may meet at most four times a year or possibly less, it is most important that all meetings are well prepared and followed up by the Executive Committee and the Secretariat, to ensure that the Council does not degenerate into a "talking shop" with long general statements and exchanges and few direct results. For this reason it is important to confine membership of the Council to a smaller number of better informed officials and representatives actively involved in affairs and activities close to the SMI sector to maintain focused attention on the real issues related to the sector and reduce diversions to marginal matters.

The National Council or central body should also have an important role in reviewing the behaviour of the management of both public and private sector organisations that have been entrusted with implementation of programmes with public funds and intervene where necessary to ensure that management acts at all time in the interest of its members and the SMI sector as a whole.

In developing countries such National Councils or central bodies, if they function properly, could develop into effective counterparts for discussing and agreeing on allocations of donor funding for the small-scale sector.

Financing of Operations

This usually presents one of the key problems in the development of a private sector organisation and affects its ability to provide efficiently quality support services. All the services outlined here such as training, consultancy, information, and advocacy require staff and can be expensive. Even under conditions of obligatory membership, private sector organisations are rarely able to cover more than 50% of expenses and maintain a reasonable staffing level from membership fees. In some relatively new Chambers and associations based on voluntary membership, fees are hardly sufficient to pay for more than one or two staff members.

Since in conditions of voluntary membership, fees have to be set at a reasonable level so as not to deter prospective members and facilitate collection there is a limit at which one can set these fees. Even under obligatory membership fees would also have to be set at modest levels. Apart

from membership fees, the other major sources from which finance can be obtained are:

User fees. This includes payments by participants in training courses, recipients of consultancy or of information or of any other services for which a charge can be made. The range of services for which income can be generated is considerable. They can include accounting services, offices facilities (copying, faxing, computer services, translations, typing, document distribution, etc.) bulk purchasing of materials and procurement of equipment. In Germany a significant amount by Craft Chambers is derived from arranging examinations and certification of technical and craft levels. Over 10% of most regional chamber budgets come from this source. More enterprising organisations assuming they have adequate qualified staff, may offer insurance, investment promotions, mutual funds, legal assistance, export promotion services, publications and directories or product catalogues, or organisation of exhibitions or fairs.

Most of the above services, if delivered efficiently and at reasonable cost, will generate income. In most cases training and consultancy fees cannot be relied on to produce significant revenue as these services are provided free or at very low cost.

The ability to offer services at an acceptable quality level which will be of benefit to members will ultimately depend on the number, qualifications and experience of the staff of the organisation. Specific training activities or the organisation of an exhibition or of an overseas promotional mission may be covered either by a special donation or through payments made directly by participants where there is clearly a very direct benefit.

External Grants and Subsidies. Mention has been made already of government or external grants which must inevitably form a part of the revenue of all private sector organisations, if they are to function effectively. In some cases, perhaps advisedly, these are made available in a form similar to user fees. Subsidies or grants are made on the basis of consultancies or training offered and may therefore be considered as income earned by the organisation. Arrangements with government to provide subsidies of this

nature are however usually a result of negotiation rather than the selling of quality services directly to beneficiaries or participants in programmes.

Raising income is one side of the equation, keeping to a reasonable level of expenses is also important. Over extravagance in office accommodation, furnishings, salaries, expense accounts, excessive travel of elected officials, etc. will not only pose financial problems but may contribute to alienation of members who may see in this a misuse of their membership fees or of grants made available from governments and other sources which is primarily intended to benefit them with services. There is a delicate balance to be sought here. Accommodation and staffing should be modest but reasonably adequate to carry out the functions and this also applies to other forms of expenses. As finance and expenditures are of necessity a sensitive matter, organisations should be scrupulous in maintaining proper accounting and controls and subject accounts to regular auditing and reporting.

The financing of a private sector organisation that has managed to develop an organisational structure and a programme of services would expect to source the income approximately as follows:

Membership Fees	20 - 30%
User Fees and income directly generated	30 - 40%
External support, regional or national government or donor agency grants or special contributions	around 30 - 40%

Financing will of course be influenced by whether the organisation caters exclusively for members of the small enterprise community or provides for both larger and smaller firms. In the latter case one would expect both a higher income from membership fees and the possibility of raising special funds or grants from the larger and wealthier members.

Membership fee levels would generally be graduated according to either the number of employees or turnover of an enterprise. In some European chambers the fee levy is part fixed and part based on taxable income or taxes paid.

