An Evaluation of Phare SME Programmes

Romania

Final Report

January 2000

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Appendices

Introduction

This is one of a series of ten Phare SME Country Evaluation Reports, which examines the contribution of Phare's SME programmes in the context of macro economic and SME developments in the country since the transition process began. This is part of the horizontal evaluation of the Phare's SME programmes being undertaken for the Evaluation Unit by an RDH/LDK consortium of three EU specialists supported by local consultants in each country. This country evaluation report has been prepared by Charles Monck with Viorel Nitu, who was head of the UNROM Centre and is now the President of Foundation for Entrepreneur Assistance in Romania (FAIR). The report, which was not completed until January 2000, is based on preparatory work undertaken during June-August 1998 and a three-week evaluation mission in November 1998.

The Country Evaluation Report follows a common format. The first chapter sets out the main features of SME development in the context of key changes in the economy and the political make up of Romania since 1990. The chapter includes sections on the financial environment and institutional developments effecting SMEs. The second chapter summarises Phare's SME programmes and the work of other donors, and then reviews the appropriateness of the overall design of Phare's SME programme in the context of the country's priorities.

The formal evaluation of the financial and the institutional programmes are set out in Chapters three and four respectively, based on a standard evaluation methodology and logical frameworks that are included in appendices A to D. Particular projects have been selected, and detailed interviews were carried out with a small sample of intermediate and final beneficiaries in selected areas. The results of each evaluation are set out in a common format covering relevance, efficiency, effectiveness, impact and sustainability, together with a discussion of key issues and future priorities.

Chapter 1 Main features of SME developments in Country

1.1 Macro economic and political context:

The Romanian economy, prior to the overthrow of Ceausescu in Dec 1989, had become increasingly diversified and vertically integrated to achieve a high level of self sufficiency, particularly in heavy industry and infrastructure projects, resulting in a depletion of domestic energy sources. A technological gap increased significantly during the 1980s as the country struggled to pay off its massive debt with the west (US$11 billion - 20-30% of GDP), resulting in a halving of western imports. By 1989, Romania was the most centrally planned of the East European countries, much of industry was antiquated and energy intensive, there was a strong unsatisfied up demand for consumer goods and almost no reform had been initiated. Since that date, political parties have tended to adopt a gradualist approach, to minimise the social impact of the changes. But the rapid liberalisation of prices during 1990-92 led to a high inflation, which peaked at 256% in 1993. The slow recovery in output since 1993 could not be sustained, leading to a widening balance of payments, increased government debt and a return of inflation, resulting in growing dependence on external borrowings from the IMF. Meanwhile, the reform of the state owned industries has been slower than most other countries.

1997 was a very challenging year with GDP down by 6.6%, inflation at 154%, and a serious erosion in the country's purchasing power. Investment during the year was down by 15%, resulting in a drop in total loans by 36%, and loans to private firms were down by 28%. During this period, investment was down by 15%, largely financed from retained profits: with only 3.6% of private investment being financed through loans.

Table 1.1: Macro Economic Indicators

	1991	1992	1993	1994	1995	1996	1997	1998
Real GDP Growth Rate (%)	-12.90	-8.80	1.42	3.95	6.90	3.50	0.01	-7.3
Current Account Balance (% GDP)	-4.47	-7.46	-4.65	-1.71	-4.02	-3.94	-4.60	-6.1
Government Budget deficit (% GDP)	3.22	-4.58	-0.37	-1.88	-2.61	-5.70	-0.09	-3.3
Gross Foreign Debt (% GDP)	3.56	11.85	11.80	14.08	13.84	17.33	23.20	25.2
Real-effective Exchange rate (1994=100)	99.22	64.22	99.22	115.22	114.78	103.33	119.45	NK
Inflation Rate (CPI, avg.)	170.2	210.4	256.1	136.7	32.3	38.8	154.8	59.1
Unemployment rate (%)	3.0	8.2	10.4	10.9	9.5	6.6	8.8	10.3
Exchange Rate Lei: Euro	94.8	399	891	1976	2660	3911	8128	nk

National Commission for Statistics, EBRD, and National Bank of Romania

The shifting balance of political power in Romania since 1990 has been a key factor for the relatively limited progress that has been made in the development of SME policies and programmes. Following the fall of Ceausescu, there have been 6 different governments in Romania, each of which has led to changes not just at the level of Minster and Secretary of State, but also amongst senior staff in Ministries and Government Agencies, resulting in serious delays and discontinuities. The major changes in Government together with responsibilities for SME policy and main actions under the Phare SME programme are summarised below:

Table 1.2: Historical development of government, SME policy and the Phare programme

Date	Government	SME Policy	Phare SME programmes
Jan 1990	Provisional government leading to general election		
May 1990	Coalition led by National Salvation Front with Petro Roman as PM	SME Department set up in the National Privatisation Agency	At design stage
Oct 1991	Coalition government with Theodor Stolojan as PM	CRIMM Foundation set up July 1992	FM 1992 drawn up
Sept 1992	General election: President: Ion Iliescu PM: Nicolae Vacaroiu PM (Social Democracy: PSDR coalition)	SME Department moved to the Romanian Development Agency	
March 1993			CNA Veneto work with CRIMM until Dec 1995
1995			FM 1994 SME programme not signed until Oct 1995
Jan 1996		SME Department moved to back to the NAP	FIMAN appointed PMU for FIDEL programme till Dec 1998. Long term consultants, GOPA work on project from April 1996-July 1998
Sept 1996	General election. President: Emil Constantinescu Democratic Convention, forms coalition government with Victor Ciorbea as PM	New head of NAP appointed	
Jan 1997			Contract started for EIM to provide policy assistance to NAP
July 1997			Contract started for Finlomardo to design loan programme
Jan 1998		SME Department moved to Council of Reform	EIM contract suspended due to government changes
April 1998	Victor Ciorbea resigns. Radu Vasile appointed PM and forms new Cabinet		
Oct 1998			EU announces that Romania has not made enough progress to be included in early negotiations for EU membership
Nov 1998		SME Department to be moved to Prime Minister's Office, as an interim to the formation of an SME Development Agency	1994 FIDEL programme ends Design phase of 1999 SME Programme begun

During the eight years up till the end of 1997, SME development has not been a major priority of any of the governments. Broadly, the Democratic Convention and the right of centre coalitions in power since 1996 have been marginally more supportive of SME development than the parties that formed the left of centre coalition between 1992 and 1996. Up till now a main focus of all governments has been on dealing with the problems relating to the large loss-making state owned enterprises. The main impetus for SME development has lain with the external donors. Greater progress was made in 1998 resulting in plans to transfer SME policy from the Council of Reform to the Prime Minster Office as an interim to setting up a National SME Agency.

1.2 Growth and development of SMEs

Although there was a strong private sector prior to 1945, it was eliminated during the communist period, with no relaxation during the 1980s. In fact centralised decision making and direct controls increased during the 1980s with the result that there was virtually no SME development prior to 1990. Early legislation in 1990 led to a rapid build up in the number of SMEs. Businesses expecting to employ staff were required to register as legal entities. Only self-employed people and those working as family businesses were exempt. Thus, in Romania most SMEs are legal entities.

Table 1.3 summarises the numbers of self employed and registered companies in Romania over time, as well as the proportion of GDP accounted for by the private sector, reflecting the growth of SMEs and the rate of privatisation in the country. As in all Central and East European Counties, registration is a poor guide to the dynamics of the SME sector, as there are many registered businesses, which are not trading.

Table 1.3: Births and Deaths of self employed and legal entities: based on registrations

Rate of formation	1991	1992	1993	1994	1995	1996	1997
* Family associations			40,194		54,508	65289	
* Individual entrepreneurs			295298		281,700	213,241	
*** Total 'self employed'**			**335,492**		**336,208**	**278,530**	
**Legal Entities: Registrations	81,671	124,519	108,783	126,732	55,225	49,581	36,807
****Stock of SMEs**	**81,671**	**205,082**	**312,055**	**436,369**	**488,674**	**535,436**	**570,931**
****Stock of companies lodging balance sheets**					**380,830**	**310,526**	**379,366**
% of 'registered companies'					**78%**	**58%**	**66%**
Private sector contribution to GDP		**23.6**	**26.4**	**34.8**	**38.9**	**45.0**	**52.0**

* Private Sector of SMEs in Romania, Annual report 1997
** National Trade Register of the Chamber of Commerce and Commission of National Statistics

The rate of new firm formation reached a peak in 1994, but dropped off sharply in 1995 and 1996 due to the increasingly difficult market conditions. However around 30% of new registrations do not trade. Since 1995, analyses of those companies lodging their balance sheets provides a more accurate picture of the number of active SMEs in Romania over time. In 1997, of the 570,930 registered legal entities, 379,366 submitted end of year balance sheets as is required; the remaining 191,564 firms (34%) are either not trading or had failed to submit their end of year declaration. All further analyses is based on the smaller numbers of SMEs that had lodged their balance sheets.

Table 1.4: Number of enterprises by size over time: 1990 to 1997 (based on filed balance sheets)

Size distribution	1995	1996	1997	% change 1995-7
	No	No	No	
Self employed	336,208	278,530	NK	
Companies lodging balance sheets				
1-9 employees (micro)	354,564	283,755	347,628	- 2%
10-49 employees (small)	18,028	18,721	23,320	+ 29%
50-249 employees (medium)	5,219	5,533	6,030	+ 15%
>500 employees (large)	3,019	2,517	2,388	- 20%
Total companies	380,830	310,526	379,366	-

Source: National Trade Register of the Chamber of Commerce

In the period up to 1997, there has been a steady increase in the number of small and medium sized firms (+29% and +15% respectively from 1995 to 1997), and a corresponding decrease in the number of large firms. Most of the increase would appear to have come from the break up of larger enterprises, with a proportion arising from expansions. A survey of SMEs conducted by the World Bank in 1998[1] involving a cross section of 413 businesses indicated that privatisation accounted for 4% of micro firms, 9% of small firms and 74% of medium sized firms. Significantly, between 1995 and 1997 there was a net fall in the number of micro companies which had lodged their balance sheets. Data was not available on the dynamics of the individual and family entrepreneurs, grouped together as 'self employed'.

Table 1.5: Distribution by sector and size of company

	Total	% distribution by size				% distribution by sector				Total
		0-9	10-49	50-249	>250	0-9	10-49	50-249	>250	
Manufacture	21,051	5.5	14.2	16.6	35.8	75.4	15.8	4.8	4.0	100%
Light Industry	8,104	2.1	5.3	7.6	15.0	74.7	15.3	5.6	4.4	100%
Food Industry	7,591	2.0	6.9	6.4	9.9	70.5	21.3	5.1	3.1	100%
Agriculture	6,673	1.8	5.6	15.0	9.6	63.6	19.4	13.5	3.5	100%
Construction	9,308	2.5	9.6	16.0	12.4	62.3	24.1	10.4	3.2	100%
Trade	259,490	68.4	38.2	17.5	6.8	96.1	3.4	0.4	0.1	100%
Tourism	3,489	0.9	2.5	2.8	1.1	77.9	16.5	4.8	0.8	100%
Transport	10,189	2.6	2.5	6.8	3.0	89.6	5.7	4.0	0.7	100%
Services	53,472	14.1	15.2	11.3	6.4	91.8	6.6	1.3	0.3	100%
Total	-	100%	100%	100%	100%					-
Number	379,366	347,628	23,320	6,030	2,388					

Source: National Trade Register of the Chamber of Commerce and Commission of National Statistics

Table 1.5 indicates clearly the dominance of trade (68%) and services (14%) amongst micro firms employing less that 10 people, with only 9.6% of firms in the manufacturing sectors. Amongst small firms, whilst trade is still the main activity (38%), the manufacturing sectors account for 26%, construction 10% and services 15%. Amongst medium sized firms, the distribution between the various sectors is more even, with the manufacturing sectors accounting for 31%.

At the end of 1997, there were around 280,000 in self-employment, and a further 380,000 registered small and medium enterprises employing around 1.77 million people. Their share of total employment is summarised in the table below, and provides the best basis for comparing with EU States:

Table 1.6: Percentage employment distribution 1997 (EU definition of SME)

Number of Employees	% of total employment **in Romania**	% of total employment **in EU states**	Employment distribution **Industry**	Employment distribution **Construction**	Employm't distribution **Trade**	Employm't distribution **Transport & services**
Self employed	4.5		0.6	0.1	17.2	6.0
Micro: 0 – 9	11.3	33.2	2.7	3.5	38.0	16.2
Small: 10-49	10.6	18.9	5.8	12.3	19.2	16.3
Medium: 50-249	15.6	13.5	9.4	27.3	13.4	24.8
SMEs	42.0	65.6	18.5	44.2	87.8	63.3
Large: > 250	58.0	34.4	81.5	55.8	12.2	36.7
Total employees %	4.22m	111.4m	2.17m 55%	389,000 10%	810,000 21%	555,000 14%

Sources: Trade Register of the Chamber of Commerce. Fifth Annual Report, European Observatory for SMEs 1997

[1] Results of Survey of Romanian Enterprises: World Bank 1998

The proportion of Romanians employed in small firms is still significant lower than in EU countries. Although the numbers employed in large firms has fallen from 76% they still account for an average of 58% across all sectors. This reduction in employment in large firms has been partially offset by an increase in the number of self-employed and firms under 10 employees (which together accounts for 16%) and in small firms employing 10-49 staff (11%). The new service and trade sector firms account for the largest proportion of small firm employment (63% and 88% respectively), whereas in industry, only 18% is employed in SMEs and just 9% in firms with less than 50 employees.

The Trade Register is able to analyse the turnover and gross profit (before tax) of all enterprises submitting their balance sheets up to the end of 1997. Whilst not too much reliance should be placed on the accuracy of the financial data, they do provide an indication of the financial position of enterprises in Romania over time:

Table 1.7: Comparison of profits and returns over time

	Firms in profit 1997	% employment		% distribution of profits		% return on total assets		% margin on sales	
		1995	1997	1995	1997	1995	1997	1995	1997
Micros companies	59%	6.9	10.3	32.6	21.2	16.1	15.8	9.2	6.6
Small companies	81%	6.4	9.2	16.3	20.8	15.3	16.3	10.3	9.0
Medium companies	77%	11.4	16.1	14.1	19.0	5.6	9.8	7.3	9.7
Large companies	78%	76.3	64.4	37.0	39.0	3.9	5.5	6.2	5.6

Source: National Trade Register of the Chamber of Commerce and Commission of National Statistics

Table 1.7 illustrates the tighter competition amongst micro enterprises in 1997 compared to 1995. In 1995, micros were operating with a margin on sales of 9%, and generating 33% of the profits but only employing 7% of the workforce. By 1997, 41% of micros were not making a profit, average net margins had fallen to 6.6%, and micros were only generating 21% of the profits, though the number of employees had increased to 10% of the workforce. Even so, these net profit margins on sales are relatively high when account is taken of the number of micros not making a profit (41%), and the proportion of micros in trade (72%) and services (14%).

