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**COMPETITIVENESS OF SMEs AND ENTERPRISE
SUPPORT POLICIES AND PROGRAMMES**

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COMPETITIVENESS OF SMEs AND ENTERPRISE SUPPORT POLICIES AND PROGRAMMES

By Antoine Mansour

This paper attempts to assess the enterprise support policies and programmes of Business Development Services (BDS) organizations in selected countries of the Arab region. It discusses the extent to which they meet the needs of small and medium-sized enterprises (SMEs) and contribute to improving their performance and competitiveness, in the light of globalization and fast technological changes in the world. The paper assesses the approach used by BDS organizations in supporting SMEs, and discusses the extent to which their programmes are specialized, sector-specific, large-scale, sustainable, demand driven and business-like. In conclusion, the paper proposes a number of recommendations for the improvement of support services and the adoption of adequate policies and programmes for SMEs.

The paper uses the results of structured interviews of a sample of manufacturing SMEs (25 to 45 enterprises per country) which were conducted in four Arab countries, namely: Bahrain, Jordan, Lebanon and the Syrian Arab Republic¹. The paper is also based on the results of field visits to agencies concerned with SME development in the above selected countries, as well as in Egypt.

I. COMPETITIVE ADVANTAGES OF SMEs

Governments have been giving special attention to the promotion of SMEs, considered as providing the bulk of employment and contributing to poverty alleviation. They have been investing considerable effort and resources in supporting SME growth and upgrading. However, the recognition of the competitive advantages of SMEs is relatively recent, even in the developed world. Support to SMEs today goes beyond the fact that they can reduce unemployment and poverty; SMEs are being recognized to have the ability to compete, export and innovate. These new trends can be explained by: (1) the increased worldwide competition among large firms and fast advances in technology; and (2) the globalization of the economy.

1. Increased worldwide competition and fast advances in technology

SMEs can take advantage of the increasing competition between large firms at the global level, and the changing tastes of consumers. One of the important aspect is the declining competitiveness of firms in mass-production activities, forcing them into activities with a greater skill and technological edge, sometimes in smaller facilities. There is increasing demand for specialized, custom-made products; this provides SMEs with greater opportunities to enter niche markets. Competitive pressures on larger firms to cut cost by subcontracting traditional activities to SMEs constitute another important factor².

On the other hand, the availability of computerized technologies allows smaller, more flexible

¹ This paper is based on a study undertaken by ESCWA, and entitled: "Small and Medium Enterprises: Strategies, Policies and Support Institutions", December 1999.

² Sanjaya Lall, "Strengthening SMEs for international competitiveness", Oxford 1999 (unpublished paper)

production units to compete directly on cost with larger, more specialized ones. Information technology and communications also provide easy access to SMEs to operate at the global level. The new computer and information technologies (ICT) are creating in fact new products and markets, and are changing the nature and location of economic activities.

2. SMEs competitiveness in the context of globalization

In the past, and until the mid- 1980s, countries of the region, particularly non-oil countries, were following import-substitution strategy. Most industrial firms of all sizes including SMEs have operated under heavy protection from the State, though at that period, government policies provided no special measures to promote the creation and operation of SMEs. During this period, "globalization" was not considered as an important issue for SMEs growth or survival, as for enterprises operating in open markets.

Since the early 1990s, most countries of the region started to introduce changes in their economic policies, in order to cope with "globalization" to face the challenges of the domination of market forces and trade liberalization. The reduction of custom duties under the WTO agreement will provide opportunities for small firms to enter new export markets and to improve their access to production technologies and to other input materials. Trade liberalization will also constitute real threats for enterprises that are not able to compete against imports, particularly those with lower prices. As SMEs are an important source of employment generation, the national economy would be severely affected in case steps are not taken to assist them to compete with foreign goods.

Programmes directed to SMEs in the region are concerned with improving their performance through training, provision of credit, business advice, information, technology development, etc, but very few programmes are addressing specifically the impact of globalization. The development of SMEs, like that of large firms, will be seriously affected by globalization of economic activities. Globalization has an inward and an outward aspect³. For some SMEs, globalization will open new opportunities for growth and expansion in the international market ("outward aspect"). However, for most small firms, the inward globalization (the entry of imported competitive products in the local market) will constitute major threats, unless SMEs introduce major changes in their management practices and in the quality of their output. Protecting SMEs from foreign competition through trade barriers was an easy task, enhancing their competitiveness in the world market is a more difficult one.

