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Jacob Levitsky

Proposals for a Private Sector Support System For Small and Medium Enterprises In Developing Countries

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

CONTENTS

List of Charts:

I. Introduction and Background[1]

Much has been written on the importance of small and medium enterprises (SME) in the economies of developing countries. It has been found that faced with the scarcity of capital existing in these countries, they succeed in generating more employment for limited capital investment. They act as 'seed beds' for the development of entrepreneurial talent and the growth of larger enterprises, they play an important role in the training of young people, they supply the lower income groups with inexpensive consumer goods and services, and more recently it has become evident that they can also act as buffers in time of recession. Due to their flexibility they are better able to weather downturns in the economy than the large scale enterprises. They are also able to develop and function successfully in areas with limited infrastructure and markets and thus can help decentralise the benefits of industrial development throughout the country.

In general, in the past, the broad policy environment in developing countries has been unfavourable to the development of small enterprises. In pursuit of modernisation and the hopes of rapid industrial development, large scale enterprises were favoured in developing countries and agriculture was relatively neglected, resulting very often in low prices for farmers, thus limiting their purchasing power with its adverse effect on the development of small enterprises in rural areas, where they would hope to find significant markets. ln recent years there have been some reforms of policies and efforts have now been made to redress the balance, but these changes are in most cases too recent to measure their full effect.

Successive groups of experts sent out by donor agencies have looked at the small enterprises in developing countries and have criticised them as weak, backward, using obsolescent equipment, lacking management skills, and in need of considerable advice, training and support. This inevitably led to the creation and continuous expansion of institutions

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[1] This paper is a shortened version of a report prepared for the BMZ (Ministry of Economic Co-operation and GTZ (Agency for Technical Co-operation) of Germany

aimed at providing assistance to small enterprises to remedy their deficiencies. It was repeatedly recommended that small enterprises needed credit, factory space, technical and management training, new technologies, extension advice on how to run their businesses, marketing help, assistance with raw material purchases and various other forms of help that could establish closer linkages with the procurement operations of large enterprises and government.

The form of institutional development that has taken place in developing countries to help small enterprise development has varied to some extent with the policies of the government, the geographical nature of the country, the state of political and economic development, and the advice received from various experts sent out by donor agencies. The prevailing model, particularly in many Asian and African countries, has been however the setting up of a major central small enterprise development institution, publicly owned and staffed. It does not seem to matter whether the prevailing ideology of the country was, as in the Philippines and Kenya, primarily in favour of promoting private enterprise, or whether the policies supported were towards a socialist organisation, as in Tanzania and Zambia; the approach seems to have been similar as regards the institutional development to support enterprises.

In all the cases this has been the establishment of publicly financed institutions which have endeavoured to adopt supply side progrannes, namely to offer a variety of forms of training and advice in the belief that this was what the small enterprises needed and that there would be demand for these services. The services were to be offered on a subsidised basis, often entirely free, since it was believed that the small enterprise sector needed special help and was too weak to finance this programme itself to any extent. These government-supported institutions developed not only from an attempt to copy the examples of countries such as India, but also because it was politically expedient for governments to show that they were supporting such assistance programmes for SME. The institution was there as evidence of what was being done for small enterprises. In short, until quite recently, governments placed the main emphasis in their support for small enterprises in the establishment of public institutions capable of offering a wide range of assistance programmes.

As time passed it became abundantly clear that both the supply side approach and the creation of larger or smaller centralised government institutions supported from public funding was flawed in many respects and was not achieving the objective. A number of weaknesses soon became apparent. Primary among these was the fact that the assistance reached few of the entrepreneurs who needed help. It became obvious that the help was being utilised by those who were better educated and politically placed to take advantage of assistance offered. The institutions suffered, as most government bodies in developing countries do, from inefficient and poor management and weak staffing, despite relatively large budgets for personnel and facilities. The institutions managed to assist only a relatively small number of enterprises and so their operations became very costly in relation to the volume of help actually offered. Furthermore, they failed to win the confidence of both of the small business community that they were supposed to serve and the financial institutions who were to provide the parallel finance. The latter did not have great confidence in the technical advice and support being given and this resulted in little or no collaboration between credit programmes and the institutions engaged in forms of non-financial assistance, offering training and advice.

A further weakness of these institutions was that they became staffed, as might have been expected, by relatively young, inexperienced personnel who lacked an understanding of the real needs of the small business community. First, they continued to offer forms of training and advice based on theoretical concepts that they had learned in academic institutions and which were not responding to the real needs of these entrepreneurs. To the extent that small scale entrepreneurs are prepared to undergo training or accept advice, they have expectations that they will be able to apply what they have learnt or what they have been advised very quickly in the day to day operations in resolving the problems that they are facing. This was not the case, and as a result the small enterprise community began to view with scepticism the programmes of assistance that were being offered. This was exacerbated by the image that was presented of these publicly financed institutions which suffered inevitably from the suspicion that all government suffers from in relation to the business community.

Little was done to evaluate the impact of these institutions but such studies that were made seemed to show that direct results were poor in relation to the high costs of maintaining and operating the institutions. Most studies that have been made have criticised most publicly supported small enterprise institutions for incurring costs out of proportion to the probable impact they achieved. Many have expressed belief that the functions could be performed more effectively at much lower costs if a new form of institutional framework, possibly based on private enterprise approaches could be developed.

The final criticism which lead, in some countries at least, to a belief that the large-scale, government-supported high-cost small enterprise promotional support institutions could not achieve the objectives which were set, was that they made no progress towards financial self sufficiency and that they suffered from rapid turnovers in management and staff. Most of the young, inexperienced staff that were recruited regarded the work in these institutions as a transient phase before they could move on to more substantial and rewarding positions in the private sector or in higher positions in government, or to work overseas. On top of this, ambitious managers, often political appointees or bureaucrats, pushed the institution to expand into new programmes offered by donors and moved into activities for which they had neither the competence or the resources, thus further reducing the effectiveness of the institution.

As costs increased, governments and institution turned more and more to donor agencies to provide the support they needed. Many of these donor agencies replaced each other in providing the necessary assistance, but gradually it became clear to the donors, that these institutions were not moving towards self sufficiency and would continue to face increasing budgetary and staffing problems, even more so as they took on new fields of activities which the donors offered. As a result there has been a move over the last years for many of these institutions to engage more and more in activities that help to generate revenue. This has, in turn, conflicted with the social objectives. The institutions more and more start catering for the larger end of the SME spectrum who are able to pay for training, for advice and for other facilities offered.

A major international study sponsored by the Netherlands government, UNDP and the UN specialised agencies looked closely at the experience of various forms of support for development of small enterprises in 1988. It particularly criticised what it called "the general purpose small industry development agency (SMIDA)". It found these general purpose small industrial development agencies as not having been very effective and suffering from "overcentralisation, rigidity and over-emphasis on hardware with a largely urban focus." It is particularly noticeable, from this report and others, that many of these agencies laid undue emphasis on large impressive buildings and offices, technical centres, laboratories, demonstration workshops, industrial estates, fleets of vehicles, rather than on the intrinsic quality and dedication of the staff that were to deliver the services offered.

The government agencies referred to here have appeared sometimes as branches of the Ministry of Industry, as in the case of Indonesia, or as major para-statal organisations as in Tanzania, Zambia, Pakistan and other places. The difference in operation and effectiveness was not very great. The Netherlands government/UNDP report particularly stresses the fact that many of these agencies attempted to offer a comprehensive package of all sorts of programmes, many of which were not really required by the small enterprise. In some cases the types of assistance offered, often very persuasively, by the extension officers, were hard for SME to resist. Thus small enterprises took on larger loans than they could reliably service and moved to premises on industrial estates greater and more costly than needed for which there was little economic justification. The agency that advised them on these moves could not then follow up with the help needed.