The most healthy group of companies would appear to be those employing 10-49 people. 81% of these companies made a profit in 1997, margins were maintained at 9% and the proportion of profit earned in relation to their employment has been maintained over the period. As one would expect, large enterprises are much the most vulnerable group, achieving a return on sales of 5.6% (down from 6.2% in 1995), and a return on total assets of 5.5% in a period when inflation increased from 34% in 1996 to 155% in 1997.

The contribution of SMEs to exports is perhaps surprisingly high, bearing in mind their sectored distribution. In 1996, SMEs accounted for 24% of exports which were distributed as follows: micros 9%, small enterprises 8% and medium sized enterprises 8%. The World Bank survey of 403 SMEs reported that 19% of their sample exported more than 15% of their output, the distribution being: 18% of micro firms, 20% of small firms and 38% of medium sized firms.

1.3 Key issues effecting the development of SMEs

The rate of formation and subsequent growth of small firms has been stimulated by market opportunities, declining employment prospects in state owned enterprises, changes in government legislation making it easier to set up a private business, and access to bank credit for growth firms in the period up to 1996.

However recent small firm surveys suggest that the range of serious problems impeding the development of their businesses has not changed significantly over the last three years since the first survey was undertaken. The financial and institutional barriers are explored further in the sections below

Table 1.8: Some key barriers facing SME development

Constraint	Current activity	Future activity	Ranking (5 = high, 1 = low)
High level of taxes	79%	91%	5
Inflation and price instability	75%	83%	4
Financial problems	62%	73%	4
Government/ legal issues	59%	54%	3
Supplies and sales	55%	48%	3
Infrastructure	38%	24%	2
Technology and production	29%	19%	2
Skilled workers and managers	12%	13%	2

Sources: Survey of 404 firms carried out for the World Bank by the Trade Registry, 1998

Some of the barriers were expanded in a survey of 1,500 businesses conducted by the CRIMM Agency in 1997:

Table 1.9: Barriers to expansion

Problem	Industry	Services	Trade	Construction
Lack of financial resources	55	48	59	59
Lack of premises	35	31	41	21
Poor marketing and promotion	29	32	25	34
Difficulties with suppliers	27	15	26	34
Lack of skilled labour	27	14	17	38
Legal constraints	18	29	25	27
Obtaining hard currency	8	7	8	3

Source: Survey of 1,500 enterprises as part of the Annual Report on SMEs in Romanian SMEs 1997

Table 1.10: Analysis of key barriers to SME development

Main barrier	Obstacle	%
Obstacles to Supply (44%)	Price	47
	Quality	42
	Availability	35
	Timely supply of inputs	33
	Lack of short term finance	31
	Romanian regulation on imports	26
	Quality of specialised labour	25
Obstacles to Sales (44%)	Insufficient or unstable demand	86
	Too strong competition	81
	Lack of funds for advertising	60
	Romanian regulations on exporting	59
	Labour quality	55
	Foreign regulations	38
	Lack of foreign contacts for exporting	30
Behaviour of competitors	Illegal use of labour	35
	Monopoly practices	32
	Preferential access to premises	30
	Preferential access to finance	27
	Tax evasion	22
	Customs tax evasion	12
	Preferential access to export licenses	10

Main barrier	Obstacle	%
Labour force problems	Absenteeism Frequent errors in activity Indiscipline Non utilisation of full work time Turnover of staff	44 39 41 52 44
Cash problems	Delays in payments from private clients Delays in payments from state clients Delays in the banking system High level of taxes	58 55 42 86 87
Legal problems	VAT computations Tax computation and payments Customs legislation Law on depreciation Difficulties to get export licences Poor institutional and legal framework for SMEs Bureaucracy to register a new business Changes in legislation	65 85 40 45 36 60 18 37

Source: CRIMM Survey of 1,500 enterprises as part of the Annual Report on SMEs in Romanian SMEs 1997

1.4 Financial market

There has been very limited growth in credit, after taking inflation into account, and this growth has mainly been in foreign currency loans. Whilst credit in real terms increased by 15% in 1996, it fell by 2.2% in 1997. The 'shortage' of new credit has been due to several factors. Deposits have not grown in line with demand for credit. An increasing proportion of credit is tied up in 'temporary illiquid assets and classified/loss making' loans, with over half of the banks' credit portfolio effectively frozen. And in 1997 and 1998 banks have increased their holdings in more profitable government securities, to finance the increasingly large government debt.

Table 1.11: Types of credit for private companies (indexed for inflation)

Position at the year end	1992	1993	1994	1995	1996	1997	1998
Nominal terms Total credits to private companies (local and foreign) billion Lei	174	891	2,120	5,630	12,520	21,160	36,260
Net increase in credit billion Lei	-	617	1,230	3,510	6,890	8,640	15,100
Corrected for inflation							
Short term credit in Lei indexed for inflation	58	83	55	99	144	52	81
Medium and long term credit in Lei indexed for inflation	20	18	10	25	33	12	17
Credits in convertible currencies, indexed for inflation	18	39	35	75	143	138	184
Total Credit to private sector: indexed for inflation. 100 = 1994	96	140	100	200	320	213	280

Source: National Bank of Romania

The National Bank publishes information on the distribution of credit to private companies in terms of short and long term credit in Lei and convertible currencies, Up until 1994, credit levels to private firms in real terms were relatively constant. Since that date this increased more rapidly, except in 1997, when there was a sharp fall in local currency credit due to the resurgence of inflation. During the period the proportion of credit in local currency fell from

65% in 1994 to 35% in 1998 with around 80% being short term and the remainder being medium and long term.

There is no information on the availability and uptake of credit by SMEs according to size or sector. Whilst the loan portfolio is likely to be dominated by loans to medium and large firms, there is evidence from survey data that banks have also provided credit to smaller enterprises.

In March 1998, there were 33 licensed commercial banking institutions in Romania together with 10 branches of foreign banks. Four are wholly state banks, and a further eight state banks have foreign and domestic private capital participation. Of the private banks, 12 involve foreign and domestic private capital, four only have domestic capital and a further four are wholly foreign owned. Five large state controlled banks dominate the sector: in 1995, these banks accounted for 65% of all assets and 83% of all loans. Whilst private banks have increased their market share, the dominance of the state banking sector, particularly in the regions persists.

Table 1.12: Summary of the banking structure (1996 annual reports):

	Bank	**Total assets ($m)**	**Capital ($m)**	**BIS ratio**	**Credit rating**	**No of branches**	**Shareholders**
1	Banca Romana de Commert Exterior (BANKCOREX)	3,183	132	8.30	BB-	31	State and local
2	Banca Comerciala Romana (BCR)	2,135	198	12.89	BB	221	State
3	Banca Agricola	2,026	105	9.04	B+	310	State
4	Romanian Savings Bank (CEC)	1,050	92	10.46	BBB	2,438	State
5	Romanian Bank of Development (BRD)	921	149	20.95	BB-	180	State
6	Ion Tiriac Bank	373	48	na	BBB	30	Foreign and local
7	Columna Bank	170	21	?		1	Foreign and local
8	Banca Bucuresti	64	13	na		11	Foreign
9	Mindbank	44	19			4	Foreign and local

Source: Phare SME Horizontal Financing Final Report, 1997

Interest Rates

Small firms have had to contend with widely fluctuating interest rates, due to periods of hyperinflation during 1992/3 and again in 1997. During these periods nominal interest rates were very high though real interest rates were strongly negative, due mainly to institutional inertia to adjust deposit and credit rates in line with inflation. This was followed by periods of high real interest rates (17-25%) during 1995/96 and 1998, which have resulted in debt servicing problems for some firms. Banks have been careful to maintain a spread of around 12-25% between their average lending and deposit rates.

Table 1.13: Changes in interest rates over time.

	1993	**1994**	**1995**	**1996**	**1997**	**1998***
Av. lending rate (new loans to enterprises)	58.9	91.4	48.6	55.8	63.7	61.3
Central Bank discount rate	70.0	65.3	39.6	35.0	47.2	40.0
Av. time deposit rate	33.8	58.9	36.5	38.1	51.6	39.1
Av. Spread	20.1	32.5	12.1	17.7	12.1	22.2
Inflation (CPI %)	256	136	32	39	155	36
True interest rate	-197	- 41	17	17	-91	25

Source: National Bank of Romania
* to 30 September 1998

Loan finance for SMEs

Whilst it is not possible to determine credit flows to SMEs at different stages in their development from National Bank statistics, compared to other Central and eastern European Countries, there seems to be little evidence of crowding out of credit to the private sector as a result of borrowing by the government and state sector.

The best evidence of bank lending to SMEs can be obtained from a number of SME surveys. Two surveys were conducted in 1992 by CRIMM (sample 200 SMEs) and NAP (sample of 1,500 SMEs). Both studies reported a relatively high proportion of firms who had obtained loan finance. In the CRIMM study, 40% received a bank loan at start up. CRIMM then carried out two follow up surveys in 1993 and 1994 when information was obtained on the proportion of funds from various sources, (though it gives no indication of the proportion of firms who obtained loans) For microfirms, bank lending made up only 11-17% of finance but 77-87% for small firms and 63-92% for medium sized firms.

CRIMM's 1997 survey indicated the proportion of firms, who obtained funds from different sources, (rather than the proportion of funds). 25% of micro firms and 41% of small firms obtained loans from banks and a smaller proportion obtained funds from special credit lines. Most loans were short term, particularly amongst micro firms and very few firms (3-6%) obtained long term funding.

Table 1.14: Summary of surveys of SME financing sources

	1993 Survey			1994 Survey (1,142 firms)			1997 Survey (1,522 firms)		
	Micro	**Small**	**Medium**	**Micro**	**Small**	**Medium**	**Micro**	**Small**	**Medium**
Own funds	69.5	18.9	3.3	74.2	12.0	2.7	98	96	97
Bank loans	17.5	76.7	62.8	11.3	86.5	92.2	25	41	29
Special credits							2	10	11
Family/friends							18	9	4
Trade credit	9.2	1.8	15.5	10.4	0.7	1.5	5	5	9
Leasing							2	3	3
Other	3.8	2.6	18.4	4.1	0.8	3.6	5	6	7
	100	100	100	100	100	100	155	170	160
Type of loan									
Short term							80	66	56
Medium term							17	22	21
Long term							3	4	6
Overdraft							6	19	30

In the 1997 survey, data was analysed to determine the proportion of firms receiving loans in terms of their size, sector and term of the loan, which is summarised in Table 1.15 below:

Table 1.15: Percentage of firms receiving a loan

Sector/size	Short term loan	Medium term loan	Long term loan	Overdraft
Industry	64	25	5	16
Services	57	28	11	13
Trade	76	15	2	14
Construction	55	30	3	27
Micro enterprise	80	17	3	6
Small enterprise	66	22	4	19
Medium enterprise	56	21	6	30
Average	**71**	**20**	**4**	**16**

Source: CRIMM Survey of 1,500 enterprises as part of the Annual Report on SMEs in Romanian SMEs 1997

Whilst the proportion of firms who have received short-term loans is comparatively high, the numbers able to secure medium and long-term loans was very much lower.

In the World Bank Survey of 403 enterprises (See footnote 1 above), more detailed information of their financial structure was obtained. The results are split between investment and working capital. Though a relatively high proportion of firms were able to obtain bank loans, these funds have been a minor source of funding for investment projects (15%) and an even smaller source of working capital (8%).

Table 1.16: Sources of finance for SMEs

Source	Investment funding		Working capital funding	
	% of firms which use it	% of needs covered by the source	% of firms which use it	% of needs covered by the source
Internal funds	93	53	98	85
Loans from banks	31	15	21	8
Special lines of credit	20	11	7	3
Suppliers	-	-	3	1
Leasing	16	7		
Foreign loans	11	6		
Foreign equity	7	3		

Source: World Bank Survey of Romanian Enterprises 1998

World Bank Survey found that an average 48% of respondents had obtained a loan during the last three years. This was highest amongst medium sized firms and those engaged in manufacturing.

Table 1.17: Access to Bank Loans

By size of firm	% obtaining a bank loan	Sector	% obtaining a bank loan
Micro enterprises	33	Manufacturing	60
Small enterprises	nk	Construction	45
Medium enterprises	66	Transportation	47
		Services	34

Source: World Bank Survey of Romanian Enterprises 1998

Firms were asked about their funding needs. Average borrowing being sought was around ECU 1.5 million, with 53% of firms seeking a loan of more than 2 years. Of the firms turned down by the banks, 85% of the firms indicated that it was due to a lack of collateral, 5% due to the bureaucratic process, 5% for internal bank policy reasons, 4% for lack of bank funds and 1% because the firms were not 'reliable'.

The ranking of difficulties in the CRIMM survey was a little different, with collateral being less of a problem. But like the World Bank survey, the level of interest rates did not appear to be major deterrent.

In conclusion, up until 1998 there is some evidence that despite high levels of inflation and deteriorating economic circumstances, a wider range of SMEs in Romania have been able to access loan funds from the banks than in many other countries in Central and Eastern Europe. However, this position is unlikely to continue as the economy continues to deteriorate, government borrowing increases and attempts are made to reduce inflation through a credit squeeze. However, the following table summarises our assessment of the availability of market sources of finance to SMEs at the point when our fieldwork was carried out in the autumn of 1998.

Table 1.18: Availability of market based sources of finance by SMEs (excluding donor-supported sources)

	Start ups and micro firms (1-9 people)	Small enterprise (10-24 people) less than 3 years old	Small enterprise over three years old	Medium sized enterprise
Short term funds	Occasionally	Possible	Possible	Possible
Long term funds	Never	Seldom	Possible	Possible
Guarantee	Never	Seldom	Occasionally	Possible
Leasing	Exceptional	Limited	Possible	Possible
Equity capital	Exceptional project	Occasionally	Occasionally	Occasionally

Source: consultant’s assessment

Whilst availability is clearly a crucial issue, there are other reasons why obtaining a credit from a bank can be difficult for SMEs: these reasons are summarised in Table 1.19 below:

Table 1.19: Other obstacles in obtaining a bank credit (World Bank Survey 1998)

Obstacle	Rank	Comment
Interest rate level	4	Interest rates varied from 56-70%. Only 46% would be prepared to borrow again, though this was higher (54%) for micro firms, needing smaller amounts. ‘Market’ interest rates can only generally be afforded by trading companies requiring short-term loans. When long-term credit is used for an investment project, small enterprises (particularly start-ups) have great difficulty in meeting interest and repayment terms unless sales are buoyant.
Collateral	3	Collateral varied from 141-160%. 90% of collateral was in the form of fixed assets. Only 3% had access to the Romanian Loan Guarantee Fund. Much depended on the property circumstances of the owners of the enterprise.
Lack of leasing	3	Shortcomings in the legal framework
Need for financial documentation	2	Loan approval took an average of 4.3 weeks. Range 3.1-6.9 weeks
Need to have a deposit or track record	2	Average period as a client of the bank: 31 months. Enterprises without an established relationship with their bank are less likely to be able to secure a credit. Start ups and enterprises under two years old are especially vulnerable

Source: World Bank Survey of Romanian Enterprises 1998

Special Loan Funds for SMEs

Government Small Loan programme

In December 1994, a government small credit scheme for SMEs was started, initially administrated by the Romanian Development Agency, then by the National Agency for Privatisation, and now by the Council for Reform. The initial fund was ROL 3 billion (ECU 1.5 million), and in 1996 a further ROL 2.2 billion (ECU 560,000) was added. The credit line works as a revolving fund and the interest charged is 50% of the National Bank reference interest.