In this regard, government industrial policies should give particular emphasis on assisting small firms to become innovative and globally competitive, as traditional comparative advantage - based on low wages - is losing its importance. Special attention is to be given to innovative approach in responding to customer needs worldwide, as customers have become more outward-looking.

³ Organization for Economic Co-operation and Development (OECD), **(Globalization and Small and Medium Enterprises (SMEs)**, Vol.1, Synthesis Report, OECD, Paris, 1997.

II. SUPPORT POLICIES BIASED IN FAVOUR OF LARGE ENTERPRISES

1. Macro-economic policies

Despite the increased attention to the promotion of the private sector and particularly to SME sector, macro-economic policies are still biased in favour of large enterprises. Through their monetary, financial, trade and fiscal policies, macroeconomics generally discriminates against new and existing small firms through the imposition of considerable entry barriers. In most Arab countries, the incentive system have been devised to encourage large enterprises rather the small ones, through providing them with various privileges and advantages. Investment laws provide various incentives and exemption from income tax and customs duties, but only to projects with a high level of capital investment. For example, in the Syrian Arab Republic, the Encouragement of Investment Law 10 of 1991 provides various benefits to Syrian, Arab and foreign investment in approved economic and social development projects in agriculture, industry, transport and in other approved areas, provided the fixed assets of the project exceed S.P. 10 million (equivalent to US\$ 200,000). Small and medium projects do not enjoy therefore the privileges of the law. In Egypt, profits of an industrial company employing 50 or more persons and established after the enactment of the Income Tax Law, are exempt from income tax for a period of 5 years from the date of commencement of business. In order to reduce partly such imbalances, the government issued, in 1997, a new investment law (Law 8 of 1997), that gives only the projects financed by the Social Fund for Development the same incentives granted to large enterprises.

Having difficulties in accessing resources and taking advantages of the incentive system available to large enterprises, many small businesses operate in the informal sector and practice informal operations to become able to compete in the market, i.e. avoiding the payment of taxes and social charges. While gaining several advantages in operating in informality, SMEs are losing many of the benefits of being formal: access to credit, access to government services and to other facilities.

2. Support services

In contrast with large firms, SMEs face problems to access inputs, credit, information and technology markets. Providers of services, in fact, find it easier and cheaper to deal with few large customers than with a dispersed large numbers of small enterprises. With SMEs, the cost of enforcing contracts, for example, would be disproportionately large in relation to the size of the transaction.

Training services

Most suppliers of training courses have difficulty reaching the small entrepreneurs; their programmes are more oriented to medium and large firms, though they promote these programmes as being addressed to small and medium-sized enterprises. This is the case of the European Business Centres in Egypt, Jordan and the Syrian Arab Republic, which are attracting firms with more than 50 employees. The beneficiaries of the Vocational Training Corporation in Jordan were also enterprises with more than 50 employees. The entrepreneur is, in most cases, not aware of the existence of training courses and programmes, or of the

institutions providing the support services.

Training for small firms is quasi-inexistent in the Syrian Arab Republic and to a lesser extent in Lebanon. The few existing institutions that offer relevant training courses are mainly private consultancy firms that do not reach the small owner-manager, but rather the larger firms. In Jordan and Egypt, there are several institutions which deliver business training, but the main beneficiaries are being the micro businesses.

Training programmes are often prepared without serious identification of problems faced by entrepreneurs and catering to their real needs. Recently, there is increasing awareness of support institutions to the importance of needs assessment as a prerequisite to the delivery of courses. In many cases, training is delivered in the same way business education is offered to students at the universities, and/or similar to those provided to owners of large firms.

Entrepreneurs interviewed in the four selected countries have generally displayed common views regarding the training offered by development agencies. Most of them didn't participate in any training course, particularly in management. Entrepreneurs have generally shown reluctance to take training courses, in the way they are offered by support agencies.