Several such cases indicated that those in the institutions offering training and help were out of touch with the clientele and target group they were supposed to help. Most of the institutions continued to grow and expand, thus compounding the bureaucracy. New departments were often set up without any collaboration or integration with the other activities of the institution. In some cases the lack of cooperation and overlap between departments within the same institution was worse than the lack of cooperation between different institutions.

Finally, as is often the case with government promoted activities, not only each of the institutions, but even the specific programmes and activities of the institutions became vested interests for whose who were employed in it. The management, staff and, in some cases, the clients as well, developed these special vested interests in the programmes and so it became difficult to halt them, even when it was obvious that they were costly and ineffective. Only under pressure and in the face of disappointing results and heavy losses, some institutions have made changes and dropped direct financing programmes, and others have stopped constructing and managing industrial estates or other programmes.

The experience of these centralised development agencies is that one reason for low effectiveness is their over-centralised organisation instead of building up small, more effective, branches or local agencies closer to the enterprises that they are trying to help.

In general one may conclude that large scale, comprehensive, national government supported institutions have failed to provide cost effective programmes in support of small enterprises. Throughout the developing world there have been some cases where smaller agencies, even when publicly supported, have achieved more positive results. It is becoming clear that training, advice and help in such fields as subcontracting, exporting, and introducing new technologies can better be provided for small enterprises on a local or regional basis, except possibly in very small countries, where an effective central organisation might be more feasible. Furthermore, more effective systems could certainly be developed through a system of referral, that is, having small, well-staffed agencies that are able to provide some limited forms of direct assistance, but then refer the local small enterprise applicant to another source of help, be it a public agency, a private organisation, a research institute, a university, a large enterprise, a local consultant or a non-government organization (NGO), where the entrepreneur may benefit from direct specialist services in the particular type of assistance required.

Clearly, the time has come to explore ways of involving to a greater extent private sector institutions in the delivery of support systems for small enterprises. These organisations are more likely to be accepted by the small enterprise client they are trying to help and are close enough to the potential recipients of aid to recognise their real needs. It is also to be hoped that these private sector organisations will operate in a more cost effective manner but it should be recognised, that if care is not taken they could end up suffering from the same problems as the public agencies.

II. Support for SME by Private Sector Organisations in Developed Countries

The inadequacy of the public sector SME development agencies and promotional organisations has led some donor agencies and governments to the conclusion that it would be more effective to try to have some support services offered by NGOs. NGOs that could be involved in support for SME would include both non-profit and for-profit private sector organisations. Among such non-profit NGOs are:

1. Foundations - organisations set up usually by larger businesses or by the business community to help weaker business units.
2. Membership organisations - self-administrative associations or federations of enterprises, business organisations, chambers of commerce sometimes referred to as 'self-help' organisations (SHO).

The for-profit NGOs include private consulting firms, research and development institutions and training bodies, all of which offer support services at a fee, sufficient not only to cover expenses but also possibly to provide a surplus or profit to the providers.

Foundations

This term describes agencies or organisations created usually by larger enterprises or possibly individual wealthy businessmen or business groups to assist small business development without any apparent direct individual benefit. There may be indirect benefits in that a strengthened small business sector in a locality could in the long run enhance the profitability of some very large enterprises. This may apply to petroleum, distribution, telecommunications, marketing organisations or even to large scale manufacturers of some commodities such as steel, aluminium, or glass or equipment such as machine tools or computers.

Certainly, SME could be important consumers of the products or services of large organisations such as those mentioned, but the establishment of these special non-profit agencies or foundations by a single large corporation or by groups of larger enterprises generally tends to have less to do with irmmediate commercial benefit and more with public relations and image building, by displaying a readiness to play a helping role in the community and collaborating in an effort to raise the level of the disadvantaged.

In some countries, particularly in the developing world, some actions by large corporations to help local small business - often by foreign multi-nationals – is undertaken to improve relations with central, regional and local governments as much as with the business community as a whole in the hope of obtaining more favourable treatment on such matters as repatriation of profits, imports or government approval of foreign management or expansion plans etc.

Membership organisations

Most support for SME from private sector organisations however in developed countries are from associations, federations and chambers of commerce, in other words, representative 'self-help' type of organisations in which the small businesses themselves are members.

Small companies have an identity of interest different from large business and in all European countries, as well as in North America, Japan and elsewhere, there is a strong movement to create small firm representative bodies which are distinct from larger business associations. Clearly, the main purpose of these bodies is 'advocacy,' namely to lobby governments to take account of the interests of small scale businesses in the framing of national policies.

Even in the industrialised countries, the proportion of small firms which take an active part in promoting their interests through representative bodies is very small. Most reviews show that only about 10 percent or even less of small businesses are members of such representative bodies as against perhaps over 50 percent or even higher that are members of trade associations, bodies which have a direct relationship to the commercial activities of the enterprise.

The low level of membership is partially explained by the independent character of small business proprietors and the limited time they perceive to have available for participation in group activities. The independent individualist character of small scale entrepreneurs tend to make them believe that they have little to gain from seeking the protection of a group. This is certainly a short sighted view when the entrepreneurs assess the benefits that can accrue from the membership of such representative bodies, as against the payment of a modest membership fee, even though it should not be ignored that for small businesses, such payments are a relatively larger burden than for a larger firm.

Whether membership of private sector organisations such as chambers of commerce should be obligatory or voluntary and whether these bodies should have 'public law status' has been discussed increasingly in recent years. The discussion is also important to developing countries. If one proposes that chambers of commerce play a greater role in support of SME and offer a wider range of services, then it becomes important to ensure that these bodies are truly representative with high levels of membership of the small business community, and also that their resources are in some way commensurate to the demands on them. Also, there is no doubt that where membership of chambers is obligatory, these bodies can operate more in the general interest since they do not have to fear withdrawal of membership when members oppose particular decisions and actions. They would not therefore suffer any consequent loss of revenue. One might also argue that the strongest case for obligatory membership is in order to provide the chambers with sufficient guaranteed revenue to enable them to operate comprehensive programmes and offer a wide range of services to their members. Obligatory membership also eliminates the resentment of members that those who do not pay the fees nor work within the chamber also obtain the benefits of the chamber's efforts.

There are as well pertinent arguments against chambers having 'public law status' and being able to make membership obligatory. Some argue that obligatory subscriptions would be a burden on small businesses, but this seems to be less persuasive since it is quite possible to impose suitable graduating fees to minimise greatly the burden on very small businesses. All small businesses in all communities are obliged to pay some taxes or rates for the operation of their businesses to the local community and if in fact the chambers of commerce can be considered to be taking over some of these duties of the local authorities then the 'public law status' of the chambers could enhance their role and make their operations more cost effective by getting them involved in revenue raising activities.

There are those who argue that voluntary private chambers are more independent of government, and some criticise 'public law chambers' as being more likely to be subject to government control.

In developing countries of course, where tax paying is less accepted and less competently organised, the collection of the subscriptions from a 'public law chamber' with obligatory membership might pose some problems. However, if the chambers are to be given the enhanced role they need and the resources which can enable them to play a more comprehensive role in supporting their members, particularly SME, a way has to be found for them to attain the status to mobilise the revenue they require to operate effectively.