The main characteristics of the scheme are as follows:

- value of the loan: up to ROL 50 million (ECU 6,000);
- beneficiaries: SMEs with up to 250 employees and an annual turnover between ROL 10 million (ECU 1,200) and 2 billion (ECU 240,000);
- purposes: investments (purchase of equipment, machinery and purchase/repair of buildings);
- sectors: industry, services, agribusiness, and tourism;
- lending period: up to 3 years, with up to 6 months grace period.

Up to August 1998, 235 loans had been made, with a total value of ROL 10.5 billion (ECU 1,3 million). The main drawback of the scheme is the low value of the fund and the small loan size.

Ministry of Labour and Social Protection subsidised loans

In September 1997, the Ministry of Labour introduced a subsidised loan programme managed by BancPost to support unemployed people in SMEs with a turnover of less than Lei 10 billion (ECU 120,000). A total of Lei 80 billion (ECU 10 million) was allocated to provide loans of Lei 20 million (ECU 2,500) per unemployed person hired for 1-3 years at 50% of the National Bank discount rate. Companies were expected to provide guarantees of 125% of the value of the loan + interest. By Oct 1997, 15% had been disbursed.

Romanian American Enterprise Fund

The Romanian American Enterprise Fund (RoAEF) was capitalised with a grant of $50 million from US Government as one of a group of funds set up in most Central and East European Countries under the Support for East European Democracy Act passed in 1989. It has four programmes, two loan programmes summarised below, and two equity programmes covered in the section on venture and equity finance.

Small Loan Programme from April 1997

- a window programme through branches of Banca Romaneasca and Banca Transilvannia with 23 trained loan officers
- $5 million allocated
- lending range: between $20,000 and $150,000
- lending in $ at an interest rate of 15% + 1% commission for up to three years
- SMEs up to 200 employees, excluding trade
- it covers only a few counties of the country
- approved 30 loans average value ECU 65,000 by September 1998
- negotiating for additional $ 5 million from IFC
- 43% in Bucharest and 36% in Cluj region

Micro-loans Programme

- $2.5 million committed for loans of between $2,500 and $15,000;
- administered by World Vision's CAPA programme
- operates in two counties: Cluj from April 1996 and Craiova October 1996
- loans from $2,500 to $15,000 at an interest rate of 22-26% depending on risk
- 253 loans approved to March 1998, averaging $6,700. 67% of funds committed by March 1998
- created 375 jobs and safeguarded 1,250
- 25% to food industry, 9% wood, 3% printing, 14% computing, 15% clothing and 34% other sectors

EBRD

Credit lines of ECU 10-50 million have been negotiated with four banks (total ECU 210 million). The banks offer loans of between ECU 100,000 and 5 million at an interest rate of 12%, for loans repayable over 5 years. Collateral of 120% is expected, and forecasts should indicate an internal rate of return of at least 15%. No details of the utilisation of these funds were available.

World Bank

The World Bank Industrial Development Programme (totalling $175 million) was set up in 1995 to provide $117 million for investment finance, $50 million for export finance and $8 million for technical assistance to the five participating banks. Loans of up to $8 million at LIBOR + 2.5-3% are available for 3-17 years for investment projects and for one year for export finance. Companies are expected to be achieving a 15% IRR. Some concerns have been expressed that only 30% of the fund had been disbursed by Oct 1998. The Bank was reviewing whether an SME instrument should also be introduced.

European Investment Bank

ECU 30 million is available through three banks for loans up to ECU 5 million for investment projects at 12% interest and a repayment period of 7-15 years. Loans are targeted at companies in industry, food processing and agriculture with export potential. Companies should be able to demonstrate an IRR of 12% and provide guarantees of 120% of the loan.

Leasing

Whilst leasing only accounts for perhaps 2-3% of funding, the figure for manufacturing firms is rather higher. No overall figures are available on the scale of leasing funds available. Leasing options available for SMEs are generally limited to cars and vehicles. The first leasing company in Romania, Romlease, obtained its initial funding of $5 million in loans and $ 450,000 in equity from the IFC in 1994. It provides leases for imported machinery and equipment to SMEs. IZVOR Leasing, formed by an NGO in 1995, leases machinery to SMEs in the city of Cluj, but it is a very small-scale operation. There are a few leasing companies that emerged in the mid 1990s for agricultural machinery. These companies, called Agromec, lease machinery only to those farmers who also contract their labour and management teams to operate it. The slow development of leasing has been due, in part, to the lack of a well-defined leasing law.[2]

Guarantee Funds

There are currently two loan guarantee programmes operating in Romania, to increase lending to prospective SMEs which would not otherwise have been able to obtain bank loans because of inadequate collateral.

In 1994 the Romanian Loan Guarantee Fund for Private Entrepreneurs (RLGFPE) was set up to guarantee medium and long-term bank loans to SMEs. It started with initial share capital of ROL 5.06 billion (about ECU 1.7 million) provided, we understand, from Phare via the National Agency of Privatisation. In 1997 it raised additional funds, via equity contributions from the 6 banks which increased the capital base L 15.6 billion (ECU 1.9 million). The fund obtained technical assistance from the Federal Business Development Bank of Canada (long term adviser + training), Burges Bank of Austria (computing equipment) and a Peace Corps Volunteer from the United States.

Guarantees will cover up to 70% of the ultimate loss of the loan (principal only) once a loan becomes overdue. The Fund undertakes its own appraisal and charges a non-returnable fee of 1% + an annual premium of 3% on outstanding guarantees.

By the end of 1997, the SME Fund had issued guarantees of L 50.6 billion (ECU 6.2 million) relating to loans of L 143 billion (ECU 17.6 million), resulting in guarantees of 3.2 times the

[2] Small Business Finance in Romania, Ohio State University Research Team 1997

initial fund size. The average loan size was L 900 million (ECU 230,000). Due to the downturn in the economy, the proportion of loans classified in the 'high risk' category had increased from 18% in 1996 to 62% in 1997.

There is a second guarantee programme the Rural Credit Guarantee Fund (RCGF) for rural and farming activities, which was set up in 1994. Its initial share capital was about ECU 6.8 million. It guarantees banks loans to private farmers for the purchase of agricultural machinery and equipment or to companies in the food-processing sub-sector. As of mid of 1996, the RCGF had made 67 guarantees for ROL 16.9 billion.

Venture and Equity Capital (ECU 1,200 million)
To date, venture capital has played a very limited role in the financing of SMEs in Romania. Several venture and development capital funds have been set up in Romania, most of which are targeted at medium sized firms (frequently privatised companies) in need of expansion capital. They are summarised in Table 1.20 below:

Table 1.20: Venture and Development Funds in Romania

Name	Size (millions)	Target market	Management
Danube Fund (EBRD)	Approx $30m	Quoted and unquoted	Alpha Credit Group, Greece
Eurobalance	$ 25m	Venture fund	Larive
Romanian Capital Fund	ECU 20 m	Quoted and unquoted	Wasserstein Perella & Co
Romanian American Enterprise Fund (SBIF and Big Transactions programmes)	ECU 40 m	Quoted and unquoted ECU 200,000 - 4 million	
Romanian Fund	$ 50 m	Quoted and unquoted	Socgen Asset Management
Romanian Post Privatisation Fund (Phare and EBRD)	ECU 44 m	Quoted and unquoted	GED Capital Development SA
Private Owners Fund III Transilvania	ECU 150 m		Fund in creation
Private Ownership Fund II Moldova	ECU 906 m		
Orisa	?	ECU 500,000-2.5 million	Swedish
Capital Savings Fund		No details	

Source: Phare Financial Horizontal Report: 1997

Limited details were obtained on the following funds:

Romanian American Enterprise Fund
The Small Business Investment Fund (SBIF)
- Launched in 1998 for SMEs requiring investments of between $50,000 and $250,000 per beneficiary, but higher amounts can be arranged on a syndicated basis;
- Sector focus: SMEs with up to 150 employees (assets of $15-250,000 and turnover of $150,000 to $1.5 million) in agri-business, light manufacturing and medical/dental services; it will not invest in any armament, distilled spirit or ecologically harmful enterprises;
- Investment stage: while not limited to any particular stage in a company's development, SBIF prefers growing companies with a demonstrable history of successful operations;
- Holding period: SBIF expects to sell its shares after 3-6 years, usually to its partners, strategic buyers or public.
- Progress to date: disbursed 23 loans by Oct 1998 with a value of $1million. 43 investments in pipeline
- Currently in discussions with the World Bank, IFC and other investors to increase the capitalisation to $15 million

Big Transactions Programme
- amount: up to $5 million;
- $30.8 million invested in 15 companies
- beneficiaries: medium and large enterprises;
- form of investment: equity share and loans convertible into shares.

Romanian Post Privatisation Fund (RPPF)
- The Fund has a total fund of ECU 44 million (25 MECU from EBRD, 15 MECU from Phare and 4 MECU from the management company, GED Capital Development S.A. from Spain). The general principals under which the RPPF works are:
- amounts invested: between ECU 300,000 and 3 million;
- beneficiaries: companies with a three years profitable activity, generally employing 100 to 2000 people and focused on exporting activities;
- average investment period: 5 years

By August 1998, RPPF had invested ECU 4.8 million in three projects, ECU 1.7 million in a company engaged in providing automatic signalling for railways, ECU 3 million in the Continental Hotel Chain, and ECU 100,000 for a start-up business developing a private registry for shareholders. To date it had received 600 enquires and had carried out 80 investigations. The main reason for projects being rejected was the lack of a suitable financial track record, after corrections had been made for inflation.

Credit Unions/ Mutual Support Credit Institution
Mutual funds first appeared in Romania in 1993, and are authorised by Government Decree 24/1993 and Law 54/1994. These funds are licensed and supervised by the National Securities Commission and are managed by boards of directors elected by the initial investors. In 1996 there were a total of nine mutual funds in operation, with approximately ECU 188 million in net assets, and another five were in the process of obtaining legal approval from the National Securities Commission. Over 80% of the funds are with SAFI Invest (net asset value L 451 billion: ECU 115 million) and CIRO (L 165 billion: ECU 42 million).

Investors include individuals and companies, with the majority of funds invested in partnership contracts, with the borrowing firms. The remainder of the funds are invested in certificates of deposits in banks and commercial paper which is sold for 1-6 month loans, yielding a high return to cover operational costs and make a profit for the fund.

In addition there are a number of self-help groups primarily to serve employees of businesses, by mobilising savings and making short-term loans to members to meet consumption and emergency requirements. The largest informal self-help groups are the Casa de Ajutor Reciproc (CAR) and the Casa de Ajutor Mutual. There are 5,950 CARs in Romania with a membership of 3 million people and funds of L 320 billion (ECU 82 million). Loans with an average value of L 26 million (ECU 80) have been made to 1.8 million members, totalling L 480 billion (ECU 122 million), at interest rates of 5-20% a year. This illustrates the substantial amount of currency that is circulating outside the banking sector. The World Council of Credit Unions (WOCCU) with funding from USAID has set up eight member owned and democratically run Savings and Credit Associations for workers in Coca-Cola plants. It is also working with several CARs to help them convert into formal mutual funds.

1.5 Institutional Developments

Council of Reform:
Responsibility for SMEs has been transferred at frequent intervals between Ministries and Agencies with the result that it has lacked continuity and has not enjoyed a high priority from ministers and senior staff.

The first SME Department was created within the National Agency of Privatisation. In early 1993, the Department was moved to the Romanian Development Agency, the body responsible for foreign investment. In January 1996 the department went back to the National Agency for Privatisation and in 1998, when the Agency was taken over by the Ministry of Privatisation, responsibility for SMEs was transferred to the Council of Reform. In November 1998 there were proposals to transfer the Department to the Prime Minister's office. Over the years, the transfer of responsibility for SME affairs appears to have had more to do with the ambitions and interests of senior people in government and access to budget funds and little to do with developing a coherent approach towards the restructuring of the administration.

[Since the fieldwork for this study was carried out, the SME Department was moved briefly to the Prime Minster's Office before a separate National Agency for SME Development was established. This has result in the bringing together of staff from the Ministry of Tourism and the Department of SMEs, creating an Agency with some 40 staff]

As at November 1998, the Department for SMEs consisted of a Director, reporting to the State Secretary supported by a staff of 9 arranged in four units as follows:

Directorate: Director + Secretary.

SME Policy legislation and monitoring (2 staff)
- Legislative work including pre-accession legislation
- Support to unions and associations of entrepreneurs to strengthen their lobby roles

SME Financial Schemes and Business Support Programmes (3 staff)
- Analysis of financial gaps and planning new financial programmes
- Monitoring the performance of the existing small loan programme and the SME Guarantee Programme
- Implementing new financial programmes

Information, Studies and Communications (1 staff)
- Press relations
- Monitoring of publications on SME issues
- Management of the library function

Balkans Centre (3 staff including the Director):
- the aim is to promote greater participation by SMEs in domestic and foreign exhibitions and events.

The Department urgently needed to recruit two additional lawyers, a communications specialist and a librarian. This has become more important as the need to adopt the acquis communitaire and the implementation of new SME programmes.

Ministry of Finance: its impact on SME development has been very considerable through taxation, pricing and monetary policies and the detailed regulations relating to their implementation; but there is little evidence that any special consideration is given to SMEs when these policies and regulations were drawn up.

Ministry of Labour and Social Protection: Apart from the subsidised loan programme to encourage SMEs to recruit on unemployed people, managed by BancPost (described above), the Ministry has been running a range of active employment measures including counselling and training for unemployed people considering starting their own businesses.

Ministry of Industry and Trade: in 1997, a department for SMEs was created to take the lead on Phare programmes for the restructuring of the mining sector and the promotion of small business development in these areas.

Ministry of Agriculture: it has a number of programmes to support agriculture and food processing enterprises.

Ministry of Transport: subsequent to the completion of the fieldwork, we learnt that the Ministry of Transport may be taking the lead in the design and implementation of the new Phare ECU 30 million facility, which forms part of a larger programme to assist restructuring of the coal mining areas.

Co-ordination of SME policies and programmes between the Ministries is recognised as being weak.

