The Polish-British Enterprise Project: Developing A Business Consultancy Programme, By Chris Sealy And Alan Gibson, Rio, March 1999

1. INTRODUCTION

The Polish-British Enterprise Project (PBEP) is a multi-faceted intervention aimed at promoting SME development in two disadvantaged counties (*voivodships*) in Eastern Poland; Bialystok and Lublin[1]. PBEP's approach is built on the premise that SMEs in Poland share the same primary constraints experienced widely by SMEs in more developed market economies, namely: a weak enabling/policy environment; difficulties in securing finance; and difficulties in accessing competent business support and advice.

PBEP was designed to address business support and financing constraints through a comprehensive package of complimentary measures: (1) a loan guarantee fund, (2) an equity investment fund, (3) the business development programme (BDP), and (4) the market development programme (MDP). Issues relating to policy and the enabling environment were left in the hands of an inter-ministerial task force.

Supported by the UK government's Department for International Development (DFID) in full, PBEP began in 1994 and became fully operational in 1995. An Apex Co-ordinating Agency (ACA) was selected for each region to co-ordinate the four components of the programme. The ACAs - the Bialystok Development Foundation and the Lublin-Chelm-Zamosc Development Foundation - are not-for-profit, local public-private sector partnerships formed to promote economic development. The financial instruments are managed through separate companies in each voivodship and separate operational partners are used to deliver other parts of the programme.

The business and market development programmes - in practice, one programme in Bialystok and working together in Lublin - deliver the following main services:

- short training courses in a range of technical and business subjects;
- consultancy - usually business plans, feasibility studies and market analyses;
- advisory services - mainly for start-up businesses;
- business promotion services - linking local SMEs with businesses elsewhere
- managed workspace interventions - five initiatives have been or are being set up

Within this menu of services, the focus of this case is on consultancy services, provided through the MDP. From the outset, the objective of the MDP was two-fold:

- to enhance the performance and capacity of SMEs; and
- to develop markets for private sector consultancy for SMEs.

This case study examines PBEP against the preliminary framework of good practice principles agreed by the Committee of Donor Agencies for Small Enterprise Development(1): It's particular focus is on the extent to which consultancy services for SMEs be developed on a sustainable basis and how a competent consultancy capacity may be built. The broader objective is to identify key lessons and principles of good practice in business development services (BDS) and,

[1] A recent staff change in Bialystok meant that more detailed information was available from Lublin

where possible, benchmark performance indicators. The case is structured in nine parts, addressing respectively in Section 2-8, services, clients, the market, financial viability, the institution, funding and impact. Finally Section 9 outlines some conclusions and the implications for BDS more widely. Appendix I summarises the economic context and Appendix II highlights size trends within the client base.

2. THE SERVICES

2.1 Integration and interdependence?

Through the MDP, the project aimed to provide SMEs with access to "expert" low cost marketing consultancy offered at a subsidised rate beginning at 80% (for a maximum of 30 days) and reducing throughout the period of the project (by mid-1998, 10-20%). Box 1 describes this service in more detail.

Box 1: The consultancy service

Common features:

- Market research, marketing plans, business plans, feasibility studies, implementation and human resource projects are all acceptable
- Clients hear of the service through consultants, the media, membership organisations and word of mouth
- The potential client approaches the MDP office with the outline of a consultancy project
- Eligibility of company (size and sector) an consultant (accreditation) are checked

In Lublin:

- MDP managers discuss extensively the project with potential client
- MDP managers are proactive with client in project design
- MDP recruits appropriate consultant
- MDP has contracts with clients and consultants
- MDP manages the project and ensures quality of product
- The foundation collects money from client
- The foundation pays consultant

In Bialystok:

- Consultants or clients approach the MDP office
- Consultant is selected after discussion with client if not already selected by client
- Client contracts consultant under advice of MDP
- Client pays consultant
- Evidence of payment and copy of product submitted to MDP
- MDP evaluates product and confirms payment
- Client reimbursed by foundation according to subsidy rules

As a constituent part of the wider project, it was anticipated that clients would arrive at the consultancy programme through a variety of routes. For example, clients of the financial programmes were expected to seek business plans to support their applications to the loan guarantee or equity investment funds, others using the business advisory service might need specialised services that only a consultant could deliver.

In practice, links between the financial and non-financial components are weak. The various components of PBEP are operationally separate and the majority of MDP clients have not used PBEP financial services: for example, in Bialystok, only 8% of the Loan Guarantee Fund's clients have used consultancy services.