When asked about any formal training courses they attended, most entrepreneurs who were interviewed, indicated that they didn't receive any special training. In Lebanon and the Syrian Arab Republic, many entrepreneurs indicated that they learned the business either by visiting factories and reading magazines, or from their previous work, or by taking technical courses offered by the foreign suppliers of their machines. Lebanese entrepreneurs are more reluctant than most other entrepreneurs to participate in training courses. A survey carried out in 1996 on 56 small-scale industrial firms in the 10th of Ramadan City, in Egypt, revealed that most of the entrepreneurs indicated that they didn't benefit from the training that was offered by government institutions or other non-governmental or private sector institutions⁴.

The views expressed by the entrepreneurs confirmed the difficulties faced by support institutions in having impact on business owners. Entrepreneurs consider learning by doing and by experience as the most important training for them, and more useful than formal education and learning in classrooms. To them, importance of training is linked to how training responds to their real needs. They regard their own personal work experience in previous jobs and in their current occupation as prime source for their skills. They don't trust the development agencies and training institutions.

In fact, the learning process of an entrepreneur is not based on formal education and training, but rather on daily work and experience, the reality and the environment, lessons from success and failure, contacts with relatives, friends and peers, the market and the feedback from customers, relations with competitors and suppliers, lessons from problems solving, and

⁴ Alia El Mahdi and Hala El Said, **Small Industries Complex in the 10th of Ramadan City: Needs and Potentials - A Target Group Analysis**, study conducted under the auspices of the Federation of Egyptian Industries and the Chamber of Engineering Industries in cooperation with the Friedrich Ebert Stiftung and the Association of Promoting Small and Medium-Sized Industries in the New Cities, 1996.

difficulties faced, particularly when they are in crisis and under stress. Learning and knowledge acquired from the environment have proved to be more effective than formal education.

Business information

Efforts have been made by support institutions in the region to provide business information. The business support services of the European Union in Egypt, Jordan and the Syrian Arab Republic include information and data on companies and market potentials in Europe. Information services, alike the other services of the European Union, reach, however, more the large firms than the SMEs. The Trade Information Centre in Lebanon and Trade Points in Egypt have useful databases that can be used by entrepreneurs, and access is possible through the internet, or directly by phone, fax or visits. However, very few enterprises are aware of the existence and benefits of these sources.

The Chamber of Industry in Jordan has a database on registered companies, others (the Association of Lebanese industrialists and the Damascus Chamber of Industry) are making serious efforts in that direction. The most developed databases on industrial firms can be found in Egypt, at the Credit Guarantee Corporation for Small Scale Enterprises, and at the General Organization for Industrialization (GOFI). Databases on exporters are available at the Jordan Export Development and Commercial Centres Corporation as well as at the Egyptian Export Development Centres; however, small industries are not benefiting from such services, as most of them are not exporters. Most of exporters consist of enterprises that employ more than 40-50 employees.

Entrepreneurs in the four selected countries generally complain about the relative absence of business information. Most of them are not aware of the availability of needed information, and where to go to get it. Equally important is the weakness of information providers in advertizing their services. Small entrepreneurs in the region rarely attend seminars and other awareness programmes organized by chambers of commerce and industry, or by business associations. Very few of them have computer facilities, and almost all interviewed persons are not aware yet of the existence of electronic commerce.

Small entrepreneurs rely usually on friends and relatives, as well as on suppliers and business journals, magazines and catalogues to obtain the needed information, or through visiting exhibitions and fairs. Networks with relatives outside the country enable many entrepreneurs to obtain some of the latest information regarding new technologies, new products and new market trends. In contrast to small entrepreneurs in most countries of the region, Lebanese entrepreneurs indicated that they are not facing serious problems in obtaining needed information to start or run a business (may be because of the large network Lebanese have around the world).

Marketing assistance

Marketing assistance to small firms is relatively scarce in the selected countries, as existing marketing services are available more for large firms. Support programmes for SMEs are limited to assisting them in displaying their products in fairs and exhibitions, and in offering to entrepreneurs training courses within the framework of management courses, on marketing in general, preparation of marketing plans, methods of costing and pricing, and techniques of promotion and sales, etc.

Market assistance includes support of entrepreneurs in the local market, and export market. The support provided by the chambers of commerce and industry is confined to informing members on fairs organized in the country or outside, and to organizing irregularly awareness seminars on marketing and international regulations and procedures with regard to export in the European and North America markets, as well as with respect the impact of WTO agreements and international standards (ISO 9000).