1.6 Representation and lobby network

SME interests are represented through a large number of relatively small unions and associations some of whom have relatively active local members though the capacity to co-ordinate and lobby at a national level is generally limited, and tends to become overlaid with party political interests. At the national level the main bodies are:

- National Association of Romanian Employers with branches in most of the main cities. It organises training, participation in International Fairs and Exhibitions
- Romanian Chamber of Commerce and Industry, with branches in each County. This is a well-funded body with a number of national and local programmes for SMEs. It also houses the National Trade Register Office, with branches in each County. Whilst there is no obligation to be a member of the Chamber of Commerce, trade registration is obligatory. This is managed as a Department within the Chamber, which gives the Chamber movement a big boost.
- National Union of Romanian Employers with 52 local federations, 8 professional associations and 234,000 associate members (firms and individuals)
- National Council of Romanian Employers
- National Council for Romanian Private Entrepreneurs: with 30,000 members (trading companies and individuals). It is engaged in training and seminars, the provision of information on overseas business opportunities, and access to a range of consultancy services
- General Association of Industrialists in Romania
- Central Union of Romanian Craft Co-operatives
- General Union of Romanian Manufacturers with around 800 member firms of which around 55% are in the private sector, and 27 branches

Various trade associations

A significant problem to secure changes for the SME sector is that neither the national representation organisations or the Department of SMEs within Government has the resources and internal capacity to undertake the detailed work necessary to secure changes in the legislative and regulatory framework. Some good work has been undertaken by the representative bodies with the support of external advisers normally working on a voluntary basis, but efforts have been frustrated by wider party political considerations.

1.7 Foundation Romanian Centre for SMEs (CRIMM Foundation)

In early 1992, a strategy for the promotion of SMEs in Romania was drawn up for the Cabinet. This was a farsighted document, which set out the need to establish a national and local institutional framework for the support of SMEs. This strategy which formed the basis of the original Phare programme (RO 9207), which was drawn up to support the development of CRIMM, the setting up of a group of pilot Business Advisory Centres and Business Innovation Centres in a limited number of counties, and the introduction of a conditional grant scheme. Although it was set up as a foundation, it initially had a single member, the Government with a Board of Directors appointed by decree, despite the initial intention of the government and Phare that it should be set up as an NGO independent of government. Eventually, the membership was expanded to 38 'founding members', including private enterprises, SME Associations, banking and financial institutions, trade unions education institutions the Romanian Chamber of Commerce and local development centres set up under the Phare programme.

CRIMM was formed by a government decree in July 1992 and did not start operations until February 1993, after the Social Democrats had won the election in 1992. The CRIMM Foundation suffered from the wider political changes in the country. The President of the CRIMM Foundation, appointed by the Stolojan coalition government, was a high profile political appointment. When the government changed, due mainly to the high profile of the President, the CRIMM Foundation was seen as being more allied to the previous party. This created suspicions and damaged the CRIMM Foundation’s credibility both amongst SMEs and the new bodies being set up by other donors, as well as within government.

In its early years it was almost totally dependent on Phare funding with minimal funding from government. Phare itself was in a difficult position. By the time of the change in administration, it was committed to supporting the CRIMM Foundation as the primary vehicle for SME development, and Phare used CRIMM as the PMU for all its SME programmes until the end of 1995 when the first technical assistance contract came to end. Although by then the CRIMM Foundation had been converted into a broader based NGO, it was never fully excepted as Romania’s National Agency for SME Development by the Social Democratic government. Phare itself ceased to provide preferential support to the CRIMM Foundation when it decided to move the PMU for SMEs to other bodies.

Employment in CRIMM built up to around 25 staff to administer the various strands of the first Phare programme; this is set out in more detail in Section 2 below. After 1996, when the PMU role was moved to another NGO, the CRIMM Foundation became one of a number of national centres providing services in the field of SME development with a greatly diminished work programme and smaller staff. It has tried to maintain a role to co-ordinate and support the activities of the Phare funded Business Advisory Centres, the CDIMMS. It also provides consultancy services for SMEs (and other firms in and around the capital) and bids for ad hoc projects for the Department of SMEs and other bodies from time to time.

1.7 Foundation for Entrepreneurs Assistance in Romania (FAIR)

FAIR was set up with assistance of UNDP by a core group of 11 UNDP funded Business Centres in February 1995 to co-ordinate training, spread best practice and liase with central government bodies on their behalf. UNDP provided support for a two-year period until 1997. Today FAIR has a membership of 19 Centres. It employs five staff, a Director, two counsellors, one junior consultant and an administrative assistant. Its range of activities include:

- Information, consulting and training services to SMEs, particularly entrepreneurs based in Bucharest
- Network promotion, lobbying and liaison work with government and external donors on behalf of its member Centres.
- Analysis and feedback to Parliamentary Commissions on draft legislation affecting SMEs
- Raising funds from donations, subsidies and fees to meet its objectives, liasing with financial institutions and key donors.
- Undertaking economic development studies and consultancy work with local Business Centres
- Organisation of professional workshops for its members
- FAIR has played an active role in helping to set up a new Business Centre in Petrosani which included the selection and training of staff

1.8 Business Advisory Centres

Romania has ended up with a patchwork of various advisory and support centres across the country, most of whom have been brought together in common networks, whilst others tend to be stand alone organisations. Some were specifically set up as centres specialising in SME development, whilst other centres include SME work as part of a wider portfolio of activities.

During the period 1992-5, a total of 30 SME Business Advisory Centres have been established, in all cases with foreign donor assistance. Each centre reflects the funding, culture and priorities of the donor and their technical assistance teams. The main networks are:

- 5 CDIMM centres set up through the CRIMM Foundation with Phare support
- 14 Centres established with support under a major UNDP project, with inputs from the Dutch and Romanian Governments. These centres are now integrated within the FAIR network.
- 5 Centres created with the backing of USAID (including two Centres in Bucharest)
- 3 Centres set up with British Know How Fund support, one of which is a member of the FAIR network
- 3 Centres set up with aid from the German Government

The centres offer a broad range of services including advice and consultancy services in the fields of business planing, finance, marketing, exports, contract negotiations etc. Some centres run structured training courses.

There are around a further 60 bodies that offer SME services along-side other activities, for which the organisation may have been set up in the first place:

PAEMs: These centres were set up under a Phare Active Employment Measures project to work with unemployed people, providing counselling and training to those wanting to become self employed or start a business. Under the initial project which ended in 1998, a total of 60 local consortia were established, of which around 10 local consortia are actively involved in SME related projects.

Local and Regional Agencies: The Ministry of Industry has set up three Agencies in Baia Mare, Deva and Resita areas facing restructuring and growing unemployment. Each Agency has a range of tasks including the stimulation of SME development through the provision of business support services.

Business and Innovation Centres: Four were created under the Phare programme, and a further 5 became operational at the end of 1998. They provide premises, shared services and advice for start-ups.

Private Associations:
A number of enterprise associations have been formed, generally with a common sectoral theme to develop common facilities for their members.

Chapter 2 Phare Programmes for SME Development

2.1 Phare's overall programme

The main Phare programmes in Romania date from 1992. Up until the end of 1997, a total of ECU 824 million has been allocated to Romania under the main programme and a further ECU 100 million under national and cross border programmes.

Up until the end of 1998, there was a net allocation of ECU 26.15 million towards Phare SME Programmes, which had been reduced from ECU 34.65 due to the allocation of ECU 8.5 million for flood relief. By the end of 1998, expenditure had only amounted to some ECU 20 million, as the ECU 6 million allocated in 1997 for a loan programme had not been disbursed. Since that date, as part of a major coal-restructuring programme with a budget of ECU 100 million, there is an SME component with a budget allocation of ECU 30 million for SME programmes.

The allocation for SME programmes is summarised in table 2.1 below:

Table 2.1: Allocations to SME Development in each Financial Memorandum

Programme ECU million	1992	1993	1994	1995	1996	1997	Total
Financial	5.10		8.0*			6.0	19.1
Institutional	5.15		10.4*			-	15.55
Less reallocated to flood relief			(8.5)				(8.5)
Total	10.25		9.9			6.0	26 .15

*Note: ECU 7.0 million was reallocated from the financial programme and ECU 1.5 million from the institutional programmes to flood relief in Sept 1997

In addition there were a number of programmes, which will have had an impact on SME development, but have not formed part of this evaluation, as follows:

- In 1993, as part of an enterprise restructuring and private sector development programme, technical assistance (part of an ECU 8 ,million allocation) was used for consultancy work to assist firms to improve their export performance, and 6m ECU was allocated to FIMAN for programmes in management development, targeted mainly at SMEs.
- In 1994, funds were allocated for a programme of Regional Policy and Analysis, which led to the development of the 'Green Paper'. 1997 a further ECU 1.5 million was allocated for the Regional Development Institution Building programme.
- In 1995 there was an allocation to the project 'Training for SME Lending Scheme'. for loan officers. This was a banking programme co-ordinated by CRIMM with the Romanian Banking Institute.
- In 1996 ECU 8 million was allocated for technology transfer and quality management, which was relevant to SMEs.

2.2 Phare Financial Programmes for SMEs

There have been two main projects under the Phare financial programmes. In 1992 ECU 4 million was allocated for a conditional grant scheme, which was operated by the CRIMM Foundation. In the 1994 programme, it was planned to introduce a Small Loan Programme (allocation: 5 million ECU) and a Micro Grant scheme (2 million) with an additional ECU 900,000 for technical support. Whilst the SME loan programme was to be operated through the banking system, it was envisaged that the micro enterprise grant scheme would again be implemented by the CRIMM Foundation. Because no progress was made on the design of these components, ECU 6 million was reallocated to the emergency flood relief programme in 1997. As a result, a new allocation of ECU 6 million was made in the 1997 programme for the small loan programme. This was designed in 1997 and 1998 and disbursement started at the end of 1999.

Table 2.2: Financial programmes included in the Phare Financial Memoranda

Date allocated	Summary	Allocation	When disbursed
FM 1992	Conditional grant scheme Other pilot projects	4.0 1.1	1994-5
FM 1994	Funds for financing SMEs Reallocated to flood relief Technical assistance for SME financial instruments	7.0 (7.0) 1.0	*cancelled 1996-8
FM 1997	Small loan programme	6.0	Disbursed in late 1999
Total		12.1	

* Note: the 7m ECU initially allocated for SME finance were reallocated in 1997 to flood relief work

The table below summarises the main features of the conditional grant scheme and the 1997 small loan programme.

Table 2.3: Summary of inputs and outputs of Phare financial programmes

Type and size of fund, date set up, partners	Terms of finance available	Uptake: Criteria and number of clients etc
Conditional Grant Scheme. • ECU 4.0m allocated from FM 1992 • Run by CRIMM with applications from the business centre network • Started in Nov 1993	• Grants up to 50,000 ECU • Manufacturing and related services with less than 50 people and less than 1m ECU turnover	• Grants disbursed between 3/94 and 12/95 • 450 applications, 239 approved and 216 recipients • Average grant size ECU 16,200
Small Credit Scheme • 6.0m ECU allocated from FM 97 • CFCU on behalf of the Government of Rumania • Banks have submitted tenders to participate, based on a contribution 25% of funds and indicating the spread that they would require • Technical assistance to the Ministry on scheme design and selection of banks • Technical assistance to banks during the implementation phase	• Normally up to 100,000 ECU. Exceptional projects up to 300,000 ECU • Loans in ECU for 6 years (one year grace period) limited to investment projects (+ 25% for working capital) • SMEs with less than 250 employees, excluding trade • market interest rate to end client • Minimum contribution by end client of 15% to project • Access to Romanian Loan Guarantee Fund when insufficient collateral available • All bad debt losses lie with the banks	• As at Nov 1998, contracts with participating banks not yet awarded. • Scheme did not become operational until the end of 1999.

2.3 Phare support for institutional development

The objective of Phare's institutional programmes has been to improve the environment for SME development by focusing on the legal and regulatory environment and by providing SMEs with access to knowledge and information. The main sources of Phare funds for institutional development are summarised in Table 2.4 below:

Table 2.4: Phare allocations to institutional work through Financial Memoranda

Component FM 1992	**'000 ECU**	**Component FM 1994**	**'000 ECU**	**Total**
Support for Enterprise Centre (CRIM) and local Advisory Centres	2,920	**Policy support**	1,600	
Favourable environment: the Office for Advocacy	1,080	**Local Initiative Project** Technical Assistance	1,300	
Support for PMU	1,150	PMU costs	788	
		Promotion and awareness	348	
		Network development	314	
		Funds for local projects	4.400	
		Audit and monitoring	150	
Total	**5,150**	**Total**	**8,900**	**14.05**

Sources: OMAS Report Dec 1997, Desiree, and FIMAN Work programme No 5

The 1992 programme was intended to 'form the core of larger three-year programme as well as providing a broad and sound start up by concentrating resources on the basic components of an overall frame'. The objectives of the programme were to develop:

- 'An adequate administrative and legal framework
- Self sustaining and an effectively functioning Romanian SME Centre
- An independent advisory service
- Securing general support for the small firm sector
- Ability of commercial banks to award SME loans
- Development of SMEs'

The first programme (FM 1992) had components to develop a Romanian SME Centre and a number of Business Advisory Centres, work with entrepreneurs associations to lobby and secure improvements in the administrative and legal framework, and actions to improve access to finance through the conditional grant programme.

The 1994 Financial Memorandum was intended to build on the 1992 programme and consisted of three main components as follows:

1) Policy Development: 'To strengthen the SME and regional policy framework at national level'. ECU 800,000 was allocated to the provision of technical assistance to the Romanian Development Agency, the body that had taken the lead on SME policy issues. Support would cover background activities for policy development, such as:

- information gathering and analysis and the preparation of an Annual Report on SMEs in Romania
- preparation of policy proposals covering fiscal policy, supply of business premises, the relationship between state and private sector, and finance for SMEs
- developing mechanisms for consulting with the private sector and the setting up of a National SME Council
- extending and strengthening the Office of Advocacy
- staff development within the Romanian Development Agency
- co-ordination of Business Advisory Centres

This component was carried out through a 12 months technical consultancy contract with the Dutch firm, AIM, who worked with the SME Department, which had moved from the RDA to the NAP.

An additional ECU 800,000 was allocated towards a programme of regional policy development leading to the development of a Green Paper on Regional Policy

2) Information, Training and Advisory Activities: The main purpose of this strand was to strengthen existing provision of advisory and training services to encourage and support the development of SMEs through innovative actions and through the encouragement of closer networking between the Centres. The main components envisaged were as follows:

- Conferences, open days and newsletters etc to raise awareness on the services available to SMEs plus training and evaluation activities on specific issues. Allocation: ECU 1.0 million. Actual expenditure: ECU 348,000 on general awareness raising which was mainly orientated towards the promotion of the Local Development Initiative.

- Technical Assistance to consolidate and strengthen the growing number of Business Advisory Centres set up by Phare, UNDP and other donors. Allocation: ECU 900,000. Actual expenditure: ECU 1.3 million on the provision of technical assistance to design and implement the Local Development Initiative, and provide limited training to the Business Advisory Centres

- Setting up of a central Resource Centre to provide documentation, information and advice to enable local centres to link up with international networks and programmes. Allocation: ECU 530,000. Actual expenditure: ECU 314,000 involving the setting up of a library and database facility within FIMAN.

- Management of the Local Development Initiative and the pilot SME loan programme: Allocation ECU 470,000. Actual expenditure: ECU 788,000 for PMU costs which only covered the LDI project.