There are much closer ties between the non-financial services in the BDP and MDP. The BDP operates business support centres in smaller communities around Bialystok and Lublin in conjunction with local authorities who share the costs. Centres deliver a range of services and there is potentially some similarity with the consultancy services offered through MDP. Although there is some dispute over how business support centres define a "consultancy project", during 1997, in the Lublin voivodship centres completed 350 business plans and credit applications and the cumulative total for centres in Bialystok over the project period by mid 1998 was 492. This similarity between business support centres and the MDP does not, however, mean competition: the MDP's focus is on the main urban centres of Bialystok and Lublin; its services more complex and with bigger clients than business support centres who operate in peripheral areas with smaller clients and delivering standardised services.

The business support centre components of PBEP have taken some time to develop. Relationships with local authorities had to be built and the modalities of joint ownership, operation and funding worked out before they could become operational. The two foundations are only just beginning to explore the potential benefits of a closer working relationship or merger of BDP and MDP

2.2 Replicating a UK Approach

The MDP has been influenced strongly by the UK's experience with the *Enterprise Support Scheme* which operated in 1989-93 and has now been supplanted by a regionally managed programme, the *Diagnostic Consultancy Scheme*. It is instructive to look at MDP's design and development in the context of the UK programme. Therefore, in the early days of the MDP, as a starting point in the relationship between the programme and the client an initial free marketing "health check" was undertaken and used as a basis for assessing whether consultancy was suitable. This equated with the "Business Review" in the UK scheme that was intended as a central component but was reduced to merely a part of the application process [(2).] Similarly, MDP health checks were as much a marketing exercise - providing leads for further work - as a service to the clients. The MDP was the first component to become operational in each area and clients were needed quickly to raise the profile of PBEP.

However, it became quickly apparent that there were some fundamental differences between the UK situation and that prevailing in Poland in 1994:

- The UK scheme was aimed primarily at "matching" SMEs with appropriate consultants and based on the view that a variety of information constraints - lack of experience, suspicion, ignorance of potential benefits etc. - prevented SMEs making greater use of an able SME consultancy industry.

- When the UK scheme was established, consultants were already available to service the needs of the SME sector; in Poland, the few consultants who were available were of questionable quality and most did not have the skills required by the emerging SME sector. While in the UK it was necessary to simply link two groups who did not know or appreciate one another, in Poland one group hardly existed at all.

- Polish businesses were suspicious of foreign consultants, as work produced in the early nineties - the so-called “Marriott consultants” - was quickly deemed inappropriate to the Polish environment, culture and situation.

- Quality control procedures were also viewed with suspicion. MDP managers wanted to see all the reports and projects produced by consultants in the scheme. Owner-managers were nervous about private information being made available to third parties, as the concept of client confidentiality was a new one and had no track record in the immediate post-communist business culture.

Faced with these difficulties:

- The UK scheme offered no guidance to the MDP on the support needed by the consultants if they were to develop the products required by the sector.

- MDP managers believe that time should have been allocated to developing a local consultancy resource before having to become operational and deliver projects. They contend that although the constraints faced by SMEs in Poland may superficially have been similar to those in the UK, the overall situation (described above) was not fully appreciated.

- MDP managers had to develop two services concurrently, (1) on the supply-side; training, upgrading and guidance for the consultants including accreditation; and (2) on the demand-side, assistance with TORs and financial subsidies.

In summary, and in economic parlance, the premise of MDP - copied from the UK - that support was required to link a supply and demand-side was incorrect; in addition to a mismatching problem, the capacity of the supply-side was extremely limited. The kind of attitudes, skills, networks and broader institutional development - social capital - which exist in successful market economies were not present to the same extent.

2.3 Service Range

While MDP was obviously designed to address marketing and market-related issues in SMEs, the original project design blurred this principal focus with references to business planning for clients of the financial segments and a broader portfolio of consultancy services for SME clients. Particularly in their early days, and conscious of delivery targets, Bialystok and Lublin both felt a need to “get started” and developed a range of services – marketing plans, market research, feasibility studies, business plans. In practice, the MDP has evolved into a broad business consultancy programme with an increasing emphasis on larger consultancy projects which involve longer-term inputs than “typical” one-off/discrete consultancies. There are two reasons for this development:

- responding to demand: diversification of service provision is now part of the market sensitive approach being pursued to develop financial sustainability.

- responding to pressure for sustainability: again, the initial project design did not propose a detailed picture of how services would be delivered in the long-term. Both teams - in a departure from the original plans - have given meaning to this objective by pursuing implementation projects. Working with clients over a long period to implement recommendations and plans reinforces the concept that the foundation has clients and is not simply a temporary interface in a disarticulated market.