Special Donations Even the case of small industry or small business associations the possibility should not be overlooked of obtaining special grants or donations. Like government grants this may take the form of an overall financial subsidy or grant or more likely be directed to funding particular activities such as some special types of training. Larger businesses may finance information or consultancy services for smaller enterprises. In some cases this may be special financial assistance for organising exhibitions of products or facilitating participation of smaller producers in international or national fairs. As noted earlier, overseas travel of small-scale businessmen to learn about new equipment or technologies or to promote exports is sometimes subsidised by larger businesses.

Organisations consisting only of small enterprises will always suffer from greater financial difficulties and will probably have to rely for more than 50% on external grants from government or public agencies, large firms or external donors. However, it is important from every point of view that all organisations attempt to raise as much income as possible from membership, from the use and sale of services and from income generated from special programmes or activities initiated by the organisation. Only when a minimal percentage of income is generated in this way will the organisation be assured of a reasonable degree of independence. It is inadvisable for any such organisation to rely for more than 50% on any single external source whether it be government, external donor or a large contributor.

Donor Support for Private Sector Organisations

In the last few years as part of the general move towards a greater recognition by all donor agencies of the role of the private sector in economic development more aid has been directed by external donors in setting up and strengthening the representative bodies and "self help" organisations of the private sector. This is in keeping with a parallel trend of donors to channel more of its assistance through NGOs.

Donor agencies can provide considerable help in the development of all support programmes for SME and especially in the strengthening of the capacity of private sector organisations to play an important role in this field.

Most prominent in these efforts have been the German aid organisations. In 1985 the GTZ (German Technical Cooperation) launched its partnership or "twinning programmes" between the Handwerkskammer (Craft Chambers) of Germany and selected representative organisations in certain developing countries. One of the earlier examples of the "twinning" was the project to strengthen the Chambers of Commerce and Industry in Cebu and Cagayan de Oro in the Philippines to enable them to deliver improved services to member firms. This project which started in 1986, is now scheduled to continue to 1992. At the start the GTZ grant covered more than 50% of the operating budget but by 1990 had fallen to 30%. It is hoped that after 1992 the Chamber will finance itself without external donor assistance, although this is by no means assured².

The German foundations have been most active in supporting SME associations in Africa. The Konrad Adenauer Foundation has assisted the ASSI (Association of Small Scale Industries in Ghana). Another German aid foundation has provided an advisor and equipment for the Ugandan Small Scale Industries Association (USSA) while the Friedrich Naumann Foundation has for the past 4 years been engaged in helping private sector organisations in Kenya and Nigeria. In Kenya the Friedrich Naumann Foundation has financed 5 local Kenyan professional workers for the Small Scale Traders and Entrepreneurs Society which it is claimed has over 5,000 members. This society has, with this German help, developed a training programme for its members. The Friedrich Naumann Foundation enters into long term agreements with the private sector organisation it assists offering to cover a considerable part of the operating budget for a period if the recipient organisation works towards building up its income from other sources over a number of years.

The German Ministry of Economic Cooperation through the GTZ has also sponsored the Partnership Programme which assists private sector institutions such as Chambers and Trade Associations to play a more active role in improving the policy framework for SME and the delivery of services and

² See also "Philippines Review of Support Systems for Small Enterprises." Report to GTZ, J. Levitsky, March 1992.

support to members. The Partnership Project based in Singapore is a collaboration between the ZDH (Zentral Verband des Deutschen Handwerks) - the Central Organisation of the Craft Chambers of Germany - Technonet, a South East Asian regional organisation for helping small enterprise development. The Partnership Project has provided help to private sector organisations in Philippines, Indonesia, Bangladesh, Nepal and is spreading its activities into other Asian countries.

The case of the Nigerian Associations of Small Scale Industrialists is indicative of the type of aid that can be given to these African self-help associations. This Association now has a staff of 6 persons, including three professionals, in its head office in Lagos and 40 persons throughout its branches in 21 states and in the Federal Capital, Abuja. It claims that 40% of its budget is covered from government support in indirect funds from external donors, mainly the German Friedrich Naumann Foundation. The Nigerian Association while still restricted in its activities because of limited resources, has run an active programme of short courses and claim to offer an advisory service on financial management, legal matters and exporting. Membership fees cover only 25% of its budget.

A different picture is given by the Zambian Association of Small Scale Enterprises. Although officially established in 1982 it has failed to obtain any support from either the government or external donors. Its membership has dropped from 300 to around 100 in 1991. Only recently has it managed to open a small part-time office.

External donors can offer help in the following forms:

- a) Offer matching funds up to 50% of the operational budget in the first year down to around 20% in the fifth year. After 5 years support private sector organisations should have found alternative domestic sources to replace donor funding and be able to generate at least 50% preferably 70% from their own membership and activities.
- b) Provide foreign short-term consultants to strengthen the organisation's leadership and to carry through special projects for sectoral affiliates.