3) Local Development Initiative: to provide funds and technical assistance to a variety of local bodies engaged in local development initiatives, with a view to extending and strengthening existing local pilot actions (ECU 2.5 million), promoting new innovative projects with demonstration potential (ECU 2.5 million) and assisting local bodies to become engaged in international programmes and networks (ECU 1 million). It was hoped that the project would attract funds from other donors and Romanian sources. The main features of the Initiative are summarised in Table 2.5 below. At the start there was an intial allocation of ECU 6 million for local initiative projects, but this was reduced to ECU 4.4 million. This was because ECU 1.5 million was reallocated to flood relief work and ECU 100,000 for monitoring work. At the start it was hoped to raise additional funds from other donors, but in practice no extra funds were secured.

Table 2.5: Summary of inputs and outputs of the Local Initiative Fund

Type and size of fund, date set up, partners	Terms of finance available	Uptake: Criteria and number of clients etc
Local Initiative Fund. • 4.4 ECU allocated from FM 1994 for small grant scheme • Managed by FINMAN • First grant made in April 1998		• 64 projects selected from 459 applications • Average funding per project 69,000 ECU

2.4 Relevance of the Programme

Choice of Counterpart

Whereas in most of the other Central and East European Countries Phare has played a central role in helping the government to develop SME institutions and policies to support the development of the SME sector, in Romania, Phare's role has been very much more limited due to:

- Shifting power balances within the ruling coalitions resulting in frequent changes in the make up of the government
- Attitudes within the Government towards the development of an integrated set of policies to help SMEs to develop.
- The limited resources allocated to SME development by Phare and the Government in relation to the size of the country
- The difficulty of finding reliable long term counterparts in Romania
- The activities of other major donors and their attitude towards collaboration

A main problem for Phare has been an absence of a reliable long-term counterpart, which was acceptable to whichever parties were in power. Phare has had a basic choice: did it work through the government, or structure its projects to be administered by 'neutral' non-government organisations? In principal, there was a preference for operating outside government through NGOs. Two factors have to be taken into account for this decision. Firstly, the political party structure in Romania is still very polarised, with the result that programmes may be highjacked, blocked or sidelined, if they become too dependent on a government department as the counterpart and implementing agency. Secondly, there is not yet a consensus on the need to develop a co-ordinated approach towards SME development, backed by meaningful government resources.

Regrettably Phare's attempt to build up the CRIMM Foundation as a National Agency, at arms length from government, came unstuck for a number of reasons:

- The political position of the President of CRIMM compromised its 'independence' In addition to his role in CRIMM he was also the vice chairman of the main opposition party during the Social Democracy (PSDR) led coalition between 1992 and 1996.
- CRIMM lacked the full and consistent support of the government that it was Romania's only National Agency, with the result that it did not establish trust, respect and authority earlier enough with other donors
- CRIMM was perceived as being overly committed to Phare programmes with the result that other donors, supporting complementary initiatives, chose to operate outside the CRIMM framework.
- Poor co-ordination with the UNDP Development Centre in Bucharest which was entrusted with a mission overlapping with that of CRIMM.
- The political structure of CRIMM was not sound. It was not an effective government agency, with clear lines of authority and accountability. It was not perceived as being 'independent', as it was led by people with a wider political agenda. It was also not structured to ensure that key ministries and representative bodies were properly represented on the Foundation to give it some credibility as a national agency with long term backing regardless of the party political changes in government.

At the end of the first phase in 1995, Phare faced a difficult dilemma. Aware that the CRIMM Foundation did not enjoy the wider support to enable it to become the Country's National Agency, Phare decided to provide SME policy support to the Romanian Development Agency and move the PMU from CRIMM to FIMAN. Like CRIMM, FIMAN also had considerable baggage, which to some extent seems to have got in the way of its programmes being recognised and backed by the government. Unlike CRIMM, which had overt political objectives, FIMAN was run as a professional project management consultancy, with the objective of fulfilling the brief set by the donor. It had already built up a sound understanding of Phare procedures and had demonstrated a sound track record in managing a substantial dispersed programme, including the PAEM project. For Phare, FIMAN was an ideal vehicle, as Phare could maintain a tight control on each programme, and enabled staff in the Delegation to be closely involved in all key decisions. Whilst there have been some benefits, FIMAN is a project management consultancy and has no aspirations to become a National SME Agency.

Should Phare have stayed with CRIMM? It is very difficult after this interval of time to comment objectively on the actual decision, particularly as it was not possible to discuss the options with those most closely involved in that decision. But the consequences of not developing a National Agency, we believe, are serious for SME development in Romania for several reasons:

- Apart from the SME Department, which tends to be somewhat removed from programme implementation there is no one central body with an overview on SME advice, training and financial programmes in the field.
- Feedback to the Ministry on policy and regulatory issues is disjointed and poor
- There is no single body who has the practical knowledge, capacity and experience to work with donors and secure their involvement in critical projects
- There is a danger of gaps, overlaps and duplication as several Ministries have an interest in SMEs but from different perspectives
- There is danger of isolated short-term measures, which do not build on each other over time. This is due to a lack of continuity and sustainability of programmes that have been started with donor assistance, but little or no provision has been made for their longer term development.

Almost all donor programmes have operated outside the purview of Government. Whilst obviously all donors have sought the endorsement of the government for what they propose to do, donors have tended to do their own thing. Donor support in the field of SME Development has tended to result in a mosaic of disjointed initiatives, often with a limited life and little prospect of long term sustainability.

Balance of Programmes

The initial emphasis in the RO 9207 programme was placed on tangible support to SMEs through the development of Advisory Centres, and the provision of funds for SME development. The initial strategy had many good features, resulting in mutual reinforcing programmes between the CRIMM Foundation and the whole network of business Advisory Centres. At the same time, efforts to improve the overall environment for SMEs were approached through an Office for Advocacy within CRIMM. This body made a start in bringing together research and information and identifying critical issues facing SME development. But it appears that it sought to play a dominant role instead of establishing effective partnerships with the emerging SME Associations. There was not an effective counterpart to receive the representations and no resources had been allocated in the 1992 programme to help the SME Department within the Romanian Development Agency to translate representations into potential policy actions.

Whilst the 1994 programme had some imaginative ideas, although intended to build on the 1992 programme and take forward the long term support framework for SMEs, significant changes were made which altered relationships and the balance of the programme. The four strands of RO 9408 were not implemented as designed. The first component consisted of a substantial 'policy' input into the SME Department. By the time that the EIM consultants had arrived in January 1997, CRIMM's central role and advocacy work had ceased, so that the continuity between the first and the second phases was effectively lost. EIM itself tended to adopt a northern European approach toward its role, which led to them producing a series of 'comprehensive strategies' towards different facets of SME development, which seems to have had little practical relevance to senior staff in the Department and therefore had little impact in practice. The second strand of the 1994 programme, the strengthening of existing information, training and advisory centres, was largely absorbed within the Local Development Initiative Fund where the focus was on the design and management of a very ambitious programme to stimulate the setting up of a wide range of local SME related projects, with a very short funding life and limited sustainability. The core function of the 1994 programme, to consolidate the Business Advisory Network was largely lost. No progress was made on the fourth component involving the introduction of a decentralised loan programme and micro grant scheme, and eventually the money was diverted to the flood relief programme in late 1997. As a result, the loan programme was reintroduced in the 1997 programme; but it was not until the autumn of 1999 that the loan programme, envisaged in the 1994 programme became operational: a loss of some five years.

The consequence has been that Phare's contribution towards helping to strengthen the government's SME policy capacity has been limited, several fragile groups of Business Advisory Centres now exist across Romania, with large variations in capacity and resources, and little progress has been made to improve access to funds by SMEs.

Chapter 3 Evaluation of Phare Financial Programmes

3.1 Logical Framework: main criteria for assessment

The Logical Framework (LF) approach has become the de facto European Commission standard for project design, monitoring and evaluation. Five criteria are used for evaluating programmes, relevance, efficiency, effectiveness, impact and sustainability. These terms and the general approach are summarised in appendix A.

Using this approach, a log frame for financial programmes has been drawn up to identify the anticipated inputs, outputs and objectives of financial programmes. The table also includes a set of key questions which have been built up against each of the evaluation criteria and the table considers what verifiable evidence might exist to enable these questions to be answered. The subsequent fieldwork focused on assembling evidence to help answer these questions.

3.2 Project Selection and methodology of evaluation

To date there has been just one completed SME financial project, the provision of grants to SMEs. The grant scheme was taken up by 239 enterprises. The project was assessed by examining the case histories of a limited number of enterprises in defined geographic area, handled through the same Business Support Centre. The advantage of this approach enabled us to review the added value of the grant scheme in a particularly area, where there was also a Phare supported BSC which had also successfully bid for several local initiative projects (evaluated in Chapter 4 below).

Key questions relating to the Grant Programme, which are set out in the Log Frame (appendix B), are summarised below:

Relevance: to what extent had the programme clear objectives, to what extent did the design address them in an optimal way, and should changes have been made to the design of the programme?

Efficiency: the level of public subsidy, rate of disbursement and the selection of applicants.

Effectiveness: in what ways has the programme improved the performance of these firms, and were these firms the most appropriate for the programme?

Impact: has the programme had any wider spill over effects, particularly on local and national institutions?

Sustainability: what financial and management arrangements have been made for the programme to continue?

3.3 Achievements of Grant Scheme

The parameters of the grant programme is summarised in table 3.1:

Table 3.1: Input output details of the Grant Scheme

Parameter	Nationally	Braila CDIMM and BIC
Initial Budget	Euro 2.4 million	
Funds disbursed	Euro 3.99 million	Euro 245,000
Applications	436	25

Parameter	Nationally	Braila CDIMM and BIC
Beneficiaries	239 (55% of all applications0	17 of which only 6 were based in Braila County
Average grant value	Euro 16,700	Euro 13,700
Jobs created	2,100	72 (58 jobs in Braila)
Jobs per firm	Average of 10 jobs	
Maximum grant available	Euro 50,000	
Criteria	Less than 50 employees An annual turnover of less than Euro 1 million Maximum total assets of Euro 500,000 Max 30% of shares owned by the state or another company Max 49% owned by foreign company	

Table 3.2: Profile of Enterprises Receiving Support Loan Programme

Employment		Sector		Size of grant		
Employment	**239 cases %**	**Sector**	**% by value**	**Size (Euro)**	**Number**	
0-5 employees	22%	Textiles	16	< 10,000	58	
6-25	61%	Mills	11	10-20,000	50	
26-50	17%	Bakery	9	20-30,000	44	
		Food processing	9	30-40,000	21	
		Furniture	7	40-50,000	66	
		Mechanics	6			
		Wood process	6			
		Buildings	6			
		Metallurgy	6			
		Printing	5			
		Commodities	4			
		Pharmaceuticals	3			
		Glass	2			
		Drinks	2			
		Other	14			

Source: Evaluation of the SME Grant Scheme, E005, Sept 1997
No information was is available on the age of the enterprises

The scheme, which was based on money allocated in the 1992 financial memorandum, was designed during 1993 and the first grant applications from SMEs were received in November 1993 and the last approvals were made in Dec 1995.

The Sample

Given the overall size of the country and the number of Business Centres established, it was decided to focus on one county (judet) as the basis for the in-depth evaluation of the Phare grant scheme and support for business advisory centres and local economic initiatives. Braila County was selected as it has been an active participant in both the grant and local economic initiative schemes, and was one of the Business Support Centres established with Phare support.

Braila County

Braila County is one of Romania's smaller counties with an area of 4,700 sq km (2%) and a population of 393,000 (1.7%). It lies on the Danube in the South East around 200 km from Bucharest, adjoining the delta region. The main city is Braila; otherwise the County consists of a number of small towns and villages. There are around 10,000 registered businesses, of which 46 are state owned companies and a further 185 are joint ventures with state owned and private capital. In addition there are 64 foreign subsidiaries and 175 foreign joint venture enterprises.

The main industries are oil and gas, power generation, metallurgy, shipping, chemical and artificial fibres, paper, cellulose and cardboard, wood and furniture, textiles and garments, leather, food and drink processing. The main growth sectors have been in food and drink, garments and leather products and construction. With its rich alluvial soils, the land is used for arable, vegetables and rice. The area is served by 74 branches of the six state owned banks and three private banks. Freight and shipping is important with the Danube being navigable for ships of up to 20,000 dwt. There are three universities in the County, the state owned Engineering faculty and two private universities: Constantin Brimcoveanu and the Hyperion, which specialise in management and business studies, economics and dramatic arts. There are also a number of research institutes specialising in cellulose and paper, engineering and construction.

Three industrial areas in Braila (total area of 65 hectares) have been designated tax free trade zones: there is also a tax free zone in the adjacent county of Galat.

Within the County there are two tiers of government, a County headed by an elected Prefect, and a series of municipalities, each with elected representatives and a mayor. Apart these administrations, which have small economic development functions, Braila has a large and well established Chamber of Commerce, Industry and Agriculture, a separate Business Support Centre to support SMEs, an Business and Innovation Centre (INCALF) which is linked to the Business Centre, and a PAEM which is linked to the National Labour Office.

The Business Support Centre at Braila received a total of 25 enquiries of which 17 were awarded a grant. Only 6 of the enterprises were based in Braila County, the remaining 11 were enterprises were from other cities including Bucharest (3 firms) and Craiova (2 firms) as follows:

Table 3.3: Summary SMEs processed by the Business Centre at Braila receiving a grant

Firm	Location	Grant (Euro)	Date awarded	Activity
Condem sa	Bucharest	33,334	1/95	Metal processing
Arama & Co snc	Braila	17,500	4/95	Hydraulic parts
Cubit srl	Constanta	6,854	4/95	Pizza products
Visenescu Libertatea srl	Craiova	13,550	5/95	Bakery
Selconext sa	Craiova	13,000	5/95	Bakery
AMP Tornea srl	Braila	17,647	5/95	Bakery
Alcas Prodexim	Bucharest	2,249	5/95	Shoes
Tehnologic Grup srl	Braila	11,000	6/95	Window blinds
Prod Cresus sa	Bacau	8,930	8/95	Chemistry
Mary Lux srl	BIC Braila	5,741	8/95	Garments
Oritex srl	Brasov	24,434	8/95	Wood processing
Pro Tip srl	Bucharest	14,004	8/95	Printing and typography
Hamanitias srl	Judet Galati	3,175	11/95	Dentistry
Saturn srl	Judet Vrancea	24,417	11/95	Garments
Electron srl	Braila	27,500	11/95	Packaging
Mini Select	Braila	15,680	11/95	Bakery
Oneh	Judet Buzau	6,916	11/95	Garments
17 Enterprises	**6 Braila** **3 Bucharest** **2 Craiova** **6 Other**	**245,931** **Av. 14,466**		

Meetings were held with 5 entrepreneurs, the staff in the CDIMM and the BIC (Incalf). Each of these cases are summarised under the ‘effectiveness’ section below.