There is a business ethos in the MDP offices in both centres. Service diversification and a desire to be responsive and customer driven reflects that approach.
A "hands on" approach is stronger in Lublin while in Bialystok they have maintained a more facilitating role up to this point. In Lublin, in 1995, customers approached the Foundation for help with ISO9000 certification. The potential market for such specialist consultancy was apparent and the Foundation President was keen to exploit it. Rather than search for and develop a third party to deliver the necessary work, even at that early stage of the project, they decided to develop internal capacity. A limited company was formed and is thriving and profitable. Both teams but especially in Lublin are now pursuing a strategy of building a viable future by operating as a consultancy practice and this objective guides the products offer.

3 THE CLIENT BASE

3.1 The Target Group

The overall programme was targeted at off-farm enterprises with employment of between 5 and 100 in the project areas. There are approximately 26,000 businesses in Bialystok and 37,800 in Lublin; most of these have less than 5 employees but a considerable proportion are within the target range. However, - in the opinion of staff - subsidised consultancy should only be offered to SMEs who are in a position to make appropriate use of consultancy inputs. This screening and the self-selection element created by the fee to the client, means that businesses with most potential should be the main clients. Owner-managers of such businesses are not usually from the most disadvantaged groups and also are mainly men.

The significance of screening and a willingness to pay has changed during the course of the project. Initially, 80% of the cost of a consultancy service of up to 30 person-days duration provided by an accredited consultant was offered. This subsidy has declined progressively. In the early days, the high subsidy encouraged many people to apply and it was necessary to screen the enterprises for potential success. Reduced subsidies have ensured that self-screening through a willingness/ability to pay is the more important element. In Lublin, where the management is striving to make the consultancy service self sustaining there is now a strong desire to deliver services to any clients willing to pay the fees. This has led to contracts with much larger companies of up to 450 employees, significantly beyond the originally intended client group.

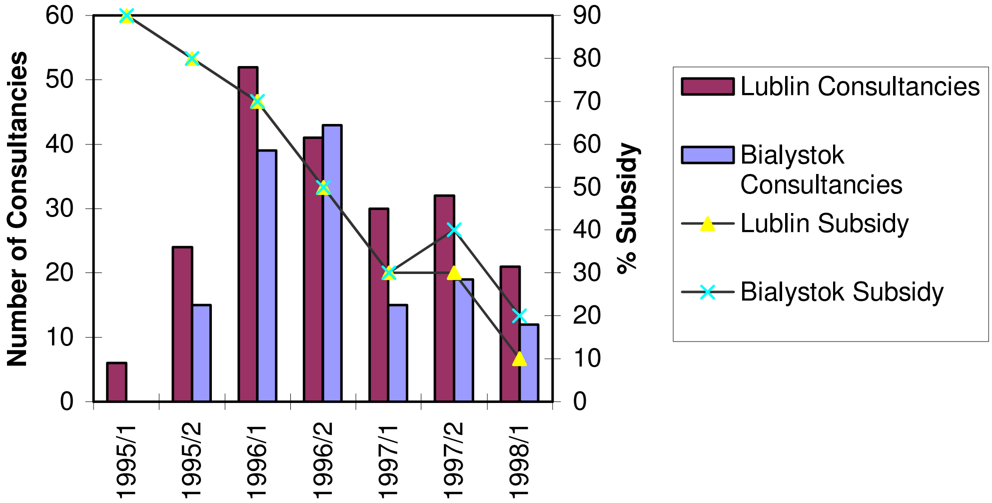
3.2 Trends in detail

Data from Lublin (Appendix1) shows a trend to larger clients and more expensive projects. Between the second half of 1995 and the first half of 1998, the mean average client company size grew from 92 to 261 and the mean average of project value moved from $2,000 to $2,800[2]. Certainly, smaller, less profitable clients were attracted initially to the scheme by the subsidies; as these have diminished the consultancy teams have targeted a different group to maintain outputs and, more recently, the financial sustainability objectives.

[2] The small sample size demands a cautious approach; other averages such as modal and median show less clear trends.

Overall demand for consultancy (Figure 1) through the MDP has closely followed the level of subsidy. Indeed, in the first half of 1997, staff in Bialystok were so alarmed by the drop in demand when the subsidy was reduced from 50% to 30% that they moved it back to 40% in an effort to maintain their outreach. From a peak of 91 consultancies in a six-month period, these have now fallen to 33.

Figure 1: Demand for consultancy compared with subsidy rates



4 THE MARKET

The project has wider objectives than enhancing SME performance concerned with the development of an active, functioning SME consultancy market. It is therefore concerned with the development of both the demand and supply-sides of this market.