In Western Europe, as distinct from the English speaking countries, the chambers of commerce and, to a lesser extent, private sector associations organise and control most of the training and advisory services for small business. Because of the public law status the chambers have the resources, the regional coverage and the organisation that makes them suitable vehicles for such support programmes.

III. Representative Organisations of the Private Sector in Developing Countries

In the last years increased efforts have been made, particularly by donor agencies, to get the private sector more involved in providing services in sup port of SME. Until now in only a few cases have private sector organisations in developing countries actually operated programmes to assist SME. It is generally recognised that in most developing countries, private sector representative organisations are weak and not in a position to undertake major programmes, certainly not without considerable help.

It is now emphasized that private sector organisations have to be built up and have to be given a chance to acquire experience in the provision of services. Unfortunately many of them are not yet convinced that this should be a ma jor role of their organisations and lack confidence that they have the competence to carry through any programmes effectively.

Private sector representative organisations do exist in developing countries. In practically every developing country, Chambers of Commerce and Industry function and are active in promoting the interests of the business sector in general, and small enterprises in particular. In most cases, they regard advocacy for the SME sector and influence on government policies as their principal role.

In all developing countries membership of representative organisations, whether the Chamber of Commerce and Industry or Association of Enterprises, is entirely voluntary. Not surprisingly, most of them are able to recruit as members only a small percentage of the actual number of businesses that could be eligible. The low level of membership means in turn that the revenue from memberships fees is low and the organisations are therefore unable to offer services or assistance programmes. This in turn means that many enterprises are reluctant to join since they see little or no advantage in becoming members.

Chart 1 gives some figures on representative bodies for SME in a few selected developing countries. It can be seen that the full-time staff available for carrying through programmes and implementing services is very low. Budgets are also minimal. The annual budget for the

Chart 1: **SME associations in selected developing countries**

Country	Association	Year of establishment	No. of full-time staff	Source of financing (percentage) A : B : C : D [1]	Constraint for expanding services
ASIA					
Bangladesh	National Association of Small & Cottage Industries (NASIB)	1985	10 (256 in branches)	n/a	Finance
Indonesia	Association of SMI Enterprises	1979	10	1 : 15 : 60 : 20	Finance
Malaysia	SMI Enterprises Association of Malysia	1981	2	n/a	Low membership
Philippines	Chamber of Commerce & Industry (Cebu)	1981	24	24 : 46 : - : 30	Finance Low membership
Thailand	Small Industrie Association	1976	19	n/a	Finance
AFRICA					
Ghana	Association of SSI (ASSI)	1986	5	10 : - : 50 : 40	Finance
Kenya	Association of Kenya Traders	1988	7 - 8	20 : 20 : - : 50	Finance Professional staff
Nigeria	Nigerian Association of SSI (NASSI)	?	6 46 (in 23 branches)	25 : 15 : 40 : 20	Finance
Uganda	Uganda Small Scale Industries Association	1979	6	n/a	Finance
Zambia	Association of Zambian Small Scale Enterprises	1983	2	90 : 10 : - : -	Low membership Finance

1) Code: A - Membership Fees; B - User Fees and Commissions for Services; C - Govt direct - indirect support; D - Donor support

Sources: Chee Peng Lim: Paper to International Conference, Small Business Development Singapore, October 1989; and replies to questionnaires.

in Thailand. As can be seen from the figures most of these organisations cover only 5 to 25 percent of expenditure from membership fees. Two of the more active institutions, the Chamber in Cebu, Philippines and ASSI in Ghana have 30 and 40 percent of their budgets, respectively, provided by German donors. Finance was named by nearly all of these bodies as the most important constraint that prevented them from expanding services for which they see considerable potential demand. Low membership seems to be a general feature of these representative organisations.

In Indonesia, there are six separate special organisations that work together with the National Chamber of Commerce and Industry (KADIN) for the promotion of small enterprises, but they have had only limited success in appealing to small enterprises to become active members. For example, in Bali in the early 1980s, only about a thousand of the 13,000 small businesses operating on the island were members of KADIN. Clearly, most of the small enterprises did not see any advantage in belonging to an association or chamber which provided few benefits, even if the fee was relatively modest.

The facts depicted by the figures in the chart are now generally accepted, namely that these private sector organisations in virtually all developing countries are weak and only manage to recruit a very small percentage, usually substantially less than 5 percent, of the potential eligible membership. Still, they do exist in a limited form in practically all developing countries.

One of the few exceptions in Asia is the relative strength of the Federation of Small Business (KFSB) in Korea, set up in 1962. The Federation had a full time staff in 1988 of 235 and an annual budget of close to US$3.3 million equivalent. The KFSB offers some indications of how such organisations can strengthen both their membership and their financial resources. The KFSB undoubtedly wields considerable political power and provides considerable benefits for its 16,000 members. Its activities include promotion of subcontracting, bulk purchasing of materials, establishing contacts with overseas buyers and investors as well as offering valuable information services, particularly on new technologies. KFSB generally does not offer training, except to a very limited extent, nor technical advisory services leaving these activities to the SMIPC - Small and Medium Industries Promotion Corporation - established and operated with public funding. One attractive feature of KFSB which increases membership is the Small Business Mutual Aid Fund which by 1980 had in it over US$50 million equivalent and which was available for members in case of emergency or urgent need.

In some Asian countries, the Philippines for instance, self-help representative organisations of business have tended to develop along sectoral lines and to some extent this has been true in Indonesia. The small industries seem to value exchanges and joint activities with those engaged in the same branch or sector of industry as themselves. In these ASEAN countries, Philippines and Indonesia, local and regional small business organisations and Chambers of Commerce and Industry have sprung up, possibly reflecting the widespread geographical character of these countries. It has been a practice both in developed and developing countries for larger national organisations to be organised as much as possible into autonomous divisions of branches reflecting sectoral or geographical groupings.

In Latin America stronger national small industry assistance has developed. Relatively strong associations exist in Colombia and Peru while in Brazil the National Confederation of Industry (CNI) has been instrumental in setting up and operating a formidable network for SME assistance. More recently with the fundamental changes taking place in Brazil since 1990, and a major cut in government subsidies, the CNI and its subsidiary federations together with other representative business organisations are taking over all major services for SME.

The small industry associations in Peru (FENAPI - National Federation of Small Industries) and in Colombia (ACOPI - Colombian Association of Small Industries) operate effective information services and bulk purchasing schemes for their members. They also offer limited consultancy services to members and non-members on legal matters (e.g., on how to register their businesses). ACOPI has also played an important role in the establishment and operation of SENA (the national vocational training service of CFP Corporacion Financiera Popular, the special financial institution for SME) and in the setting up in 1981 of the

National Guarantee Fund for SME. In Peru, FENAPI has also played an active role in developing a guarantee scheme for SME and in promoting subcontracting. Certainly in Peru, Colombia, Brazil and to a lesser extent in Mexico and Argentina, membership levels of these associations seem to be higher than in Asia. These organisations also seem to enjoy recognition vis-a-vis the governments which consult with these bodies on policy matters.

The main weaknesses of representative organisations in developing countries are:

1. *Low membership* which makes them unrepresentative resulting in little influence and weak contacts with the sector and in policy making circles. The low levels of membership fee income means few and poor services which in turn fail to attract more members.

2. *Poor Leadership*. The private sector agencies are often run by small cliques with political ambitions who can manipulate the organisation for their own ends. Seldom are they persons with a vision to build up strong organisations to serve the sector.