The support for export is being organized by specialized government agencies, such as the Egyptian Export Promotion Centre (EEPC), and the Jordan Export Development and Commercial Centres Corporation (JEDCO). These agencies provide support to exporters in the fields of market information and research, trade statistics, product promotion, product design and development, information and procedures and regulations for export in foreign countries, and information on international exhibitions and fairs, etc. Although these agencies state that they are giving particular attention to SMEs, the main beneficiaries are, mostly the large firms, and to some extent the medium ones. This may be explained by the fact that most small firms have no exportable products, and no serious efforts are being made to assist small producers, with growth and export potentials, in adapting their production to customer needs.

Marketing is considered by most small enterprises as the major problem they are facing, and more important than financing. Marketing problems are imputed by the entrepreneurs to the limited size of the local market, particularly in Jordan, Lebanon and Bahrain. The real problems however can be attributed to the inability of enterprises to expand the market base beyond the local community and close neighbourhood, as well as to the product itself, which does not meet standards and quality, and the tastes and needs of customers. Entrepreneurs in the region have a misconception of marketing, which is considered in its narrow definition. They relate their problems to external factors: limited size of the local market, competition from local and imported products and government policy with regard to protection of local industries, while the main problem lies in the product design, its quality and price, and the better understanding of market needs.

Among the countries considered in the study, Egypt has the most developed marketing support infrastructure to small entrepreneurs. The Small and Micro Enterprise Project of the Alexandria Business Association organizes on regular basis exhibitions for products of borrowing firms; these firms can also display their products in the showroom established by ABA in its premises. The Social Fund for Development and the Industrial Bank also provide market support to their clients through the organization of fairs and exhibitions, and the participation in the Cairo International Fair.

Export promotion centres in the region are benefiting the large enterprises more than the small ones, as access to market information are usually provided to large firms. International experience in developed and developing countries confirms the importance of the existence of sectoral manufacturers sectoral associations specialized in export promotion. In Chile, the small woodworking industry sector which was serving only the domestic market, was able to enter the export markets, thanks to the support provided by the association of SMEs and the export manufacturers association. The association of SMEs assisted the wood products sector in attending international fairs, and in establishing links with local and international technical

institutes. The growth of the size of the export market for a specific product will encourage small firms to cooperate together to meet the needs of the market, and will promote specialization as well.

III. LACK OF PROGRAMMES TO ENHANCE COMPETITIVENESS

Most of support institutions and agencies dealing with SMEs in the region are devising special programmes to support SMEs, concentrating their activities on improving the performance of individual firms through advisory services, provision of credit, training for upgrading technical and managerial skills, and on recommending policies that are likely to improve the macroeconomic environment for SMEs, through liberalization measures and facilitation of bureaucratic and administrative procedures. However, very few programmes are emphasizing the aspect of inter-firm cooperation and interaction, the formation of networks, clusters and self-help groups, as a means to improve competitiveness of small firms.

1. Business networks and linkages

International experience in developed as well as in developing countries has proved that networks of firms or their clustering in one location and on a sectoral basis will contribute to enhancing their competitiveness, and will provide the appropriate framework or vehicle for intervention of the support institutions. In addition to networks and clusters, subcontracting is another form of business linkages that will lead to greater specialization and efficiency of small firms.

Benefits of a cluster, which is defined as a sectoral and geographical concentration of firms, can be derived from external economies. Concentration of firms on a sectoral basis, in fact, will encourage suppliers, marketing agents and other providers of services to establish themselves in the cluster; it will enhance interaction between small firms, and lead to a certain division of labour, thus increasing specialization and innovations. The existence of clusters will provide increased opportunities for SMEs to work together and cooperate in various areas.

Clusters in developed and developing countries have emerged spontaneously, and without government intervention. In Brazil, the existence of a cluster (the Sinos Valley footwear cluster) has been beneficial for the local producers of footwear, because of the intervention of two actors: (1) the Brazilian Service for Small Enterprises (SEBRAE) which bears half of the exhibition cost for small firms wishing to participate in trade fairs organized by the public sector, and (2) the private sector (the export agents) which facilitates the connection between the cluster and the export markets.