4.1 The demand-side

In addition to broad macro-economic factors, a number of overarching characteristics shape the demand for business consultants:

- prevailing mistrust of consultants, especially those supported by aid funds;
- a lack of development in business networks - few SMEs have developed learning mechanisms with their peers;
- the requirement from lending institutions for business plans. Such plans appear to be rarely used by the entrepreneur after the credit is secured. In this sense, consultancy is sometimes suffered as a necessary step to credit rather than valued as a positive input to the business;
- perceptions of what business consultancies *should look like* - SME expectations are influenced by the habits of other providers and often these may be free or subsidised services.

PBEP planned to influence the medium-term demand for consultancy within the SME sector by:

- Enabling progressive entrepreneurs to experiment; they would then continue to use consultancy services having proven their value

- Using their clients as living, profiting examples of the value of consultancy; they would then be copied by others
- Educating the sector through outreach activities (business support centres etc.) concerning the value of consultancy
- Ensuring quality control through an accreditation system and monitoring projects commissioned through the project.

Consultants have used the subsidies being offered to persuade otherwise reluctant clients to commission work and, from a clients' perspective, the absence of a high level of financial risk was an important factor in persuading them to try consultancy. Some continue to use consultancy even with decreasing subsidy; this is an indicator of a limited increase in demand but there is little or no evidence of substantial change in demand amongst the smaller and less trained entrepreneurs who still dominate the SME scene in Eastern Poland[3].

4.2 The supply-side

There are a range of relevant institutions in both areas, mainly state organisations (regional and local authorities) or advisory intermediaries, including chamber of commerce, trade associations and various other foreign-donor-funded providers. Many of these operate subsidised services:

- OIC Poland supplies business training and advice initially without charge; advice continues to be free although they do not advertise the service and consequently have few clients. Training continues on the basis of a reducing subsidy and they are convinced SME entrepreneurs are not prepared to pay the full cost of training;

- membership organisations such as craft guilds and trade bodies reinforce this attitude of dependency and claim that SME entrepreneurs do not have the resources to pay for services; and

- some credit managers are known to prepare credit applications and business plans in their spare time. Irrespective of the cost and value of these plans to SMEs, these activities probably add to the negative image of consultants among SMEs.

Business support provision in both areas, as described in the project document, remains uncoordinated, uncooperative, inconsistent and invisible, leading to irrational decisions concerning the objectives of service content and delivery. The project appears to have an ambiguous relationship with other supply-side players. Certainly, in its initial phase of operation, realising the weakness of providers generally, it set out to strengthen consultants through its accreditation programme; 25 consultants became accredited in Lublin; in Bialystok, 19. While these individuals and organisations are often used for consultancy services, they are also potential competitors. As the sustainability imperative has assumed more importance, co-operation with other BDS providers has weakened. The early concept of steadily decreasing intervention in a market which should develop its own strength and stability has declined in favour of a plan to make the project a long-term player. Both management teams use individuals more than institutions or consultancy companies; contractual conditions prevent consultants from developing further business with the clients that exclude the foundations. Both offices wish to

[3] According to the Bialystok Chamber of Commerce, 30,00 people work in "bazaar" trade.

maintain a position in the market beyond the life of the project; their primary concern is their own survival and development; not the broader market *per se*.

5. FINANCIAL VIABILITY

5.1 The cost of a subsidised service

From the outset, the project has followed an explicit strategy of reducing subsidies over a for a period of time, hoping eventually to create a “natural” unsubsidised market situation.

Substantial costs have been incurred (per client) in the process of offering subsidised consultancy, including:

- Consultant’s training to ensure they meet minimum quality standards; this included a foreign consultant assigned to the development of the MDP team for twelve months and other external trainers used to upgrade the skills of the trainers.
- Direct cost of subsidies
- Staff costs including a proportion of establishment costs

Tables 1 and 2 show the costs of the MDP from 1995 to 1998.

Table 1: Bialystok -Costs of consultancy Services $1,000s[4]

	1994	1995	1996	1997	Half 1998
Staff costs for consultancy		21	19	16	8.5
Overhead in dollars		12.6	11.4	9.6	5.1
Direct costs of subsidy		17	48	9	11
Total Costs		50.6	78.4	34.6	24.6
Projects completed		15	82	34	12
Cost per project		3.37	0.95	1.01	2.05

Table 2: Lublin - Costs of Consultancy Services $1,000s

	1994	1995	1996	1997	Half 1998
Staff costs for consultancy		18	17	20	10.5
Overhead in dollars		14	7	13	4
Direct costs of subsidy		32	31	36	8
Total Costs		64	55	69	22.5
Projects completed		30	93	62	21
Cost per project		2.13	0.59	1.11	1.07

The extent to which the consultancy service is subsidised is clear from the above figures. In addition to the direct subsidy on delivery, staff and overhead costs are significant. In the case of Lublin, for example, in the first half of 1998, the full direct cost of consultancy services was $US 24,268 (88,250 PLN) in Lublin, of which SMEs paid 70%. When staff and overhead costs are included, it is clear that SMEs are only paying around 40-45% of the cost of the service.