3. *Inefficient management and administration*. Either due to incapacity or lack of time of those in leading positions and with few resources for staffing, the agencies are usually ineffectively managed. Many agencies are run by part-time managers who have their own businesses to manage and can only devote inadequate time to administrative matters. Even when there are full-time paid managers they are seldom highly qualified but rather political appointees.

4. *Non-acceptance as full partners by government*. Sometimes for political reasons, sometimes for reasons mentioned in 1 - 3 above, governments have shown reluctance or even outright opposition to supporting these agencies or fully accepting a role for them in determining policies. This in turn lowers the enthusiasm of enterprises for participating actively in the organisations.

5. *Inadequate finance*. For all the reasons given above (low membership fees, poor leadership, inadequate government support, etc) these

agencies end up without any real financial resources, thus making it impossible for them to offer effective services.

This is the general picture in most African and Asian countries where government agencies still dominate SME support programmes. As mentioned, there are some exceptions where private sector organisations are more effective, but at least in some cases their strength has been bought at the price of at least partial loss of independence from government. Enhancing the role of private sector organisations depends critically on identifying and solving the problems causing their weakness.

Low membership

As evidenced from experience of developed countries, relatively low membership is a feature of many representative organisations where membership is voluntary (as in USA, Canada, UK, Australia, etc). However, membership is much higher than in developing countries. The 5-10 percent range of membership in developed countries, even where membership is voluntary, presumably indicates SME see benefits in belonging.

Nominal membership is of course much higher where membership is obligatory as in most European countries (France, Germany, Netherlands, Italy) but it is not certain whether active membership (i e. those playing an active part in the organisation) is much higher in reality.

The low membership of private sector agencies, particularly Chambers of Commerce, raises the question whether in developing countries it might not be appropriate to make membership of chambers obligatory as in most European countries. Obligatory membership would certainly raise the status of these organisations and inevitably give them much greater influence on government policies. Obligatory membership would also raise substantially the income from membership fees. To mitigate the burden on small businesses the level of membership fees could be graduated so as to make it less onerous for small scale members.

As already stated, those who support voluntary membership (particularly in the US and UK) argue that obligatory membership would tend to bring these chambers more under government control. In developing countries it is doubtful whether obligatory or voluntary membership makes a great deal of difference in this respect. In fact, the problem in some developing countries may be that these agencies are too often in conflict with government and a closer relationship might be of advantage to both sides. Some indication as to whether obligatory membership is really needed in developing countries may come from the example of Japan (or Korea) where at least in theory membership is voluntary but so many business activities are carried out through the chambers, that most SMEs find it essential and certainly highly advantageous to become members.

In considering the low level of membership of representative bodies, it should be recognised that there is a need to educate the small entrepreneurs so that they appreciate that benefits can accrue from membership in, and support of, representative bodies and that the reluctance to participate be cause of a desire to avoid payment of a relatively modest membership fee is short sighted.

Is the introduction of compulsory membership of chambers of commerce or other representative bodies a feasible option for developing countries? There are some considerations here that are different than those that apply in developed countries. There is a tendency for the politicization of representative bodies in developing countries so there is a serious danger that compulsory membership might serve to cement an even closer political relationship with government. In the end, these organisations might not really represent the sector but rather serve the interests of a particular government. Also even if membership is obligatory by law, it is by no means certain whether within the prevailing conditions of developing countries this obligation would be enforceable. It is questionable whether it would be within the power of these bodies to collect the fees due to them even if this was a statutory obligation. It is well known that only a low proportion of the taxes that are due to the government are actually collected. Would membership fees in a chamber of commerce by any more likely to be collected?

Nevertheless it is important to explore the possibilities of obligatory membership and how this proposal would be accepted by government and by the business community. The other option would be to attempt something closer to the Japanese way, namely not imposing a statutory obligation, but giving over to chambers of commerce and representative bodies a number of functions which enable them to provide distinct commercial advantages to their members, such as involvement in government purchasing schemes, credit guarantee schemes, subcontracting arrangements etc.

It is probable that in the short term, efforts should be made to have these bodies first become more involved in commercial activities such as those mentioned above as well as encourage these organisations to develop mutual aid funds, to engage in certification of origins and provide simple office facilities (faxes, photocopying, computer services) and so on, which would make members feel that they are getting some value for their membership fees. This would, in the course of time, raise active membership levels probably more effectively than the introduction of a law making it obligatory for all SME to be members.

Poor leadership .

This is difficult to deal with. The leadership of these representative bodies is influenced by the political framework in the country. Small scale enterprises have to be educated to demand that their leadership deal with the real problems of the sector, that they exert an influence on the government to follow policies that would act as incentives for SME growth, and that they offer services to small enterprises to respond to their real needs. Without both an acceptance of the importance of the independent role of these representative organisations by the Government and also by the small business community, there will always be a problem in attaining a high quality leadership of representative bodies.

Upgrading the level of management in private sector organisations is difficult. In private sector membership organisations the members generally determine who will be in charge, and full-time effective management has to give way in most circumstances to the special interests of part-time member representatives. Assistance given by foundations and external donors to these private sector organisations can help to implement training programmes; raising the level of management of the institutions might be an appropriate role for donor aid to these bodies.

Non-acceptance as full partners by government

Where governments regard the private sector with suspicion they will inevitably reject the idea that private sector institutions can act as full partners with government in determining and implementing policies. Even in situations where the prevailing ideology of the government is support of the private sector, there is also a vested interest of government not to give over too many of its functions to the private sector. In other cases the rejection by the government of a partnership with these organisations may be legitimately based on the poor quality of the organisations or even more likely, on its low membership and unrepresentative character.

Whatever the reason for problems, it is indispensable to create a collaborative relationship between government and these institutions. All effort must be made to attain mutual recognition and respect. This also requires from the private sector organisations and the small business community an acceptance of the role of the government and eschewing the tendency to attack the government constantly as wasteful and bureaucratic. As efforts are made to raise the level of these private sector organisations one may expect that more can be achieved in attaining partnership with government. This has been evidenced in Brazil and in some other developing countries.

Inadequate finance

Most view this as a key issue but in reality it is a reflection to a great extent of the problems already referred to. Low membership produces low revenue from fees, poor leadership undermines the possibility of obtaining greater help from large businesses and from the government and inadequate government support also reflects a reluctance to provide finance to such private sector organisations. Without adequate finance these institutions cannot offer services or employ the qualified professionals they need.

The following are possible sources of finance for organisations such as chambers of commerce or associations of small enterprises:

1. Membership fees
2. Fees from activities undertaken by the organisation
3. Government subsidies
4. Support from large businesses or foundations
5. Special projects
6. Help from external donors.

Chambers of commerce in different European countries engage in a number of business and quasi-business activities which provide important sources of revenue. In France, chambers of commerce manage infrastructure, in Germany they provide not only training but certification of qualifications which is also a source of income. Most chambers of commerce in developing countries, have only a very small income from fees from activities. This fee income can come from payments by participants who take part in training or some basic payments for consultancy/advisory services or for information or sale of publications, or it may also arise from activities of the chamber or association in arranging missions abroad, participation in exhibitions, certification of origin of products, or commissions from preparing projects for bank loan requests. In the course of time income from 'user fees', such as for fax, telex, auditing, secretarial, legal and computer services, could be substantial depending on the capacity of the organisation to offer reliable service.