Relevance

Did the Grant Programme meet the needs and policies of the country?

The Phare Grant Scheme was part of a three year Euro 46 million aid programme funded by Phare, UNDP, USAID, the Canadian Government, the British Know How Fund and the Austrian Burge Forerungsbank. Against a rising level of unemployment, 7% in 1993 rising to 10% in 1994 with over 20% in some judets (counties), the government was anxious to stimulate SME development and create additional employment. Whilst the birth-rate was relatively high, it was recognised that only a small proportion of new enterprises were engaged in manufacturing due to a shortage of funds, and the reluctance of banks to make medium and long term loans for investment projects to young enterprises with only a limited track record.

A second objective was that the financial component should complement the other elements of the SME Programme, such as the establishment of a self-sustaining and effectively functioning National SME Agency (the CRIMM Foundation), and the development of a network of independent advisory services.

The Grant Scheme was seen as a pilot, transitory demonstration project in the selected areas where the new Business Centres were being set up. The intention was that this non-debt finance would be followed by a Phare debt financing facility to be operated through the banking sector. Due to a series of delays this was not to be realised until 1999.

The Phare Grant Scheme was conceived as a one-off rapid programme to help small emerging industrial companies that needed funds to purchase new and second hand equipment to get into production.

Was a grant scheme the most appropriate?

The initial financial memorandum provided no analysis of why a grant scheme was selected and little guidance about the target beneficiaries of the grant scheme. A grant scheme in the Romanian context has a number benefits as well as some significant drawbacks. These are summarised below:

- approval and disbursement can be very simple and rapid, and involve minimal bureaucracy, a key factor in Romania
- it can operate independent of the banking system, which, in Romania, had limited experience in small firm project appraisal work
- it would improve the capital structure of an SME by injecting funds into the balance sheet, and reduce its gearing ratio and dependency on loan finance
- it could potentially act as a catalyst to bring forward investment projects which might otherwise be delayed either because entrepreneurs were reluctant to borrow from the bank, or they did not believe that the bank would agree to lend, or because the entrepreneur was cautious about making a long term investment commitment.
- it make it easier for firms to obtain loans from the banks.

The main disadvantages of opting for a grant scheme were:

- grants are one-off initiatives with limited institutional building benefits: short term arrangements had to be established to disburse the grant which would be disbanded as soon as the grants had been disbursed.
- with no repayment requirement, follow-up of the beneficiaries was not regarded as a key task and there would be no possibility of revolving the funds and thus spread the value across a larger number of beneficiaries.
- providing money to enterprises which would have gone ahead with their investment project anyway.
- ensuring that the system of selection of companies is transparent, and not subject to corruption, or perceived to be open to corruption and favouritism.
- with very limited resources and broadly based objectives, it is unlikely that a grant would be the most cost effective instrument.
- grants may be perceived as giving out the wrong message: a key priority had been to get companies to think about loans and equity as sources of investment which provide a return, rather than grants where there is minimal responsibility on the entrepreneur to achieve a return.
- because the demand for grants is likely to exceed supply, considerable care needs to be given to defining the objectives of the grant and types of firm, which should be eligible.

In Romania, the grant mechanism was included in the 1992 Financial Memorandum as a pilot initiative as it offered a rapid means of transferring finance to SMEs with capacity to expand. This would overcome the reluctance of banks to lend to SMEs, and the reticence of SMEs to borrow from banks.

Not withstanding arguments relating to disbursement and difficulty of finding a suitable financial partner, the grant scheme, we believe, put out the wrong signal to businesses. Instead of introducing businesses to the concept of financial investment, pay back and return, it perpetuated the old culture of hand outs to those in the 'charmed circle'. The grant scheme did much to undermine the credibility of CRIMM as a potential National Agency, which, in our view, set back the development of a sound institutional structure to support SME development. There would, perhaps, been have been some justification had the loan scheme been designed and introduced in 1995 to follow the grant scheme. In fact it took a further four years to complete the design and the scheme was not launched until the end of 1999.

To what extent was the design appropriate

The Financial Memorandum (RO 9207) envisaged that the conditional grant scheme would operate through the banking sector and it was intended to have "a demonstration purpose in the selected area where pilot Business Centres operate". In practice the scheme operated completely outside the banking system, and there were thus no demonstration effects amongst banks.

We understood that initially the scheme was to be channelled through the five Phare supported Business Centres. But because of insufficient marketing and the limited profile of these Centres, uptake initially was limited. The scheme was then opened up for all recognised Business Centres to recommend enterprises for the grant. In a significant number of cases, enterprises in one area sought the help of Business Centres in other areas to process their applications. Thus of the 17 grants secured by Braila Business Centre for its clients, only 6 came from the County of Braila, with 65% of the awards going to enterprises in other parts of

Romania including areas where there were well established Business Centres. Superficially this might seem attractive. But this reduced the Braila Business Centre's capacity and focus to build up a client base and service firms located in the County. The grant scheme also had a negative effect of portraying Business Centres as providers of grants, an image which has taken some Business Centres time to loose.

There was a requirement that 50% of the funds had to be provided by the enterprise itself. This effectively ruled out start-ups and very young companies, where the funding gap was most acute. It was very difficult to verify to what extent this condition was achieved in practice.

Insufficient attention was given to the development of comprehensive Business Plans as part of the enterprise's application for a grant. In Poland, where a similar grant scheme was introduced, this turned out to be one of the more important side benefits to the recipients of the scheme.

In the selection process, additionality was not, in practice, included as a specific criteria, despite the ruling by the EU's Council of Ministers regarding the use of Investment Funds. At the selection committee, there appears to have been no consideration as to whether the enterprise could have secured the money from the bank.

A major flaw in the initial design was that no provision had been included for follow up and on-going monitoring of the firms awarded a grant either by the CRIMM Foundation or the local Business Centres. For those enterprises away from their local Business Centre, this would clearly have been more difficult. In discussion with the Braila Business Centre, comparatively little follow up work had been carried out; as a result, in Braila, the grant scheme appears to have played only a limited role in building up a long term client base for the Business Centre.

A major disadvantage of the Romanian grant scheme (compared to the Struder Grant Programme in Poland) was that it was designed to operate completely outside the banking system. As a result it is difficult to see how it could have any demonstrable effect on improving the flow of bank funds to SMEs.

Concern was expressed, at the time and subsequently, about the procedures introduced for selecting applicant firms. Whilst the committee may have operated impartially, there was not a requirement to indicate why an application had been rejected, it was not a very transparent process and there was no appeal mechanism. As a result it was very difficult to refute allegations that the Committee favoured, for example, owner managers, that were known to support the same political party as CRIMM's President. Though nothing was ever proved, the grant scheme left doubts, which, we believed, undermined the impartiality and credibility of the CRIMM Foundation. Although a standardised appraisal system was used, no appraisal records had been retained in CRIMM when an evaluation of the grant scheme was carried out in 1997.

Despite the initial backing for the scheme, the Government seems to have taken very little interest to see that the grant scheme was used effectively, or draw on this experience for developing follow on initiatives. Instead, the government introduced a completely separate loan scheme operated through the RDA and the NAP, which did not build on the network and experience gained from operating the grant scheme.

Was the Grant Scheme an appropriate use of Phare funds?

Whilst there was a need for a financial programme to complement Phare's support for the development of Business Centres, and the grant scheme did raise the profile of Phare amongst SMEs, on balance we believe that the grant scheme was a sub-optimal use of Phare funds. It performed a limited one-off function, and did not lead to any longer term sustainable programmes to assist the SME sector or enhance the development of any new financial institutions.

Despite the developments taking place in other countries, e.g. the introduction of the Struder grant scheme in Poland, comparatively little transfer of experience seems to have taken place. In particular, there appears to have been an absence of any longer term Phare policy to address the financial needs of SMEs in Romania. Though it was expected that there might be a follow up grant programme in the Phare 1994 FM, this programme adopted an entirely different approach towards SMEs.

Efficiency

The time to design and disburse the grant was shorter than average. The first applications for grants were received in November 1993, within one year of the signing of the Financial Memorandum, and the full allocation was taken up by December 1995.

However, initially the rate of applications and disbursement was very slow. By the end of the fifth quarter only 30% disbursement had been achieved. The application rate in the second year grew with almost 50% of loans being disbursed from applications received in just one quarter of 1995 as follows:

Table 3.4: Number of applications and loans disbursed per quarter

	93/3	94/1	94/2	94/3	94/4	95/1	95/2	95/3	95/4
Applications	9	48	22	5	53	40	62	196	
Approvals	1	22	14	8	25	19	30	60	60

The public subsidy element involved in the grant scheme included the grant itself and the costs relating to its disbursement, including the administrative costs within CRIMM, the assistance provided by the various Business Centres to SMEs, much of which was free of charge and covered by donor funds, and the cost of the foreign technical assistance. This amounted to:

Grant:	ECU 4.0 Million
CRIMM and BAC costs	ECU 1.0 million (estimated over two years)
Phare funded technical assistance to design and support the loan scheme	ECU 500,000 (estimated cost over three years)
Total cost	ECU 5.5 million

Offset against the costs are the benefits to the business and to the economy. Whilst the business benefits are reviewed under 'Effectiveness' (see next section), the only practical way of assessing the benefits to the economy is to consider the number of jobs created or safeguarded. The subsequent evaluation of the scheme completed in September 1997 reported that a total of 2,394 jobs were created, an average of 10 jobs per firm. But there are no details of how these numbers were arrived at. It would appear that the numbers are obtained from CRIMM data, which was based on the initial applications rather than additional jobs achieved as a result of the investment in new equipment. No systematic monitoring has been undertaken either by CRIMM or the local Advisory Centres to track the progress of the recipients and determine the number of additional jobs actually created.

It was not possible to assess the mechanisms for managing, appraising and disbursing the grants. It is not clear what appraisal was carried out by CRIMM prior to going to the grants committee, or what criteria were used by the committee to assess the loan applications. The rejection rate was not particularly high (45%) suggesting that either the applications were of a good quality or the level of financial appraisal was somewhat limited. The 1997 evaluation made the observation that when the number of applications grew, several people on the appraisal committee felt that they did not have enough time to assess the application prior to the meeting, and no visits or interviews were held with the applicants.

Within Romania, there were criticisms that the process was not transparent and that grants went to enterprises which in some way had connections with the CRIMM Foundation. Unfortunately the appraisal sheets were not kept, and no reasons were given by CRIMM when an application was rejected Whilst the accusations were never proved, it left a suspicion that all may not have been well. It was perhaps a natural consequence of a grant scheme being run by an institution whose President had strong political ambitions and views, which were not aligned to the party then in power.

Effectiveness (immediate results for the enterprises compared to inputs)

Coverage of the grant scheme in terms of sectors and geographical spread was good. By extending the scheme beyond the Phare-supported CDIMMs (Business Centres), applications came from 26 different centres located in 32 of the 40 counties. Although the maximum grant was set at ECU 50,000, the average grant awarded was around ECU 16,200, enabling more enterprises to benefit from the scheme. By limiting grants to manufacturing and related services and to enterprise with less than 50 people and a turnover of less than ECU 1 million the grant was targeted at those SMEs experiencing most difficulty in raising funds to invest in new equipment. There was some criticism that the grant could not be used to finance working capital and premises. We believe that the restriction was appropriate because it has been most difficult to raise funds for long term productive investment.

Interviews were carried out in Braila with the CDIMM (the Business Centre) and 5 of the companies that received a grant. The results of the company interviews are summarised in table 3.5 below:

Table 3.5: Summary of review of firms receiving Support Loans

Firm	Size of grant	Company/ Product	Assessment	Performance New jobs	Rating 1-5
A	ECU 2,250 Source of information: Newspaper Approved May 1995	Set up in 1990 Teenage Ladies footwear Invested in sewing machine and an oil dynamic click press No advice sought	Phare was the first investment, enabling the firm to switch to a more elaborate product. It did not enable the firm to raise funds from other sources at that time. Could not raise a bank loan due to lack of collateral. Subsequently, the firm has borrowed $150,000 from the Romanian American Investment Fund for further expansion. Company now in a stronger position and could raise funds from the bank.	Turnover up from ECU 20,000 in 1991 to 2 million in 1998. Now employing 68 people + 8 part time	5

B	ECU 24,400 Source of information: Newspaper and CDIMM Approved Nov 1995	Set up in 1994 Garments Sewing equipment No advice sought from CDIMM	Bank would not have lent money due to lack of collateral. Interest rates were too high. Had received a short term loan for working capital As a result, quality was improved and extra sales achieved. The firm is now in a more secure financial position	Turnover now ECU 54,000 Employing 20 people full time	4
C	ECU 11,000 Source of information: CDIMM Approved June 1995	Set up in 1994 Venetian blinds for domestic market Machinery Business plan prepared by CDIMM Braila	Without the grant, it would have delayed the firm from moving from trading to manufacturing The firm believed that it would have been able to get a loan from the bank, but it would have taken a long time and interest rates were very high. A loan was also obtained from the Romanian Development Bank.	Now employing 21 people Sales increasing by 20-30% per year	4
D	ECU 33,300 Source of information: ROM-UN Centre Approved Jan 1995	Set up in October 1992 Metal work for domestic market Machinery Business Plan written with UN-ROM Centre	Had a good relationship and previously obtained credits from the bank. The bank would have lent money but the terms were more onerous. Later they got a loan from the Banca Ion Tiriac. The main value of the grant was to buy machinery to open up a new market. It is not clear whether the project would have gone ahead anyway without the grant. Now, the company is definitely in a stronger financial position	125 full time and 70 part time Turnover increased from ECU 10,000 in 1992 to ECU 630,000 in 1995 and ECU 2 million in 1998	4
E	ECU 14,000 Information Another firm Approved Aug 1995	Set up in 1995 Graphic design and printing Printing machine Advice from CDIMM Braila	The firm believed that a bank would have lent them money but it was too expensive. In 1997 they obtained a ECU 43,000 loan from Banca Ion Tiriac. The new equipment has enabled the firm to grow steadily at about 50% each year, and now employs 31 people The advice was very good, as it enabled the firm to understand that they had to do on a step by step basis	Start-up in 1995, now employing 31 people	5
5 firms	**ECU 84,950**		**Average ECU 16,990**		**4.2**

In terms of effectiveness, all the firms demonstrated above average effectiveness. The overall effectiveness in terms of the nine firms was rated as just below average with a score of 4.2.

Impact (spill over effects)

The grant scheme helped kick start the various Business Support Centres being set up with support from Phare, UNDP and USAID who were able to offer immediate tangible benefits to companies. In some cases this helped them to create a profile and attract their initial client base. It also provided a useful source of income, which was vital to the subsequent development of some Centres (particularly the ones sponsored by UNDP as they received almost no funding from UNDP). The application process encouraged some Centres to develop their capacity to prepare business plans.

The grant scheme had no impact on the banking sector, which played almost no part in the initiative. There was no conditionality that part of the project had to involve a bank loan (thus no leverage was achieved) and the banks played no part in the appraisal of the applications.