[4] Bialystok figures in 1998 have been affected adversely by the change of staff

Clients are always made aware of the "true" cost of consultancies in order to make them aware of the value of the service. However, this excludes staff and overheads so the real value is hidden. In any case, this may be rather cosmetic exercise; value for most businesses equates to the amount they have paid into the transaction.

5.2 Subsidies and Market Distortion

Fee levels for consultants have always been set at a "market rate" of 300 PLN ($83) but where this figure arrived from is not clear. There is no clear formula or procedure for arriving at this figure and certainly some consultants in Warsaw charge higher rates. However, the daily rate was initially set at 300 PLN per day and has stayed at that level. There is no evidence that prices are inflated significantly by the availability of subsidies[5]. In Lublin only one of the accredited consultants works full-time as a consultant while many of the others are academics who supplement their income with part-time consultancy activity. Consultancy practices tend to focus on larger medium businesses and above as they are convinced that small and medium business will not provide an adequate or profitable market. One reason for the lack of inflation may simply be that the reduction of new SMEs demanding services has actually increased competition among suppliers (Figure 1).

However, while it is probably the case that the project has had little additional distorting impact on the market, the overall market for SME consultancy in Bialystok and Lublin remains significantly distorted by donor and government interventions.

5.3 Cross Subsidy and Financial Sustainability

The BDPs in Lublin and Bialystok have merged or are merging with the MDPs because of the potential synergies to be exploited. These are particularly important to the business plans being developed in the two foundations.

The BDPs' business support centres - offering general advice, business plan preparation and credit applications, technical assistance and linkages with other BDS providers including consultants associated with MDPs - are subsidised by PBEP on reducing basis and also receive assistance from local authorities. Where a Centre is housed in an incubator, the rents for business space pay the costs associated with the Centre. Business support centres may have a sustainable future through cross subsidy from incubator rents and through the local authorities.

Records for the number of consultancy clients referred from Centres have only recently been kept and therefore, there is no empirical data to support any view concerning the importance of other subsidised services to the financial sustainability of consultancy services. Given the generally weak development of business networks, they may offer scope for enhanced client but the extent to which they can cross-subsidise consultancy is more open to question.

[5] Compared with some other matching grant consultancy schemes in low income countries, this rate is not high

6 INSTITUTIONAL SUSTAINABILITY

6.1 People resources

The MDPs in both areas have four staff and are housed within their respective foundations. Their main consultancy resource are the accredited consultants developed in the early stages of the project. This was considered an important step in establishing credibility and trust in the market by establishing a badge of quality that can reassure prospective but doubtful SME clients. MDP in Bialystok have used the accreditation process to give young consultants opportunities to establish themselves in the industry. They have endeavoured to make the accreditation process tight and reliable to evaluate the performance of these new entries to the profession. In Lublin, accreditation is important but the MDP department has developed a strong brand name for the foundation itself. Consultants think the subsidy and the contacts that the foundations have are much more important than accreditation in the process of securing assignments.

Significant external inputs were used in the initial stages of the programme to develop the procedures for consultancy operations; to market the service to SMEs and other organisations (such as banks); to develop methodologies for business consultancy; and to train consultants to deliver the service.

6.2 Which institution?

At the heart of the institutional sustainability issue confronting the project is the core question: what is the institutional picture for SME consultancy envisaged by the project? Essentially two main options could be selected:

1. Develop the *institution* of a *functional market place* with a range of competent consultants meeting the skills/knowledge needs of SMEs through relevant services at an appropriate price; here the project's role is that of transient facilitator of market development

2. Develop the MDP itself as a sustainable *organisation* - a consultancy living from the fees it generates from clients.

The main thrust at the beginning was to pursue the former option. The central institutional challenge was to create a strong business consultancy resource in the two project areas, comprised of individuals and organisations in the network of BDS agencies. The purpose was not therefore to create one organisational resource but a wider supply-side capacity. The key task of the two local foundations towards the end of the project period would be to co-ordinate the consultancy programme before finally withdrawing and allowing the newly established market to function freely.