Finally, private sector organisations may have to be supported on top of the income from membership fees or 'user fees' by direct or indirect public subsidy or grant. This grant should for a variety of reasons not exceed 50 percent of the budget of the organisation. Above this level there would be a danger of the organisation becoming overly controlled by the government. Furthermore the public grants should not come exclusively from the national government but also from the regional and local authorities concerned. Subsidies and grants can be directly linked to training (e.g. funding to cover a proportion of training costs depending on numbers trained) or for expert promotion activities, or for the carrying out of specific programmes or projects.

Grants to these bodies should also include support from foreign donors. Such finance from external donors will be needed in the earlier phases of the development of a private sector organisation, but here too care should be taken not to swamp these organisations with grants above the level which they could reasonably absorb into productive activities. Overplay in donor support could lead to an element of corruption within the organisation's management. It therefore should be limited exclusively to the provision over a period of some advisor or staff support or equipment, presumably of the type which could help in the dissemination of information and in the improvement of office operations. There may also be some direct subsidies relating to specific training programmes. Global grants of the sort that would result in the rapid increase of the sums to be handled and disbursed by the management without prior conditions and controls are to be discouraged.

One should not ignore the possibility that some revenue for chambers being directly given by larger enterprises or multi-national corporations specifically helps in generation of services and support activities for small enterprises. Clearly this is more likely to occur in a larger representative organisation in which both large and small enterprises participate.

Large and small enterprises

Introducing obligatory membership of chambers of commerce or associations of small business in developing countries, is probably not feasible in the short term. Apart from what has already been said there is need to consider other options for augmenting the resources of these organisations. An association, open only to small businesses as members, would inevitably be of limited internal resources, since one could not expect more than a low level of fees.

It has therefore been argued that in developing countries it makes more sense to develop 'self-help' organisations or representative bodies which would include both large and small enterprises together. There could be a graduated system of membership fees, whereby large firms make the major contributions and in this way subsidise some of the services offered to small business. Membership in a common organisation also affords a possibility for developing relationships between large and small businesses which can lead to subcontracting or other types of mutually beneficial commercial cooperation.

However, one constantly hears that the small businesses in combined organisations complain that these bodies are dominated by a few very large firms that manipulate the institutions for their own benefit. The small business members often argue that they get little out of their membership since most of the changes in policies and regulations that are brought about because of the pressure of the organisation, such as tax changes, tariffs, imports and fiscal regulations, benefit the large enterprise members. Even the services offered usually deal with information and training of a type suited more to the needs of the large enterprise members.

It is possible to work out arrangements with an association or federation of both large and small enterprises, whereby small businesses have their own separate subsidiary grouping and whereby it is laid down that a certain percentage of the budget is devoted to the needs of small business members. This type of arrangement, namely a separate small business association, within a federation of large and small enterprises, might provide the benefit of the increased financial resources available from the contributions of the larger members, and yet, at the same time, guarantee that the needs and special characteristics of small business are fully taken into account in the activities of the bodies.

This is not generally accomplished simply by ensuring the representation of small business on the managing boards of the organisation. In the day-to-day operation of an organisation of this sort, such representation would not ensure the active consideration of small enterprise needs within the programme of operations of the organisation.

The benefits of an organisation combining both small and large enterprises are more than just the greater financial resources that would result. The presence of large enterprise members guarantees a quality of leadership which is usually not available from the small business community.

Constraints on private sector organisation

In a discussion at a workshop in Singapore in October 1989, on the theme of private sector small industry organisations in the South-East Asian region, the prevailing view was that the major obstacle constraining such organisations in offering support services to small scale business was lack of financing, which was ascribed to the fact that membership was low and the membership fees inadequate, and that there were no other funds available to support programmes.

At the same time, an even greater number of those who represented small enterprise organisations, both in the public and in the private sector, saw the incapacity of the institutions as equally important, and identified this as a lack of 'know-how' on the part of the leadership of these organisations, how they could best develop a support programme for small industries. There was also agreement that this weakness was further exacerbated by inadequate staff and the inability to pay for the professional help they needed.

Interestingly, a point raised in the discussion at the Singapore Conference was that there was no real evidence in the Asian region of a strong common interest amongst small business entrepreneurs to work together and to look to each other for assistance. Rather they tended to look to the government as the only real source of support. It was recognised that if the representative self-help organisations of small enterprises could provide better services for their members and if they had more respected leaders in which the community had confidence, this would result in increased membership, which would ultimately show itself in more finance.

Public financial support for non-governmental bodies

It is clear that the representative bodies and 'self-help' organisations of the small business community, whether associations of chambers of commerce or federations comprising also large enterprises, are not of themselves able to mobilise the financial resources necessary to carry through a major programme of support for small enterprises. Advisory consultancy services, training, promotion, information - all require professional staff and there is little likelihood in the short term of being able to pay for this staff from membership fees, even if this is supplemented by fees and commissions for services officer.

It becomes necessary, therefore, for the government to channel the funds that it makes available for small enterprise support, or at least a great part of them, through these organisations. This may be a political problem. There are bureaucratic vested interests in most countries that are reluctant to make large budgets from the public treasury available to non-government organisations and particularly to representative bodies of the private sector. There is need, not only to change the view of the small businesses, whose owners and managers tend to look to the government as virtually the sole source of direct help, but also the attitude of government officials to using representative bodies as suitable conduits for funding or support to the small business community.

It is important to recognise that not everywhere it is accepted, even in countries which are very supportive of the private sector, that these representative bodies are the best channel for providing direct support for small business. In the United States, for instance, the principal private sector representative organisations prefer to maintain their role of advocacy, lobbying and providing data and information on the sector for the formulation of government policies and do not wish to become involved in providing direct support services.

Training and counselling for small business is an expensive matter, and it is now widely accepted that the participants and beneficiaries cannot be expected to cover all, or even most, of the costs. It is recognised that the government must help in one way or another, whether by some blanket form of assistance to approved organisations (either private sector bodies or academic institutions), or a provision of specific subsidies for special programmes. A regular budget avoids prolonged annual negotiations over the size of the subsidy but it is also true, on the other hand, that where subsidies are related to particular accomplishments and performance there is a greater incentive for the beneficiary institutions to implement and perform to produce results in relation to the support that they are receiving.

Prevailing opinion tends to see merit in a situation where both the private sector through the business community as a whole, and the direct participants in training or counselling programmes each make some contribution to cover the costs of the support programme, as well as relying on government financial subsidies. There are also those who believe that there are benefits in linking government financial support to the outputs of specific programmes, such as the number of persons trained, or the number of consultancy assignments undertaken. Thus, subsidy could be provided for each trainee, or each firm assisted, rather than through an overall grant. Clearly, there are of course dangers in this approach too, since where an overall grant might weaken control and encourage lax - or even corrupt - management, the linking to specific assistance activities has the danger of encouraging quantity in carrying out programmes rather than quality.

In the end, if a private sector organisation or representative body, whether it be an association or a chamber of commerce, is to carry out an effective programme, it must be guaranteed adequate financing, and the ideal situation would be for this financing to be drawn from a variety of different sources, which would include membership fees, government grants, fees from users and beneficiaries, special projects and support from the business community and possibly some forms of external donor assistance, whether directly or through government channels. Some type of budgetary support from local or regional authorities should be included in order to establish, early on, a link between the community and the support for the small business.

As already stated, there is some merit in the view that at least some payment, possibly more than a 'token' contribution, should be made by those who take part in a training course or workshop or receive consultancies from an advisory service. There is overwhelming evidence that beneficiaries take more seriously assistance for which they have paid something. Free advice is rarely valued. Furthermore those who provide counselling or advice will have a different, more disciplined, approach when they are aware that their efforts are being paid for directly by the recipient.