- c) Initiate and implement training programmes (including courses, seminars, overseas visits, etc.) for groups of active members.
- d) Help fund, design and implement credit guarantee schemes for members.
- e) Assist in developing overseas contacts for technology transfer, joint ventures, subcontracting, exporting. etc.

A donor agency support programme for a private sector organisation may have to run for up to 10 years but should be planned so as to effect a "phasing out" and considerably reduce assistance after 5 years.

Chart 3: PROPOSED SCHEME OF A PRIVATE SECTOR SUPPORT SYSTEM FOR SMALL SCALE ENTERPRISES

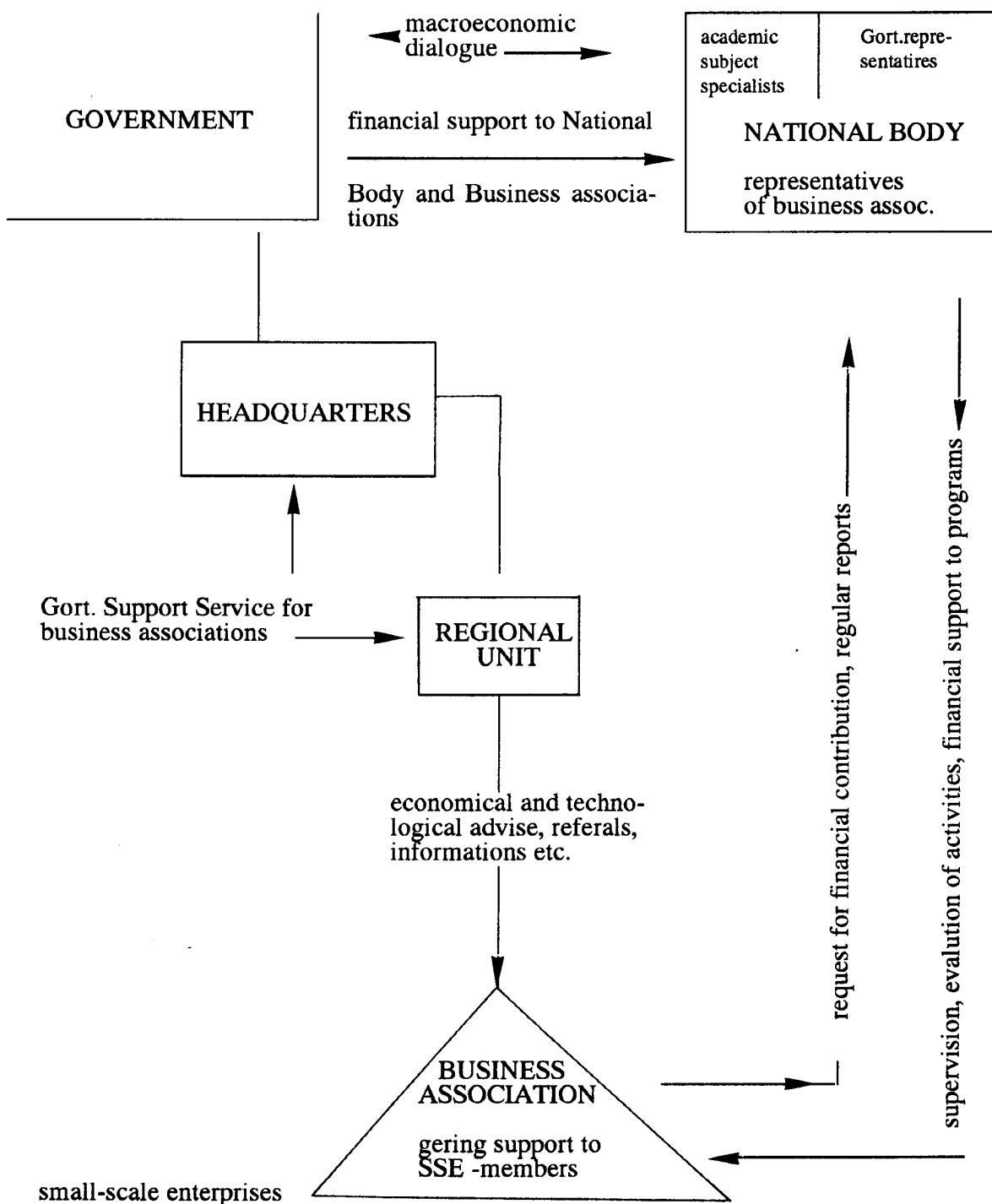


Chart developed by R. Jerosch

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