However, there has always been an absence of clarity over the "intended" institutional picture from the project. Indeed the initial document acknowledged that marketing development teams "could, potentially, continue to operate, although funding to replace that previously provided by DFID would need to be secured and earned [3]". More specifically, for understandable reasons, development projects which are conceived without a specific vision of institutional sustainability often drift into one which equates institutional sustainability with that of the implementing organisation.

In practice, whether by design or default, having pursued the former option, the project has now moved towards the latter: the creation of an organisational resource is now an objective in both Bialystok and Lublin. Clients clearly regard the foundations as sources of consultancy services rather than simply agencies or intermediaries matching clients with consultants. The two institutional vehicles; - the Lublin-Chelm-Zamosc Development Foundation and the Bialystock Development Foundation - have very strong institutional identities and there is a very common view among staff that an investment of this scale (see Section 7) should result in concrete organisational outcomes - and not simply somewhat ephemeral markets.

The strong sense of identity and the concern with sustainability have combined to move the focus of the MDP departments; Moving away from

- facilitating the development of independent consultancy suppliers with high quality products demanded by discerning and willing consumers; and to
- a drive to establish viable consultancy departments/businesses within the foundations who will continue to be suppliers of consultancy services

6.3 Whither institutional sustainability?

To what extent has the project been successful in achieving development of either an effective SME consultancy market or establishing itself as a sustainable consultancy organisation? A number of comments can be made:

<u>Facilitator of market development</u>

- A more positive view of consultants: while this may be true at an individual business level, there is no real evidence of a wider change in SMEs prevailing view of the benefits (or character!) of consultants;

- A greater willingness to pay: in seeking to create a consultancy market, the ultimate (proxy) indicator of impact is the willingness of SMEs to pay a market price for consultancy services and this has been the priority of the programme. Again, individually, some enterprises who have experienced consultancy input are willing to pay the full price for future work. At sector level no such claims can be made. No proper ante and post project data are available from surveys but anecdotally little appears to have changed. Small businesses with low turn-overs and profits are not willing/able to devote scarce resources to consultancy. At the level of the individual enterprise, the new willingness to pay a full price is probably as much a result of company growth yielding greater available resources as the change of attitude towards consultancy per se. Enterprises, even small ones, are quite willing to pay for business plans that are required to complete credit application procedures. Such costs are viewed as the necessary expenditure required to secure credit. These cases dominate the consultancy scene and say more about the value of credit than they do about the efficiency of the consultancy market.

- Greater supply-side competence: in both areas, it was realised quickly that in its initial conception the project had over-estimated existing supply-side capacities. There are now 44 accredited consultants - previously there were none. However, most of these do not appear to market themselves separately. On the contrary, the path of supply-side development has grown consultants who act primarily as subcontractors: in Lublin, academics, whose organisations do not have business units to market these new skills (and who are part-time); in Bialystok, younger consultants who can be coached and mentored relatively easily. Significantly, the list of accredited consultants is no longer published; they are a resource for subcontracting.

Deliverer of consultancy services

- An emerging brand name?: entrepreneurs do trust the services provided by the MDP in each area. This is still very firmly linked to their direct involvement in the transactions and also to their efforts at maintaining good quality (some consultants have been dropped because of poor performance).

- Greater sophistication: each MDP is becoming more sophisticated with specialist consultants (HRD, quality, finance) replacing generalists. MDP managers are now assembling teams of consultants to service the needs of their new client groups who are larger and need more complex projects. The Foundations are also marketing this ability to gather together the right people which again emphasises their own direct role rather than the task of badging good consultants who are then directly recruited by the companies who need them.

- A greater willingness to pay?: figures from Table 1 and 2 show that even as specialist consultant institutions, the price clients have paid thus far - no more than 80% of direct costs - is less than half that required to cover all costs, let alone generate a surplus.

Quite clearly, in order for either Bialystok or Lublin to have a future as a commercial entity, like any consultancy, it has to either reduce costs, raise revenues, or probably both.

6.4 A small part of a bigger picture

Finally, the MDPs need to be seen in a context of the overall PBEP. PBEP is primarily a financial intervention and the two foundations are concerned mainly with establishing two sustainable finance instruments: a loan guarantee feed and an equity investment fund. Without question, the priority in terms of design, resources and *thought* has been given to these aspects of the PBEP; the consultancy programme of MDP is peripheral and perceived to be less important in achieving wider SME development objectives.

7. FUNDING

The total budget for PBEP is £10m - around $16m. By end-June 1998, $11.96m had been spent, with slightly under half of this being used to capitalise the two loan funds and the remainder being consumed in running costs.