A cost effective approach to all support services must be encouraged especially when offered by a private sector organisation. There can be no question of creating a large, unwieldy service attempting to do everything, thus replicating the worst inefficiencies of the public sector agencies. Private sector support agencies must be kept small by regarding themselves more as referral agencies than actually implementing programmes themselves. A certain amount of short term training in the form of workshops and seminars should be carried out directly. The same would apply to some relatively short diagnostic or problem solving consultancies, but the main aim should be to help SME overcome difficulties (whether technical, managerial or marketing) through directing them to where they can obtain the most effective help. This may mean referral to another institution - possibly a specialist sectoral research and development centre, either public or private an academic institution, private or non profit consultancy organisations or even individuals in larger enterprises. In such referrals the private sector organisation agency would monitor developments to ensure that the SME obtain the help needed and might help finance the assistance where necessary. To achieve a most effective support service and to ensure that costs are kept to a reasonable level an efficient referral system is essential. Attempts to create institutions or agencies whether in the public or private sector that try to do everything with their own staff are bound to be bureaucratic expensive and in the end, less effective. They can only result in a small number of enterprises actively being helped.

Decentralisation

All evidence indicates that SME programmes are more effective when delivered locally by smaller organisations, either decentralised geographically or operating along sectoral lines. The exact structure must conform to the degree of development of the country and its economy, the size and nature of the territory involved and the maturity and capacity of the national and local governments, the business community and the entrepreneurs. Decentralisation of private institutions is desirable and more effective, but must take account of the ability of the small business sector in a particular locality, region or sectoral group to operate independent programmes. Decentralisation of support services should be the objective to the maximum degree feasible.

Although geographical decentralisation is most important and can help make support services more acceptable to SME and more cost effective wherever possible sectoral organisation should also be considered. Of course this will depend on whether there are enough enterprises in a region within a particular sector to make it feasible to operate separate sectoral representative self-help agencies (e.g. an Association of Leather and Footwear Enterprises). In some cases larger sectoral groups (e.g. woodworking and metalworking) where there are similar backgrounds may be a pragmatic solution. Sectoral groups, along with local and regional decentralisations, will certainly make communication with the potential beneficiaries easier and can make services more cost effective through use of collective approaches.

Despite the need to stress the benefits of a decentralised delivery system for SME support services, all services should still conform to general standards within a national framework.

IV. Central National Body for SME Development

At a conference organised by UNIDO, in Bari, Italy in October 1989, attended by 150 participants from 68 countries, and representatives from eight international organisations, some specific recommendations were approved, encouraging the creation and strengthening of associations of SME, and of artisans and craftsmen including micro enterprises by establishing social, political and legal structures to facilitate these processes.

In addition it was also recommended that a "high powered national body, representing all concerned interests, including science and technology institutions and non-governmental organisations, entrepreneurs, etc and located at a sufficiently high level, to be set up in every developing country for formulating and coordinating the implementation of small and medium scale enterprise development policies and programmes."

The Conference recommended that micro-economic planning for integrating small and medium scale enterprise policies within overall economic policy and national plans are to be through the effective participation of key agents of change, namely associations of small and medium scale enterprises, etc. The "high powered national body" will also draw up, in close cooperation with the associations of small and medium scale enterprises, a long term plan for the development of the enterprise culture. It should harmonise fiscal, financial and other policies, with incentive measures required for the growth of small and medium scale enterprises.

In most developing countries, until now, direction of development policies and programmes for the SME sector has been allocated to the Ministry of Industry or the Department of Industry within the Ministry of Commerce and Industry, or Trade and Industry. In several developing countries, within this Ministry, there is a Small Industry Division that is charged with formulating policies for the sector. In fact, it will be found that where donor agencies have established projects to assist this sector, with the assistance of the World Bank, UNIDO, or some bi-lateral agencies, there usually has been a recommendation, either to set up such a division, or strengthen it if it exists.

Unfortunately, efforts over several years to establish or strengthen such divisions in the Ministry of Industry have been relatively ineffective. In virtually all cases, this division has been small, weak, inadequately staffed, and managed usually by inexperienced people who have little relationship with the sector. In many cases the policy-making function has been merged with the regulatory function, so that the divisions are concerned with the enforcement of regulations regarding registration of new small industries and compliance of SME with the restrictions imposed by the government on the operation of industries in general. In very few instances have they exerted any serious influence on the real formulation of sectoral policies.

Government policies and measures to assist SME development usually consisted of the initiation of programmes and, in most cases, setting up institutions to give special assistance or benefits to the sector. There has been little thought to protect the sector from the negative effects of other forms of macro-economic planning going on in the country, which is often of greater importance than the affirmative efforts being undertaken with limited resources to give specific direct help to these industrial enterprises.

As indicated by the recommendations at the UNIDO Bari conference, the governmental institution, i.e. the Ministry or Department of Industry, (or in some cases, some other Ministries as well), are not alone in being concerned with the sector and in being involved in assistance programmes to stimulate SME development. Usually there are a large number of institutions including financial, scientific, technological, training institutions on the government side and a long list of NGOs.

Taking the example of Asian countries, one may mention that in Malaysia there are a total of 13 government agencies, and more than 30 public or quasi public agencies directly or indirectly involved with assisting small enterprise development. Virtually every one of them is in the public sector. At the last count there were 25 different organisations with some assistance programme related to small enterprise development in the Philippines, although in the Philippines a small number of these organisations are actually part of the private sector. Overwhelmingly however, these too they are public sector institutions.

With the proliferation of institutions, (an alternative to the large, central SME development agency of many developing countries), particularly in the public sector operating programmes in support of SME, or engaged in activities bearing a direct relation to SME interests, it becomes increasingly difficult to create a single effectively functioning body in the manner of the Bari recommendations, since this would become large and unwieldy and would encounter major difficulties when efforts are made to convene the members.

However, it is possible to conceive of a larger council, with perhaps anything from 25 to 50 members, in which there would be a rather liberal attitude as to who would be represented, so that the council would include also institutions with very limited and specific programmes in support of SME, whether in the technology, training, research or financial fields. Out of this council, which might meet twice a year, a smaller, more active committee of twelve, would then be set up with a small, full-time secretariat through which the national body would attempt to control and coordinate the country wide system of support for SME.

Previous attempts to create such a body, as in the Philippines and in Ghana in the early 1980s, and to a more limited extent in other countries, have largely failed because of the difficulty of coordinating a body which contains 25 or more people, representing institutions of disparate size and of differing interest in the problems of the sector.

The very physical problem of convening together such a body has in fact bedeviled the positive intentions of giving representation to all those who are involved in support programmes, and also trying to create an institution of itself which be able to effect actual decisions in directing policies and controlling and co-ordinating programmes.

It is more feasible to consider a central national body operating more in an advisory capacity which may come together at infrequent intervals, (twice yearly for instance) with possibly only 50 or 70 percent member participation at each meeting, but which would be concerned with assessing the general opinions on programmes and policies, and reviewing their results, impacts and effectiveness. Such a body, if suitably organised for action, could actually play an important role in coordination and supervision of the activities of the various public and private nongovernmental organisations engaged in programmes in support of the SME sector, and act as a conduit for channelling government resources for this purpose.

This type of central national supervisory body for the sector would call for intervention in the case of unsatisfactory performance of any organisation that has been entrusted with a specific programme, and also play a regulatory role as regards the private associations receiving help for support activities and prevent undue influences on their activities from outside bodies. Such a central national body or council should preferably have majority representation of the private sector and of the small business community for it to be effective and responsive to the needs of the sector.