Industrial districts are another form of business linkages. An industrial district is a cluster of small firms, which has a certain organization, like the business association, and explicit form of inter-firm collaboration. In addition to the geographical location and sectoral specialization, the main characteristics of an industrial district are: close inter-firm collaboration, predominance of SMEs, inter-firm competition based on innovation rather than on low wages, existence of a business association, support from government or private sector organizations and existence of trust among entrepreneurs. In the industrial districts, firms do not benefit from being together

only (external economies), but also from joint action through sharing equipment, developing new products, joining forces in securing raw materials and new technologies, cooperating in exhibitions and fairs, establishing sectoral business associations, etc.

In this connection, it is important to stress the importance of trust between owners of small firms, as a condition for inter-firm cooperation and joint action. Cooperation between firms will increase their bargaining power and improve their access to information and knowledge of the market. Family ties and a socio-cultural identity would facilitate such cooperation. Another important remark is that the emergence of clusters and industrial districts in Europe and even in the developing countries was spontaneous, and not the result of a planned action by government agencies or private sector institutions, or a part of an industrial strategy, though the public and private sector played a role in their growth⁵.

Network between small firms would also result in collective efficiency and provide mutual benefits through active cooperation and joint action. Networking can be done without the existence of a cluster or an industrial district, and without necessarily having the firms established in the same area. An interesting example is the Danish Networking Programme which is a government subsidized programme. The programme consists of requesting enterprises to form networks and cooperate in a number of areas. Networking was promoted with the aim of improving competitiveness of SMEs, and prepare them to deal with globalization, through the development and marketing of new products, and cooperation in the establishment of agents and distributors in new markets. It is interesting to note that the programme succeeded in inducing SMEs to cooperate, though inter-firm cooperation was not part of their industrial culture.

2. Inter-firm cooperation and business linkages in countries of the region

There are several factors that impede the creation of networks and cooperation between firms in countries of the region. Some of these factors can be summarized as follows:

- (1) With few exceptions, industries are scattered geographically and sectorally, as it is rare to find a concentration of small firms in one location, and/or on a sectoral basis. There are several industrial zones or cities in countries of the region, but the existing firms in these zones are of different size and specialization. However, one may find very small or micro projects (the handicrafts) grouped sectorally (such as woodworking and metalworking) in one area.
- (2) Very little inter-firm cooperation exists, as competition is dominant between firms, and trust between entrepreneurs relatively absent.
- (3) Relative absence of business associations in most countries of the region, particularly those that represent the interest of small industries. In Egypt, however, several business associations have been established in the 1990s, as a

⁵ Hubert Schmitz, "Collective efficiency: growth path for small-scale industry," *The Journal of Development Studies*, Vol. 31, No. 4, April 1995, pp. 529-566.

result of the large programmes launched by the government and donors to support and promote SMEs, but most of these associations are not sectorally-based.

- (4) Industries are generally isolated: their market is limited to the area in which they are located, and in addition they are in isolation with respect to information they can have on competitors, suppliers, new technology, and export markets. The main problem of small enterprises is more a problem of isolation than size.

One of the main reasons of the relative absence of networks of entrepreneurs is the mistrust that exists between owner-managers on the one hand, and the absence of programmes that can promote inter-firm collaboration on the other hand. It is important to understand the attitudes of entrepreneurs in the countries considered in this paper, in order to set up adequate schemes that are likely to enhance cooperation and increase competitiveness of small firms. Although entrepreneurs in these countries generally share common views regarding peer learning, the attitudes vary from very individualistic in Lebanon and Bahrain, to a more moderate attitude for cooperation in Jordan and the Syrian Arab Republic.

The organization of SMEs into associations, clusters and networks will facilitate the provision of services by BDS organizations. As small enterprises are generally numerous and scattered, it would be difficult and costly to reach them all. The organisation of SEs into mutual support groups or associations by occupational status would facilitate the provision of services, and sharing of experiences between entrepreneurs. In this case, common problems faced by the owners/managers could be addressed within the support group or association. It is therefore recommended that associations of producers be established in all industrial branches in order to facilitate the delivery of services to small enterprises. Networks would help in increasing the competitiveness of small firms, particularly when the latter cooperate in sharing raw materials, developing new products, cooperating in export, etc.