Unfortunately there were some negative consequences of the programme. Firstly it resulted in Business Centres and the CRIMM Foundation being identified with the provision of grants, which inevitably have a short life. Grants, once given require little or no follow up by the Business Centres. So in many instances, the possibility of establishing a lasting relationship with companies with investment plans and growth potential was not fully utilised. In the Braila CDIMM, for example, we found that the staff had little or no knowledge about the subsequent development of a number of the enterprises which received a grant.

It is difficult to assess the impact that the grant scheme had on thinking within the government, and, more particularly staff in the Romanian Development Agency responsible for SME policy. Because the grant did not lead directly to any other financial programme or initiative, we have concluded that the impact on government SME policy was minimal.

Sustainability

The grant was always seen as a one off transition initiative. The original intention was that these non-debt financial means "were intended to be operated through the banking sector and possibly supported by a subsequent Phare programme"[3]. In practice, the grant scheme operated outside the banking system and therefore did not lead to linkages and a basis for the development of a follow on financial programme.

Evidence of the forward thinking at the time is provided by the 1994 Financial Memorandum, which was being drafted whilst the grant scheme was being disbursed. The 1994 Financial Memorandum wished to build on the previous scheme by developing "a decentralised source of mid and long term financing for investment projects by SMEs in the manufacturing sectors where short term lending is of little use"[4]. The CRIMM Foundation undertook some preparatory work for a loan programme, involving the organisation of 9 seminars with 216 participants from 16 banks and 6 NGOs.

In summary no sustainability was achieved with the grant scheme.

Summary

Table 3.8: Summary evaluation of the Support Loan Programme

Evaluation Measure	Comment	Rating
Relevance to government policy	The focus on young micro and small enterprises in the manufacturing sector requiring new equipment is central to the Government’s objective of diversifying the economy	2
Relevance of the design	A grant was not the most appropriate financial measure	1
Efficiency	The operational plan and subsequent disbursement was good.	3

[3] RO9207 Financial Memorandum (page 5) EC 1992
[4] RO9408 Financial Memorandum for SME and Regional Development, 1995

Evaluation Measure	Comment	Rating
Effectiveness	Evidence of the sample suggests that a high proportion of cases, would not have been able to raise the required funds from the banks. For many of the firms, the grant enabled them to make a significant first investment, which contributed to their growth and long term stability.	4.2
Impact	Direct assistance to help new Business centres to get established and develop an initial customer base No impact identifiable impact on government or bank thinking	2
Sustainability	A one off project with no follow on	1
Total		**2.2**

3.4 Comments on other Financial Programmes

Phare SME Loan Programme

In the 1994 Financial Memorandum, ECU 7 million was allocated to a "pilot financial assistance component" + ECU 1 million for technical assistance on its design and implementation. It was designed to give SMEs, mainly in the manufacturing and related sectors, access to mid term funds, and at the same time, "familiarise banks with the techniques of lending funds to SMEs and thus strengthen the local/regional economy". It was intended that the facility should be focused on a few regions where Phare had supported the setting up of advisory services. It was expected that applications would pass through the advisory centres, which would "check" applications for criteria etc, and pass them onto the bank for appraisal.

In fact the loan programme was not taken forward. One reason was that it was not possible to find an appropriate counterpart for the project, with the result that no external consultant was hired to undertaken the initial design work. In 1997, the money was diverted for flood relief and a new provision of ECU 6 million for an SME Loan Programme was included in the 1997 Financial Memorandum.

As a result no work was undertaken until 1998 (following the signing of the 1997 Financial Memorandum) when a new team of external consultants were engaged to draw up the design for the Phare Loan programme. Although the design had been completed in April 1999, arrangements for the disbursement of the SME loan scheme had not been agreed by November 1998. We understand that the first loans started to be disbursed in late 1999 (see below for further details).

Despite the delays, the design includes a number of positive features, which were included as a result of a careful assessment of Phare loan schemes in other countries. Banks were selected according to a tender, which required them to indicate the spread that they would require to operate the scheme. Banks were expected to make a 25% contribution to each loan, to achieve leverage and ensure that the bank itself was at risk. However, the scheme has been structured so the bank is not liable for losses for the Phare portion of the loans, thus encouraging the banks to participate and lend to SMEs that would not normally be able to obtain funds. However, once again, there is little restriction on the size of SME that can access a Phare loan (up to 250 employees), though loans are for 6 years, are limited to investment projects (+ maximum 25% for working capital), and trading firms are not eligible. There appears to be no stipulation about needing to demonstrate that the project could not obtain normal bank funds.

Chapter 4 Evaluation of Institutional Programmes

4.1 Introduction

Three programmes have been included for evaluation. These cover:

- Policy and legislative work 1993-98
- The provision of business support services 1994-8
- Local Initiative Fund 1997-8

Log frames and input output tables have been prepared for each programme, from which a sample of projects has been selected for evaluation. The results of the each evaluation are set in the sections below.

4.2 Evaluation of Support for Policy Development

Objective, logical framework, project selection and methodology

Phare provided financial support under two programmes to assist in the development of government of policies, laws and regulations to improve the environment for SMEs. Phare's support for policy development can be divided into three phases:

1993-6 Support to CRIMM to undertake policy development work
1997 Support to the National Agency for Privatisation
1998 Support to the Council for Reform

During the period 1993-96, Phare funds (FM 9207) were allocated for CRIMM to establish an advocacy office and undertake a number of projects, to support the process of improving the regulatory climate for SMEs. The following activities were envisaged:

- assistance in the design of an overall policy and legislative initiatives for SME promotion
- co-ordination of the implementation of a three year programme of SME promotion with a view to getting an overall coherency of the various actions
- monitor the growth of the SME sector
- collect and distribute information relating to SMEs
- support the emergence of a nation-wide network of local business and development centres in each county

An Advocacy Office within the CRIMM Foundation was set up which produced two Annual Reports in 1994 and 1995 providing, for the first time, an analysis of SME developments in Romania. It also prepared discussion papers on a number of key topics including financial needs of SMEs (1994) and exports and quality issues (1995). In the regulatory area, a White Book was prepared providing an analysis of the legislative and regulatory environment for SMEs, with suggested policy guidelines. There has been a growth in the number and level of activity of associations representing private businesses. To strengthen them, the CRIMM Foundation organised a competitive tender and selected 10 projects for co-funding up to a maximum of ECU 50,000 per project. Work was undertaken to review secondary schools curricula to ensure that it took account of the need to promote entrepreneurship and working in small firms. Two textbooks were also developed; the first was designed to provide a simple guide for entrepreneurs on how to register a firm, work with the banks, deal with the fiscal authorities and hire employees. The second book was for secondary school students to help them understand the scope for working in SMEs.

Under FM 9408, funds were allocated for technical support to the Romanian Development Agency, "to fulfil its role as the agency with overall responsibility in the field of SME policy and to facilitate multilateral co-operation between the RDA and Ministries involved in particular aspects of SME Policy". It was envisaged that support would be in the following areas:

- Background information gathering and analysis
- Policy proposals in key areas (fiscal, premises, relationships with State Enterprises and finance)
- Mechanisms for consulting with the private sector
- Office for Advocacy leading to the preparation of a White Paper in legal and fiscal issues
- Staff development and general capacity improvements, including study visits and training
- Co-ordination of Business Advisory Centres

By the time the programme was implemented, responsibility for SME Policy had been transferred to the National Agency for Privatisation and the scope of the programme was substantially reduced. The foreign consultants did not start until January 1997 and their input was suspended at the end of 1997 after just 11 months, when responsibility for SMEs was transferred from the National Agency for Privatisation to the Council of Reform. The objectives as set out in the terms of reference for the foreign experts were to:

- Prepare and present policy proposals in the areas of regulatory framework, finance for SMEs and premises related issues
- Training of staff in the SME Department

The main outputs were:

- Assistance in the drafting of an SME Strategy for presentation to the Council of Ministers
- The development of a number of issues papers, which were discussed with interested parties in a series of workshops. These covered policy papers relating to the legal framework, fiscal policy, financial policy, business services and international trade.
- Study tours and work placements in foreign countries for key staff in the Department for SMEs

In 1998, following the transfer of the SME Department to the Council of Reform, the long term expert engaged to design the small loan scheme, was asked to stay in post and act as an adviser to the head of the SME Department. During this period, the brief and workload evolved in relation to the needs of the department.

A Logical Framework with key evaluation questions has been prepared for the programme relating to SME policy work (see appendix C).

Relevance

To what extent did the programme fit into the needs and policies of the country?

The lack of a sound regulatory framework for SME development is frequently identified as one of the more serious issues facing entrepreneurs. The initial survey undertaken during the design phase of the first SME programme in 1991 indicated that the poor regulatory framework was the most serious problem inhibiting their development. In the World Bank's survey of SMEs undertaken at the end of 1997, this continues to be the most serious issue facing SMEs.

The resolution of these problems would have significant relevance to the development of the national economy. However, within government, whilst there was a widespread view that SME development was fundamental to the reform of the economy, this has not been translated into a consistent and sustainable set of priorities and strategies enabling measurable actions to be taken. One of the main problems has been the frequent shift in responsibility between different government bodies, often with a new head and senior staff. These changes have resulted in a loss of continuity with the result that the new body did not have the time (or in many instances the commitment or experience) to facilitate meaningful changes before responsibility was moved and the process would begin again. This problem in government is not unique to the SME sector. It is partly a reflection of the consequences of changing balances of forces within successive coalition governments and the lack of institutional stability within the administration due to political influences and the lack of a tradition of an impartial civil service.

So whilst there is wide spread agreement that more attention should be given to developing and implementing meaningful policies for SME development, the capacity within government to achieve changes has been very limited and overly dependent on the right combination of personalities in key positions of power. There has also been a lack of consensus and clarity about the state's role in a market economy and there is little capacity to evaluate alternative government policies in terms of cost benefit analysis.

To what extent was the design of the project appropriate?

Phase 1: 1993-6

The first programme (FM 9207) placed the emphasis on building up the CRIMM Foundation as a national agency. Whatever competencies were developed within CRIMM in this field were quickly lost at the end of the first Phare programme at the end of 1995 when the Phare programme in CRIMM was not renewed and many people moved to new jobs.

The initial design, which led to the 1992 Financial Memorandum (RO 9207) and the terms of reference for the external technical assistance, made a number of important assumptions which turned out to be incorrect.

There was an explicit assumption in the design and the Financial Memorandum that the CRIMM Foundation would "assume the role of 'focal point' for SME promotion". It is not clear whether this had been clarified and agreed with the other donors already engaged in the design and implementation of SME programmes. It is also not clear to what extent the proposed role for the CRIMM Foundation was accepted by those responsible for SME policies within government. Whilst it may have been an objective of the government up until the 1992 general election, priorities altered after 1992 with the new government which shortly after coming to power transferred the responsibility for SMEs from the NAP to the RDA. By 1994, this change had been taken into account in the drawing up of the 1994 Financial Memorandum, which anticipated that future policy support should be orientated towards strengthening the Romanian Development Agency, rather than the CRIMM Foundation as the primary agency for SME development.

There appears to have been an implicit assumption that CRIMM would enjoy the political support of government. Insufficient account was taken of the impact that a change in government (and ministerial reshuffles) would have on the political position and support for CRIMM. Since the long-term advisers did not start until early 1993, it may have been possible for Phare to have reviewed the choice of its Romanian counterpart to take account of these changes.

Phase 2: 1997
Whereas in Phase 1, the advisers in CRIMM were part of a team to build up CRIMM as a national agency, the role of the adviser joining the NAP was very different. The department and its workload already existed, and, apart from the costs of providing foreign advisers and a small amount of money for training, there was no budget available to fund new activities within the Department. Ostensibly, it was expected that the advisers would work towards the development of an overall SME strategy. The advisers adopted a classical western approach towards the task through a series of objective studies and workshops to arrive at a strategy, largely drafted by them. But in the process, the foreign advisers appear to have found it difficult to integrate into the department, and gain the support of the department for their approach and resulting strategy. Whilst much work was carried out, it appears that it was not well integrated into the short-term needs of the Department.

Phase 3: 1998
A more pragmatic approach seems to have been adopted by the new long-term adviser. In part this was because the role grew out of the demands and requests made by the Department for help, rather than being predetermined by the foreign advisor, according to norms of what policy work should be. As a result the adviser became part of the team within the department, rather than being a separate unit attached but not fully integrated into the department.

In conclusion, a key problem was to design a programme, which both had long term relevance and met the Counterpart's more immediate needs. In some instances the Counterpart (a limited number of key people with responsibility for SMEs) had only a partial understanding of what they needed, and was reliant on the external adviser to provide guidance. But this depended on the adviser's competence and the trust established with the counterpart.

In the design of the policy workplan, a clearer distinction needed to be drawn between the provision of on-going advise to those directly involved in the development of new policies, the undertaking of stand-alone consultancy assignments on defined problems and the development of institutional capacity to support this work. This institutional capacity might cover such areas as basic research and analysis, staff recruitment, training and development, liaison arrangements with representatives of the private sector, the development of the capacity of these private sector organisations to perform their lobbying function, and the development of inter-ministerial co-ordination arrangements.

Should Phare be engaged in this work?
Improving the legal and regulatory environment for SMEs and the private sector, as a whole is clearly a major priority, which requires a sustained financial, technical and political input over an extended period of time to make real progress. In Romania Phare's influence has suffered from a loss of continuity. Ideally, there was a need throughout the period for a long term Phare adviser to work in a broadly based advisory role within the group most closely involved on policy issues, with the capacity to access research, consultancy and training support on a project by project basis as the need arose.

Efficiency

The programme with the CRIMM Foundation led to the production of a number of reviews of key topic areas as the first step towards identifying specific issues where policy changes would improve the SME environment. But because the programme was based on assumptions about the role of CRIMM as the ‘focal point’ for SME development, which was not realised, much of the work’s immediate value, though efficiently carried out, could not be taken forward.

A main output of the work was been the preparation of an annual publication reviewing the state of the SME Sector and its contribution to the national economy. It also sets out proposals for improving the operating environment for SMEs. Whilst the first edition in 1994 was a significant step forward, providing valuable factual data on the SME sector, the publication is, to some extent limited, due to the lack of independent research setting out the economic case for SME support and analysing the most serious barriers inhibiting SMEs. A number of more detailed reviews of particular bits of legislation have been undertaken, which in a few instances, did lead to modifications of legislation at the drafting stage.

The project also enhanced the experience and capabilities of staff in the CRIMM Foundation and in SME Associations to undertake policy related work. It has also raised people’s awareness about the process and the need to become more professional.

The second phase was perceived as being somewhat less productive, although there was a lot of activity which included the production of a range of policy papers, the holding of workshops, study visits, overseas work placements. The main problem was the work programme appears to reflect the priorities of the consultants had they been responsible for policy rather than being evolved over time to reflect the priorities of the Romanian team.