Over the 3½ years of the project, the MDP' share of total gross expenditure has been 15%. In Bialystok, $521,000 has been spent and $23,000 in revenue generated from SMEs' share of consultancy costs; 4.5% of the total; in Lublin, $648,000 has been spent and $109,000 been generated from SMEs' share of consultancy costs; 16.8% of the total.

8. IMPACT

8.1 SME impact assessment: limited data

Neither Lublin, nor Bialystok keeps formal records of the impact of their work or even the degree to which their recommendations are implemented. Follow-up and impact monitoring is limited to informal contacts or continuing links during subsequent projects. A major impact study is planned by DFID for PBEP as a whole which may address this serious gap in knowledge.

A few companies have been advised to reduce their work force but most speak about the need to increase staff to deal with the growth which occurred after implementing the plans prepared by their consultants. However, in the light of the absence of detailed efforts at impact assessment, it is impossible to accurately attribute the growth to the changes suggested by consultants, especially given the robust growth in the Polish economy in the last few years.

8.2 Payment as a proxy indicator

In both Bialystok and Lublin, clients willingness to pay is regarded as a useful proxy indicator of impact. By this criterion (see section 6), neither programme is achieving significant impact. However, the apparent reluctance of SMEs to learn from each other reduces the accuracy of this indicator since demonstration effects are more limited.

Box 2: Two examples of positive impacts on SMEs

1. **Bahaus** is a printing and publishing company in Bialystok. They were having problems with selling their services. One of the newly trained consultants offered to conduct a health check on their company and they accepted because (1) they were confident he could do the job, (2) there was a subsidy and (3) he was accredited.
The consultancy project had a total value of $2,800 and detailed a marketing plan, which was subsequently adopted. In one year this resulted in an increase in profits of $12,000 and five new jobs - both directly attributable to the work of the consultant.

2. **Medisept**, a supplier to the health sector, was established in 1983. After two years it began to experience problems; while the company was experiencing rapid growth, all decisions had to be made by the Director who became a bottle-neck for making progress. He had no education or training which equipped him to know how to restructure the company. The consultant advised on how to structure and organise the company. The business has now grown further (in terms of turnover, employees, geographical spread) and become increasingly profitable.
Additionally, practice and attitudes have changed within the company:

- The Director regularly undertakes training at full-price to upgrade his skills
- The company has an HRD policy as they accept the need to continually upgrade the work-force

9. CONCLUSIONS AND IMPLICATIONS

9.1 Achievements

Consultancy is a very small part of the overall PBEP programme and as such the total impact of this section of the work on the economies of the two regions has been comparatively small. However, there have been some noticeable achievements:

1. An enhanced supply-side: new consultants have entered the market as a direct result of the work of the project. New entries and more experienced colleagues alike have higher skills and new knowledge as a result of the project's capacity building efforts.

2. The basis of effective organisations: both foundations have a good reputation for supplying quality consultants and managing the process to ensure clients receive the service they require. In an immature market where there is little practice of responsible consultancy, they have established technical and legal parameters for transactions and laid some basis for themselves and the wider business of consultancy.

3. Company growth for the majority of clients: although not possible to quantify, clients appreciate the consultancy services and have performance has improved.

9.2 Lessons

Considerable learning has taken place throughout the process of designing and implementing the consultancy programme and certainly many staff would agree that, in hindsight, this programme might have proceeded in a considerably different manner. A number of lessons stand out:

1. Insisting on impact assessment: while subsidies disbursed and consultancies delivered are important data, it is important that development interventions such as this get beyond delivery to establish a better understanding of changes caused by an intervention. This feeds into impact assessments and contributes to improved services.

2. Avoiding a "drift" up-scale: there may be valid reasons for projects to move to higher sizes of business but this has to be justified in development terms (rather than drifting inexorably), especially where an intervention's rationale is based on a smaller target group.

3. Avoiding inappropriate replication: while shared cost consultancy has been a feature of the UK SME support environment for many years, the desirability of its replication to Poland was not examined thoroughly. In practice, the Polish environment proved to be very different. Furthermore, the performance of this type of instrument in the UK has not been the subject of detailed assessment[6].

4. Being clear about the context and the long-term picture: while it is useful to allow organisations to be flexible, if there is no detailed knowledge of the demand and supply for consultancy and how this market might develop, an unhealthy ambiguity may develop which hinders its effectiveness.

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[6] It is truism of consultancy that consultants bring what they know; not necessarily what is best!

5. Avoiding mixing finance and non-finance: in practice, synergies between finance and non-finance services seldom materialise; on the contrary, organisations lose focus and non-finance may get squeezed. A completely separate institutional partner for the consultancy programme may have been more appropriate than lumping everything together.