Competitiveness of small firms can also be achieved through the promotion of subcontracting arrangements with large firms or among each others. In fact, the market in several countries of the region lacks linkages between small businesses and large corporations. In modern market economies, large corporations play a pivotal role as SMEs cluster around these companies to act as subcontractors. SMEs offer specialized inputs since they enjoy greater flexibility and cost-efficiency. Incentives could be offered to large enterprises to subcontract some of their activities to small firms.

IV. ASSESSMENT OF BUSINESS DEVELOPMENT SERVICES ORGANIZATIONS

1. Institutional problems

The enterprise development programme is facing institutional problems in a number of BDS organizations. In some cases, the organization has serious weaknesses, in view of the lack of qualified staff to manage the project, the existence of heavy bureaucracy in the organization and the complexity of administrative procedures.

In implementing the enterprise development programmes, these institutions face usually the following problems:

- (1) Lack of adequate knowledge of the characteristics and needs of the different target groups
- (2) Little knowledge and experience in identification of needs of SMEs
- (3) Confusion in applying selection criteria of participants for training courses
- (4) Weaknesses in follow-up mechanisms of services provided
- (5) Little knowledge and experience in measuring the impact of training and of other services provided, and in monitoring and assessing the results
- (6) Little experience and knowledge in the management of a business counselling centre
- (7) Relative absence of qualified staff and mechanism to identify and recruit qualified staff
- (8) Relative absence of information and literature relevant to micro and small enterprise, as well as relevant databases and directories

2. Lack of focus

Activities of BDS organizations generally lack focus; they are scattered and unintegrated in a comprehensive framework or programme, and with little follow-up mechanism and activities.

Programmes that provide non-financial support exclusively - without credit - have proved to be more cost-effective. When programmes combine credit with non-financial support instruments, clients are more interested in the financial services - when available -, leaving aside the non-financial component of the programme. Specialization within non-financial support is also of great importance, as most support institutions are combining several instruments and services together in an ad hoc, unorganized way. Specialization can be in one of the following areas: technical training, managerial training, counselling, marketing assistance, information, etc.

For example, most of small-enterprise development agencies are providing marketing support as part of a larger programme; either as part of a credit programme or as part of non-financial support in general. These agencies do not usually target a specific branch of manufacturing, but rather a whole economic sector (such as manufacturing or services, etc.) or several sectors at the same time. A survey carried out in 1996 in Egypt on 34 organizations covering NGOs, private and government agencies, that support micro and small enterprises, indicated that only 13% of programmes of assistance are specialized in marketing support and product development, while only 22% of these programmes are specific to a branch or a sub-sector. 33% of the programmes

charge subsidized fees, and only one organization covers totally its costs⁶.

Services provided to clients in one specific sector are of higher technical value. Most of the BDS organizations including the service delivery organizations and business associations provide services to several sectors at the same time: trade, industry, agriculture, etc. Many of the business associations, particularly those in the industrial zones or cities, do not represent a specific sub-sector, but several industrial branches. However, the existing business associations or syndicates representing a sub-sector in the region are particularly active in the areas of food industries, textiles, leather and garments. But these Associations/Syndicates are rarely devising programmes of assistance to help members in improving efficiency and competitiveness through i.e. product development, technology upgrading. These Associations/Syndicates generally attempt to protect the interests of the members by establishing pressure groups to influence government policy regarding the sub-sector, and organizing trade fairs and seminars. Business associations can provide the appropriate framework for intervention and the provision of services to the sector. It is to be noted however that the limited size of most sub-sectors in the countries of the region and the scattering of related SMEs make it difficult to establish such specialized bodies and reduces their resources when they exist.

Business Development Services (BDS) organizations should not over diversify their activities, but should focus on what they can do and achieve best. This explains why micro-credit programmes which are well-focused, have proved to be more successful than non-financial services. The delivery of focused services by BDS organizations also has a double advantage: (1) it helps in increasing the expertise of the BDS organization; and (2) it leads to a more effective relationship with clients. Specialization will obviously raise the technical capability and capacity of the organization; it will also leads to increased capacity of the organization in innovation and design of new services, within the scope of the specific services provided.