The objective would be to effect a gradual transfer of responsibility from public sector agencies to private sector organisations. It is to be assumed that there would be a transition period wherein public and private agencies would both operate in implementing SME support activities. As time progressed, the Central National Council for SME would seek to ensure that programmes were passed over to private sector organisations, but in a manner in which they were not being overburdened and expected to take on activities and programmes for which they had neither the resources nor the capacity.

In effect, ultimately, all government and external donor financial for SME would be approved, channelled, received, administered and supervised in the Council and its subsidiary bodies. It would have to be ensured that the Council has the authority and resources to carry out this role.

To summarise, the control and coordination of the SME support programmes and allocation of public funding would be based on the following framework:

1. *A National Council* to be set up with 25 to 50 participants, composed of about one third representatives of government and public bodies and two thirds representatives of NGOs and private sector representative organisations, technology and management consulting organisations and financial institutions directly involved in work with SME.

   This Council would meet at least twice a year to:

   - review the state of the SME sector, its problems and needs, and the impact of government policies and regulations
   - discuss programmes to assist the sector
   - review recommendations for financial assistance from government or external donors to provide help to SME
   - make recommendations as to policy or regulatory changes to help SME and of new projects and programmes to help the sector

2. A *Committee* of 8 to 10 members appointed by the Council to meet once a month to:

   - screen requests or proposals from NGOs or private sector organisations for government or donor help to carry through support programmes for SME

- receive and review reports of all organisations, private and public, receiving external funding from government, public or domestic or external donor sources
- prepare, review or screen documentation for presentation to the Council

The Committee should have at least 50 percent representation of nongovernmental organisations. It would be serviced by a full time secretariat of at least 3 to 4 professional staff.

V. Transition Phase to Support Services Delivered by Private Sector Organisations

One may conclude that all organisations and agencies, both public and private, that seek to provide support and services to small enterprises should be encouraged to keep the headquarters organisations as small as possible. These agencies, whether implementing programmes in training, consultancy, information or in special projects in the fields of subcontracting, industrial estates, or exporting, should rely to a great extent on other groups to carry through the activities, and not on their own staff. Thus, in training activities this could be carried out by instructors drawn from the business community, the academic institutions and consultancy organisations. Arrangements can be made for consultancy and advisory services to be offered through referral to consultants or research or technical institutions.

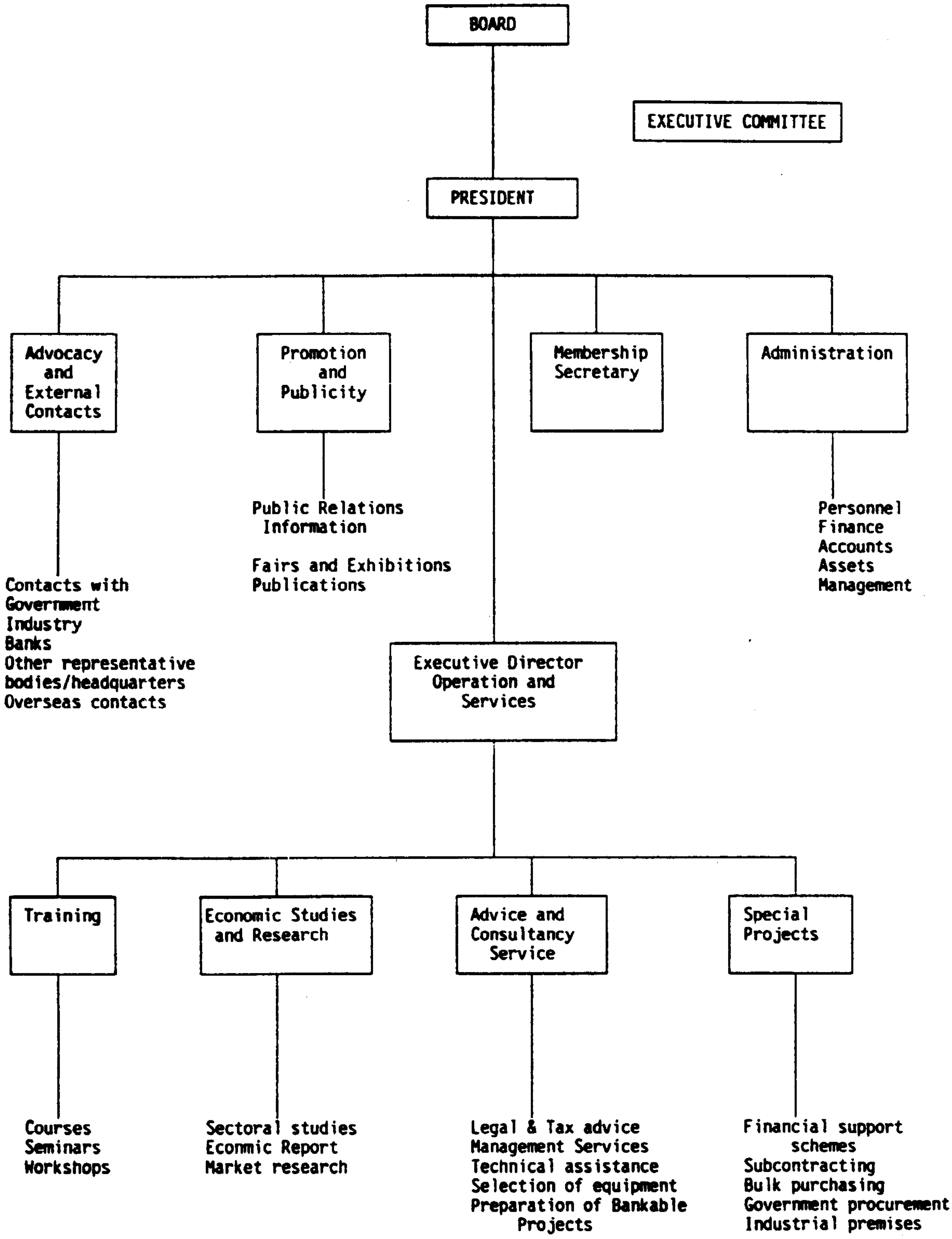
In keeping with this concept of the SME support organisations as primarily a smaller group involved in referrals, more than in actual implementation, some activities can be passed over early on to the private sector organisations who can make use of the same outside resources as any public sector agency. In seeking a transition from public agencies to private sector bodies, training activities could be among the first to be increasingly devolved to the private sector. Similarly an information service might be offered by private sector agencies, including both technical and economic information.

There could be a phase in which some public, national or local agencies or academic institution might continue to offer advisory services while the private sector representative organisation tries to develop further its activities in the same field. During the transition, despite the appearance of overlap, it might make sense to have services offered by different organisations, both private and public. As the capacity and competence of the private sector organisation improves and a proven record of performance is achieved in the field, more and more government funding for this purpose can be passed over to the private sector organisation concerned. The private sector organisation, whether chamber of commerce or association or confederation would need to set up a suitable organisational structure to meet this situation. A special division or department would need to be set up to deal with training or to handle an information service for clients.

A proposal for a first stage organisation for a private sector agency to start offering some support services such as training is given on the following page (Chart 2).