6. Being realistic over subsidies: if subsidies are merited - for example because of information constraints - their scale has to be carefully considered. While initially high subsidies may allow short-term delivery targets to be achieved, in the long-term it can create a damaging expectation for more!

9.3 Issues

When are matching grants an appropriate instrument, and when not?
Matching grants are one of the most common instruments use by donor agencies to deliver one-to-one business consultancy aimed at enhancing SME performance and at developing sustainable consultancy markets. Yet, although in widespread use, there has been little attempt at assessing their efficacy. Their origins lie in more developed markets where there is a more developed consultancy industry and there appear to be clear information constraints which prevent demand and supply-side from matching. Even assuming that there is a legitimate rationale for intervention in these situations, their justification in situations where, as applies in many countries, there is a weak supply-side or people's expectations have been shaped by previous donor imprudence, is much more challengeable. Matching grants often assume a degree of development in social capital that is unrealistic; more basic market capacity building may then be required.

Organisational sustainability versus institutional (market) sustainability
The fundamental problem with not having a clear objective from the outset about the long-term picture of BDS provision which is envisaged is that it leads to uncertainty, mixed messages and reduced sustainability. It is clear that organisations which want to become sustainable entities in their own right - *do-ers* and not *facilitators* - will have a different agenda from those who want to stimulate others into action. The point here is not to say necessarily that one is better than the other - although always positions have to be justified - but that interventions be explicit about what they are trying to achieve. It is the case, however, that lower income countries which cannot afford the disparate flow of subsidies practised in industrialised nations will have to look for market-based solutions to the supply of BDS; the challenge may increasingly be about how to facilitate wider market development.

Development or distortion?
A variety of arguments can be used to justify subsidies ranging from those with more development and economic validity - equity, information constraints, "spillovers" etc. - to those which are sourced closer to expedience. Certainly, in this case, subsidies allowed access - in the short-term - to SMEs who have very few resources to invest in one-to-one consultancy support. Yet, as appears to be the case here, this short-term *blast* of highly subsidised consultancy has not developed a working market; indeed, there are signs it has encouraged the kind of subsidy dependence most regard as unhealthy. Short-term/medium-term, development/distortion issues are always present in BDS interventions and they magnify with the amount of money being spent. How much subsidy and how this is offered - for example, supporting clients or investing in

supply-side capacity - need to be carefully thought through to ensure apparent short-term gains are not at the expense of longer-term progress.

REFERENCES

(1) Committee of Donor Agencies for Small Enterprise Development (1998); *Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions*
(2) Department of Trade and Industry (1989); *Evaluation of the Consultancy Initiatives*
(3) Know How Fund (1994); *Eastern Poland Enterprise Project*

APPENDIX I: The Polish Economic Context

Poland has experienced rapid growth in the post-communist era. Real GDP has increased by more than 3% in every year since 1993 and in 1997 grew by more than 6%. Much of this growth is centred on fast-growing cities such as Warsaw, Gdansk, Poznan and Katowice and has not reached more peripheral smaller towns and villages. Unemployment fell to 10.5 per cent and inflation stood at 13 per cent by the end of 1997.

Poland attracts large inflows of foreign investment. Two billion dollars was drawn in during the first two months of 1998 compared with a total of $6.7 billion in the whole of 1997. Foreign and domestic investment is being used to modernise and prepare Polish industry for competition following entry into the EU, which is expected very early in the next century. This is causing imports to rise faster than exports and there are fears that the current account deficit might grow to 5 per cent by the end of 1998.

Financial turmoil in the CIS and Russia has dramatically reduced exports to the East and Polish companies are increasingly looking to their own domestic and Western European export markets as secure areas for sales. 66.5% of Poland's exports are already absorbed by the EU.

The Polish government has addressed the risk of an overheating economy and the deficit by raising taxes and has declared that more fundamental structural reform - the driving force behind growth - is needed to ensure they meet their own targets:

- 6.5 per cent average annual growth during 1997-2001,
- falling inflation,
- rising employment
- reduced government borrowing.

Privatisation is set to accelerate but this will not be without straightforward. Most of the "easy" privatisations have already been achieved. What is left are the very large and less profitable heavy industries and the high profile banks and public utilities such as telecommunications. Selling heavy industries will require large job cuts, which will be especially difficult in the mining and steel industries.

In the early 90s, there was a policy for promoting SME development and the government established an SME Task Force to examine all the issues and ensure the creation of a fiscal and policy environment conducive to SME growth. Regional authorities continue to support SME development activities. Growth in this sector will be needed to absorb the workers shed by larger industrial units and provide the dynamic for further economic expansion.