3. Limited scale of operation

Programmes should reach significant numbers of clients in order to be effective. The scale of operation of most BDS organizations is very limited, reaching at most few hundreds of beneficiaries, while thousands of entrepreneurs within the same area start or run their businesses with no support at all. BDS organizations providing non-financial support need to learn from the micro-credit programmes the techniques to offer services at large scale. Although some of the institutions -such as the Alexandria Business Association - are able to reach a large number of beneficiaries in the area of financial services, their outreach programmes in the non-financial support, however, is still limited. Information technology provides now good opportunities for BDS organizations to operate at large scale.

4. Difficulty to sustain support programmes

Most of service delivery organizations are government organizations, with few exceptions, such as the Alexandria Business Association and a few other NGOs. Government organizations face

⁶ Egyptian Small and Micro Enterprise Association ,**Marketing and Micro enterprise in Egypt**, Friedrich Ebert Stiftung, Cairo, September 1997.

difficulties in reaching the small entrepreneurs, in view of several constraints: heavy bureaucracy, operations dominated by social approach instead of business-like approach, scarcity of qualified staff; private sector institutions are better equipped, staff are better paid, and more motivated.

Most training courses are provided free of charge or at nominal fees. Such courses have proved to be in attractive to entrepreneurs and thus ineffective; in addition, these courses face the problem of sustainability. For example, the Vocational Training Corporation in Jordan was unable to attract participants to its training courses when it started charging the trainees just a nominal fee. This proves to what extent entrepreneurs are not interested to attend courses that do not meet their real needs. However, other agencies such as the Alexandria Business Association in Egypt was able to charge fees and to recover its costs, because of the more relevant nature of the courses given.

Fees should be charged on services rendered to clients, in order to make these services more attractive, and in order to enable the organization to sustain its activities. However, it is not certain yet that services provided to micro enterprises and disadvantaged groups - such as the poor and women - can be fully self-financed. The attainment of social objectives together with a business-oriented approach would require high expertise, as well as some support from governments and donors. The problem of sustainability is also caused by the low salary of staff in these institutions, as compared to the private sector; such low salary encourage the staff to look for other jobs, thus reducing the ability of these organizations to continue and sustain their activities in an effective manner.

5. Supply and charity-oriented

The "social" approach is still dominant in the region in the provision of services. The government organizations and the non-profit organizations in the region have proved to be more charity-oriented than business-like. Their bureaucratic nature is another constraint for these organizations to be cost-effective, though the staff of these organizations can have high motivation and enthusiasm for SME support. It is therefore necessary to develop in BDS organizations attitudes and behaviours which reflect a business-like approach.

There is a need to identify the real demand of the target group through needs assessment surveys and/or other mechanisms before providing the services to entrepreneurs. Training courses and advisory services should be tailored to the specific conditions and needs of the entrepreneurs. BDS organizations should be in continuous close communication with their clients in order to understand better their needs, and in order to conceive and implement programmes that respond better to real needs.

The best BDS organizations in supporting SMEs are those operating like SMEs on a commercial and not on charity basis. They are similar to SMEs in terms of their personnel, systems and values⁷.

⁷ Committee of Donor Agencies for Small Enterprise Development, **Business Development Services for SMEs: Preliminary Guidelines for Donor-Funded Interventions**, Summary of the Report to the Donor Committee for Small Enterprise Development, Washington, January 1998.

V. CONCLUSIONS AND RECOMMENDATIONS

1. Enhancing outreach capabilities of BDS organizations

BDS organizations generally reach a small number of beneficiaries in the area of non-financial services, in view of limited number of staff, limited resources and use of traditional means of communication with entrepreneurs (advisory services provided on individual basis, training courses accommodating a few dozens of trainees per course, etc.). To be more effective, BDS must be able to reach thousands of entrepreneurs. This can be achieved through the use of information technology: production of CD multimedia and softwares in areas that were covered previously in written materials related to training courses or information booklets, etc. CDs and softwares can cover the following: how to prepare a business plan, bookkeeping, costing and pricing, licensing and registration procedures, import and export regulations, transportation regulations, business profiles, etc. The promotion of CD multimedia and software would enable BDS organizations to reach would-be and existing entrepreneurs on large-scale.