In the early stages of transition there would be need to develop a collaborative relation between the public sector agencies offering services and the private sector organisation developing its programmes. In this transition stage the large centralised SME development agencies, where they exist, would need to be slimmed down, broken up into more efficient decentralised local organisations or smaller institutions focused sectorally or specialised in the context of services offered (e.g. management, training, technology or marketing) or some suitable combination. Close working arrangements between public specialised agencies and the developing private sector bodies should help strengthen the latter and enable them to overcome their administrative weakness.

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



One could envisage a fairly long, drawn-out period of collaboration between the private and public sector agencies on a local basis with some degree of overlap. Since both would probably be employing the same outside resource persons, of whom there would be limited availability locally, one could reasonably expect that a cooperative relationship would of necessity develop. The public SME development agencies should be integrated with the local and regional government and would assume a more promotional role in providing information on facilities, incentives and special assistance in such matters as provision of factory accommodation, export promotion help and training grants where available. Gradually, the private sector organisation would become the major local provider of direct support services for SME at least in the field of training and extension services.

In addition to the development of training programmes the private sector organisations can slowly develop financial services for SME. A financial service unit could try to link members with commercial banks who are prepared to lend to small enterprises or who may be in a position to use credit lines at the disposal of the sector. The unit would in the course of time establish links with venture capital organisations and possibly develop a credit guarantee scheme although many believe - as indicated in the chart - that the source of the guarantee fund would have to be mainly the government.

A consultancy unit would also need to be developed slowly. Probably the best approach would be for the government, through the National Council, to make available small amounts of funding to private sector organisations to start advisory and consultancy services using wherever possible outside resources rather than in-house staff. In the course of time, after reviewing the ability of the organisations to respond to needs of their SME members in their field, further development of these services could be considered to the point at which a large-scale comprehensive type of advisory and consultancy services - based on referrals - could be offered in management, technology, marketing, export as well as on legal and tax matters.

As a final stage the organisations could start special projects such as bulk purchasing, promoting SME in government procurement, developing SME exports, industrial estates or special development and research programmes, although each of these steps should be subject to careful study and implemented only after it is clear that they can be justified economically and there is demand for the assistance offered.

A major question to be faced in the course of time would be whether services are to be available only to members or to all SME in the district or in the sector or group covered. A possible way out might be to provide services to all clients except that members would have priority and would obtain the services at a discounted rate. If the services gradually are valued by the clientele, this can of course become a major attraction for new members.

Thus, during the transitional phase, support services will be offered to SME both by public agencies and private sector organisations. One could envisage a country-wide network of organisations on a local or sectoral basis who would all offer services. Each would offer different types of services. Some would be more involved in technology, others might more specifically be related to resolving marketing problems and yet others in providing management training. One would assume that during this phase, government support would be available - through the National Council - to all organisations (both public and private sector) who request support, and can show they are able competently to provide support services. In this respect one would hope that gradually the volume of support provided by the private sector organisations would increase to a point - within five years or so - when the overwhelming majority of services are offered by the nongovernment organisations, such as chambers of commerce, associations or consulting organisations.

VI. Policy Framework and Donor Support

As stated at the beginning of this paper, there are those who argue that special support services for SME are only required because the policies adopted by governments inhibit the development of the sector. It is now clear that even in market economies in Europe and North America, where policies are pursued reasonably conducive to private enterprise development, SME need special help to overcome the imperfections of the market which inevitably develop. Much has been written on the subject and it is sufficient here to point out that no efficient organisation of delivery of support services will achieve the desired end result of a growing, thriving SME sector unless policies that act as disincentive to development of entrepreneurship and small business growth are reversed.

In this respect it is vital for governments to recognise fully the important role to be played by the private SME sector. This recognition must be manifested in a readiness to accept the representative bodies of the private and SME as partners who have to be consulted in deciding on policies, measures and regulations which will directly affect the operations of these enterprises. One could summarise the preconditions on the part of a government that need to be satisfied before one may expect a private sector representative organisation to fulfil a major role in supplying support services for the SME sector. They are:

1. Not pursuing policies and enacting regulations that would create disincentives to SME growth and development;

2. Recognition of the important role of the SME private sector and readiness to accept a partnership with the sector in formulating policies that affect the welfare of the SME sector;

3. Preparedness to consult with the sector through its representative bodies and the acceptance of the importance of fostering strong independent organisations to represent SME;

4. Recognition that public agencies are not always the most effective in delivery services and assistance to the private SME sector and readiness to help the private sector organisation to play a major role in implementing assistance programmes even when financed in whole or part by government;

5. Making available within the resources at the disposal of the government, bearing in mind the many demands on it, of finance to enable the private sector organisations to implement effective programmes in support of the SME sector, always accepting that the organisations must show evidence of being willing and able to match

government funding with a comparable amount of resources mobilised from non-government sources through their own efforts;

6. Cooperation in instituting a decentralised system for delivering support services to the SME sector, accepting an important role in this respect of local and regional authorities;

7. Cooperation in allowing private sector organisations to have access to a reasonable share of external donor funds for implementing support programmes for SME.

Only if all these preconditions are satisfied one can expect that private sector representative 'self-help' organisations would have the resources and capacity to fulfil the role outlined for them in this paper. Needless to say the pre-conditions apply equally to the attitudes behaviour and policies of state, provincial, regional and local governments where applicable.

As already indicated external donors can help by offering assistance to private sector organisations to overcome their weaknesses. This has been practised by US-American and German chambers which established cooperations with their developing countries' counterparts, for example. The World Bank has also since 1988 introduced components into SME support projects in Africa to help local SME representative organisations build up services for their members and for the sector as a whole.

Donor aid should be tailored to the needs and capacity of the recipient institutions. Some equipment can be useful and help raise efficiency, but excessive help in such items as vehicles, computers or costly office furnishings could be counterproductive as could a blanket grant to cover operating expenses. Subsidies may be in place as long as matched by the organisation's own efforts to raise revenue and based on a programme to eliminate the subsidies over a number of years, and to make the organisation self-financing from domestic sources, mainly from income earned directly by the organisation.

The most important help that donors can give is to improve administration and management, and help in initiating the delivery of high quality services to members. During the transition phase of transferring the provision of support services for SME to private sector organisations, help from donor agencies could play an important role. The assistance could best be given by NGOs, particularly by persons with experience in chambers and associations and in operating support programmes for SME. In most cases building up local 'self-help' organisations will be a slow process and projects may have to go on for 5 to 10 years but it would be better to maintain foreign inputs at minimal levels and to build up local competence gradually.

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General Information

Institute of Small Business

The Institute of Small Business at the University of Gottingen does research on microeconomic and macroeconomic issues concerning the development and growth of small and medium sized companies. There are close institutional links to the German small business community and its organizations. The two Directors of the Institute are professors of the Economics Department of the University of Gottingen.

The International Department of the Institute focusses on export behavior and other forms of internationalization of German small units. Research is also carried out on questions raised by the European Common Market and other international developments with an impact on the competitiveness of small and medium sized companies. Furthermore, the Institute is involved in projects of small business promotion in Third World countries.

Purpose of the Series

The Series intends to promote the critical analysis and discussion of current issues concerning international small business developments. Topics relate to impacts stemming from global and regional economic expansion and to problems of entrepreneurship in developing economies.

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Manuscripts should represent the results of original work and not be submitted for publication elsewhere. Papers must be in English. An abstract of not more than 300 words should be enclosed.

Papers are accepted for publication on the understanding that they are subject to editorial revision. Two copies of the manuscript should be sent to:

International Department
Institute of Small Business
University of Göttingen
GosslerstraBe 12
3400 Göttingen
Federal Republic of Germany
Tel.: 0551/394882, Telefax: 0551/399553