2. Enhancing institution and capacity building of BDS organizations

BDS organizations need to introduce major changes in their management, structure, approach of work, level of expertise, etc., in order to meet effectively the real needs of small entrepreneurs. In this connection, it is worth mentioning that the experience of support institutions in the region is relatively new, starting mostly in the early 1990s. It is therefore important to benefit from international experiences in SME support, in order to provide BDS organizations with appropriate systems, mechanisms, values and approaches that are likely to help them in better delivery of services to SMEs. In order to meet the needs of entrepreneurs, services should be provided on the basis of BDS principles which are: large-scale, sector specific, specialization, sustainability, business-like and demand driven. Strengthening BDS organizations in terms of organizational structure, managerial and technical capacity, would enable them to become more effective, efficient and business-like organization. On the other hand, the adoption of basic principles for successful programmes will enhance the organizational and institutional capacity of the BDS organization.

3. Business development services organizations: providers or facilitators of services?

The results of this study confirmed that most of small entrepreneurs rarely used the services of BDS organizations, particularly those provided by non-private institutions. They rely more on services bought at private sector agencies, as well as on services provided by a network of informal relations: peers, friends and relatives.

Such results raise the issue of the effectiveness of non-private BDS organizations as providers of services. It is recommended that non-private BDS organizations introduce radical changes in their role, so that they act more like facilitators instead of providers of services.

As facilitators, BDS organizations would be required to perform a number of tasks, such as: (1) develop databases needed by SMEs; (2) provide SMEs with internet facilities; (3) assist them in

exporting their products through the use of e-commerce; (4) link SMEs with more effective service providers like the universities, laboratories and research centres; (5) assist in linking SMEs with large companies (local and foreign) through subcontracting arrangements; (6) develop softwares and CD multimedia in the area of business planning, procedures to set up a business, export regulations, etc.

4. Enhance the use of internet

Strong awareness must be created among government authorities, Business Development Services organizations and SMEs about the benefits the Internet can bring to SME development. Awareness programmes should include the following internet facilities that are of benefit to SMEs: e-mail, information gathering, marketing, e-commerce, training, on-line banking, networking, etc.

In view of the fact that small entrepreneurs generally have difficulties to introduce computers in their own premises (because of low literacy and educational background), it is recommended that Business Development Services act as focal points that would offer to SMEs facilities to access the Internet. The focal points would provide internet facilities to a number of SMEs located in a specific geographic area. The services that can be provided by the focal points would be concentrated in the following areas: organization of virtual trade fairs (exhibition of products in a Web page), assisting enterprises to trade through electronic commerce, creation of databases of all business support services available in the area, establishment of databases of existing SMEs in the area, provision of information on themes related to SME support, link with regional and international trade points, etc.

5. Initiating the formation of networks of SMEs

BDS organizations should assist enterprises operating in the same business line to form networks and cooperate together, in order to deal with globalization and increase their competitiveness. Network of 10 to 20 small firms can be formed and encouraged to cooperate in the development, design and marketing of new products, the establishment of distribution mechanisms in new markets, product standardization, process innovation and human resource management, etc. The establishment of networks would also facilitate the provision of services by the BDS organizations. By taking part in network activities, entrepreneurs would be able to build trust between themselves, thus contributing to the creation of a culture of cooperation, particularly in countries where mistrust and fierce competition is dominant.

6. Promoting the establishment of sectoral business associations

The organisation of SMEs into mutual support groups or associations by occupational status would facilitate the provision of services, and sharing of experiences between entrepreneurs. Common problems faced by the owners/managers could be addressed therefore within the support group or association. The association has to build relationships with BDS providers of services, NGOs, government and donors, in order to mobilize the required resources for the development of the sector. It is therefore recommended that associations of producers be established in all industrial branches in order to facilitate the delivery of services to small enterprises.

7. Strengthening national and regional networks of BDS organizations

Little cooperation exists between BDS organizations at the regional level, or even at the national level, though several attempts have been made to enhance cooperation between these organizations. The establishment of a network between BDS organizations at the national, then at the regional level, is becoming an increasing necessity in a world dominated by the formation of large economic groupings. The network will enable the BDS organizations to consolidate resources, to focus their activities and to specialize in areas where they enjoy comparative advantages, and to enhance their capacity building through joint activities and the development of a common approach to enterprise development, as well as through sharing of experience, skills and expertise, and the exchange of information and databases. The latest development in information technology should be used to facilitate the operations of the network.