Although the resources available for policy work during the third phase were more limited, the influence of the adviser on the work of the Department was perceived to be significantly greater. This was because the adviser spoke Romanian, had a much deeper understanding of the country and its culture, and adopted a more flexible approach as an adviser to securing the active support of the head of the Department and other key people with influence. As a result the adviser was increasingly drawn into the work of the department and able to have a positive influence on thinking over an increasingly wide range of issues.

Effectiveness

The most positive effect of the ‘92 programme was to initiate a process of policy development for SMEs. At the start, there was almost no institutional capacity, very limited understanding about the issues that needed to be tackled and very little experience to draw on. By the end of the programme, a significant number of people had become aware of the importance of these issues and were starting to get involved in the debate.

The work, which had the most influence, was The ‘White Book’ (published in 1995) and the Annual Reports on state of SMEs in Romania (1994 and 1995) which were based on surveys of the SME sector. Although they did not directly lead to action, they provided invaluable intelligence on the evolution of SMEs and the impact of the regulatory framework on the sector. This material formed the basis of subsequent work undertaken in 1997 and 1998.

However, it is difficult to quantify significant short-term changes, which have arisen directly out of the Advocacy work and the production of the ‘White Book’. One reason for this is that the Office of Advocacy was closed shortly after the White Book was published, which precluded an organised follow-up programme. However, other organisations have used the materials in the White Book to argue for change on an ad hoc basis, though the structured approach envisaged by the CRIMM Foundation never took place.

This process was to some extent carried forward through the 1997 programme in the NAP. It would appear that the reports prepared by the foreign consultants were not directly used in the development of Romania’s first SME Strategy. However, there is some evidence that the involvement of staff in the study tours and workshops organised by the consultants did help to extend their awareness and thinking.

The effectiveness of the input during the third phase appears to have been somewhat greater. Significant support was provided to the Parliamentary Commission to help them review and address a range of SME related legislative issues. During 1998 the Department also prepared a number of financial support measures which reflected the long term adviser’s thinking and input. This was because the adviser had established a high level of credibility amongst members of parliament, the Secretary of State and senior staff in the Council for Reform.

Impact (spill over effects from meeting wider objectives)

There is now a greater awareness and clearer understanding both in government and amongst the main political parties about the economic potential and key issues facing SMEs. This is reflected by the relative importance attached to SME work by the Prime Minster at the end of 1998, which has led to the formation of a dedicated Agency for SME Development. However, as at the end of 1998, the resources within the SME Department within the Council of Reform (which has now been transferred to the new SME Development Agency) were not sufficient to enable the department to play an active role in shaping the SME infrastructure. For example its influence to secure changes in legislation in favour of SMEs was limited, it has had little influence on the work and development of the network of Business Advisory Centres, and does not have the resources to monitor or influence the availability of investment finance for SMEs and had limited influence on securing and steering donor assistance towards the development of the SME sector.

Inter-ministry co-ordination and collaboration on SME issues was also observed to be a critical issue due to the number of Ministries with an interest in SME related issues, each operating from a different perspective.

Sustainability

Whilst there is now greater political awareness and support for SME related issues, it is too soon to assess to what extent this commitment will be translated in relevant actions. As a result of the support provided by Phare and other donors, there are now a greater number of well-informed and articulate advocates. But despite the efforts of Phare in this area, at the end of 1998, Romania still lacked a strong central institution with the resources, confidence and remit to articulate and implement a credible and comprehensive set of policies to support the development of SMEs. Phare has provided support to a number of institutions, including the CRIMM Foundation, the RDA, the NAP and the Council of Reform. None have managed to build up the credibility and backing that is required to make the improvements needed to support the development of a vibrant and competitive SME sector.

Conclusions

Table 4.1: Summary evaluation of the support for policy development

Evaluation Measure	Comment	Rating
Relevance to government policy	Limited support in government, despite its importance to SME development	1
Relevance of the design	Poorly structured programme. Lack of continuity, not sufficiently responsive to the changing political position within the country	2
Efficiency	Some tangible outputs in terms of research reports, study visits, workshops and analysis undertaken	3
Effectiveness	Improved understanding of some of the most important SME issues amongst key staff engaged on policy related issues. Limited achievements in terms of improved legal and regulatory framework	2
Impact	Increased awareness of SME issues amongst opinion formers	2
Sustainability	No long term sustainability achieved	1
Total	Limited progress in this critically important area	1.8

It would appear that nobody had realistically assessed what would need to be done in order to achieve success in the area of policy development and improved lobbying. Insufficient attention seems to have been given to:

- the selection of a limited number of priority issues on which progress could be made,
- undertaking the necessary research and analysis to ensure that arguments are fully supported,
- planning the ‘campaign’ to secure the trust and support of key individuals
- implementing the campaign in a professional manner.

Though the strengthening of the various small business associations is a necessary condition, it is not sufficient if the regulatory environment is to be improved. Four factors need to be taken into account: the priority attached to this work, the level of resources available, the standing and competence of those engaged in this work, and the selection of a limited number of relevant and ‘winnable’ issues in order to build up creditability and practical experience.

Perhaps more progress could have been made if Phare had established a long term adviser to work for an extended period of time within the SME Department as it moved between the NAP, RDA and the Council of Reform to enhance its credibility, confidence and influence over time. It would have demonstrated within the Department the need to build up research and analysis functions to support SME policy development. It would also enhance the role of the Department in dealing with Phare and other donors so that it could play a more active role and take a more active part in determining how SME support services should be developed over time. The Adviser would need access to a budget to contract local and international staff to undertake assignments as the need arose.

Amongst the SME Representative Organisations, further external assistance will be needed to help them establish effective lobby units to undertake research and analysis of SME issues to improve the justification for changes being made. Those engaged in the lobbying process would benefit from a period of ‘hands-on’ technical assistance to help them to develop more effective lobbying techniques.

4.3 Evaluation of Business Advisory Centres (CDIMMs)

Objective, logical framework, project selection and methodology

The second programme to be evaluated within the institutional area covers Phare's support for the establishment and running of the Business Advisory Centres (CDIMMs). The main objective of these centres has been to increase the rate of formation, growth and survival of SMEs in defined local areas by providing information, advice and training on an affordable basis. A Logical Framework has been developed for the Centres with key evaluation questions (see Appendix D).

The evaluation followed the same approach as was adopted for reviewing the Conditional Grant Scheme. Initially, Phare provided support for the setting up of five Centres and four Business Innovation Centres under programme RO 9207. By talking to a range of opinion formers, it was possible to obtain an overview on the relative success and performance of the five centres:

Table 4.2: Summary of Phare Supported Centres

Centre	Number of staff	Number of FIDEL projects	Comments
Pitesti, Arges County	2	None	Limited work programme
Braila, Braila County	10 FT 24 PT	4 projects (ECU 277,000)	Fully operational
Craiova, Dolj County	2	None	Minimal activity
Baia Mare, Marmures County	9 FT 15 PT	5 projects (ECU 247,000)	Fully operational
Alexandria, Teleorman County	2	1 project (ECU 20,000)	Operational but fragile

The assessment of the performance of the five centres at the end of 1995 (NEI Evaluation of the Phare Programme Jan 1996), and the subsequent RDH report (Evaluation of the Five SMEDCs July 1996), both paint a positive picture. The NEI report describes the programme as "having set an example of a nation-wide network aiming at a common objective, demonstrating considerable performance in terms of clients reached, activities employed and funds mobilised". The Final Report prepared by RDH reported that the Advisory Centres had acquired an excellent reputation with respect to the preparation of business plans and assisting SMEs to obtain money from the grant scheme. Three years later a very different picture has emerged. Only two centres could be described as active and viable, two are weak, and one is all but defunct.

The CDIMM at Braila was selected for the detailed evaluation because it is one of the more successful centres established under the original Phare programme, and could provide an insight into the way that the performance of the centre has evolved over time. Data was sought from the other four centres. Only one Centre, at Baia Mare responded with an analysis of its funding and performance. The other Centres did not respond, a reflection of their current state of health. A brief comparison is made with one of the centres set up under the UNDP programme.

Inputs: funding and technical assistance:

CDIMM Braila was set up in 1994 as a Foundation with the following members:

- Braila Judet
- University of Braila
- City of Braila
- Chamber of Commerce and Industry Braila
- CRIMM Foundation
- 17 local companies

The Centre is legally independent and is run by a Board of Directors, which includes the President of the Braila Foundation, representatives from the CRIMM Foundation and the Judet and two business people. The Centre is well located in rented premises from the Judet, which is opposite the administration building housing the County and City Administrations. Working conditions are satisfactory. Equipment for the Centre was provided by Phare.

Table 4.3: Income and performance outputs of CDIMM Braila

	1994	**1995**	**1996**	**1997**	**1998 (est)**
INCOME (ECU)					
Client income	1,100	3,800	3,900	1,400	3,200
Local Authorities	-	-	-	-	-
Phare project funds		3,800	2,400	37,300	151,000
Phare start up funding	14,300	25,900	36,000	-	
Other donors	2,400	1,300	1,800	600	4,000
Other Income	400	600	4,000	7,700	30,600
Total	**18,200**	**35,400**	**48,100**	**47,000**	**188,800**
% income from Phare	78%	84%	80%	79%	80%
% client income	6%	11%	8%	3%	2%
EXPENDITURE %					
Salaries	3,700	10,000	11,400	8,300	45,000
Payments to collaborators	-	800	900	600	11,300
Rent	400	1,000	1,200	800	-
Office running costs	100	5,200	8,800	4,800	8,200
Project costs	-	300	1,900	15,000	9,800
Other	-	2,400	5,800	4,500	1,600
Capital costs	16,400	14,200	200	2,500	69,600
Total	**20,600**	**33,900**	**30,200**	**36,500**	**145,500**
Surplus	**(2,400)**	**1,500**	**17,900**	**10,500**	**43,300**
Number of staff Full time	3	3	3	3	3
Part time	2	5	10	16	24
OUTPUTS					
Clients	88	214	178	312	878*
% start up clients	8%	20%	6%	1.5%	0.5%
% full paying clients	50%	80%	90%	85%	80%
% new clients in year	100%	85%	50%	40%	70%
Training courses	3	8	11	19	25
Business plans	6	34	26	22	11
Number of loans obtained	3	16	21	14	5
Value of loans (ECU)	30,000	115,000	150,000	14,000	24,000
Number of training courses	3	8	11	19	25
Number of participants	29	42	59	109	161
New firms formed	0	0	3	30	11
New jobs from start ups	0	23	51	106	76

* Number of clients in 1998 includes firms contacted under the FIDEL entrepreneurship programme, and does not represent the number of firms seeking services of the CDIMM

Table 4.4: Analysis of client base

Sector		Size of enterprises		Age of enterprise		Location of enterprise	
Agriculture	37%	0 – 9 employees	11%	< 1 year	13%	City	33%
Production	50	10 – 24	21	2	33	County	21
Wholesale	0	25 – 49	38	3	41	Region	11
Retail	1	50 – 249	26	4 – 8	8	Bucharest	19
Services	12	> 250	4	> 8 years	1	Other	16

Source: data from Braila CDIMM

There have been three distinct phases of funding, initial Phare grants via the CRIMM Foundation covering the first three years, project funding from the PAEM project in 1997, and FIDEL projects in 1998. By maintaining a tight control on costs, (reflected by the static figure for salaries during the period) the Centre has been able to build up a substantial surplus to guard against downturns in funding. Throughout the period, income from clients has been negligible.

The output figures are more difficult to interpret. Whilst activity levels seem to have risen, the number of business plans produced, an indication of the level of substantive work, has fallen suggesting that the underlying client base has not been maintained since the ending of the Phare Conditional Grant scheme at the end of 1995. It appears that the main effort of the Centre has now shifted towards identifying and winning contracts to implement special projects. This is now providing a major source of income to sustain its core activities, initially drawing on the PAEM project and then in 1998 the FIDEL project, (see below for the evaluation of the FIDEL projects).

The level of penetration of the Centre is relatively low. During the 5-year period to 1998 a total of around 1,700 clients (around 1,200 clients if the extra clients contacted via the entrepreneurship project are discounted) have used the Centre’s information, training and advisory services, in a County with around 10,000 registered businesses. This represents a penetration rate of 12-17%.

In terms of client mix, the Centre’s client base is more oriented towards larger clients who are more able to make a contribution to its services. Only 46% are less than 3 years old and 32% employ less than 25 people: 30% of clients are enterprises with more than 50 employees. A high proportion is engaged in agricultural activities, and almost none of the firms are in trading activities.

Most of the counselling work seems to have been reactive, with the Centre spending very little on marketing, relying instead on word of mouth and press coverage. Regrettably no up to date information was available on the breakdown of the services provided; though it is clear from the figures, that whereas business planning is becoming less important, more emphasis is now being placed on training. The only data obtained was an earlier analysis of the workload in 1995, which is set out in Table 4.5 below:

Table 4.5: Performance Indicators in 1995, Braila CDIMM

Performance indicator (based on Centre records)	Number/%
Number of clients who visited the centre	181
% returning for advice	40%
Number clients with whom the Centre has at least four Counselling sessions a year	35
Number of clients helped to secure loans	14
Number of clients applying for a grant	21
% of clients who received a grant	50%
Number of pre-business clients	24
% who started a business	25%
Assistance sought by clients (based on interviews with clients)	
Start up work	11%
Loan applications	89%
Marketing/exporting	33%
Partners and contacts	11%

Source: Review of Business centres: Lancashire Enterprises 1996

To set this analysis of performance in a wider context, some comparative data was obtained from two other centres, Baia Mare the other successful Phare supported centre, and the UNDP sponsored centre at Brasov.

CDIMM Baia Mare

The income profile of the two centres is very similar, though Baia Mare was more successful in attracting projects under the FIDEL programme. As a result its project income in 1998 was expected to be more than double the figure for Braila. The Centre at Baia Mare has placed more emphasis on building up a larger permanent staff than Braila.

Whereas client numbers have increased year on year in Braila, rising from 88 in 1994 to 312 in 1997, in Baia Mare, they fell each year from around 300 in 1994 to 82 in 1998. In both centres the number of completed business plans has fallen, whereas the number of training courses has been increasing steadily in both centres.

In terms of client mix, the Baia Mare Centre attracts a higher proportion of manufacturing companies, which tend to be younger (45% under three years old) and smaller (50% employ less that 25 people) with a very much higher proportion of clients coming from the City (65%) and the County (25%).

FPIMM Brasov

To provide a comparison with the Phare supported Centre at Braila, a brief assessment was carried out of one of the group of UN-ROM supported centres, the one at Brasov. FPIMM Brasov was set up in 1995 as a private foundation with support from the Romanian Development Agency, UNDP, and the Association of SMEs. At that date the Centre employed four staff, the Manager, one consultant, a secretary and a financial counsellor. By 1998, the team had expended to 11 staff with extra staff in the following areas: two people running a marketing department, four extra consultants and one secretary. The resource base and outputs are summarised in the Table 4.6 below:

Table 4.6: Income and Expenditure at FPIMM Brasov

ECU	1996	%	1997	%	1998	%
Client income						
Feasibility studies	11,800		8,900		4,800	
Training	12,900		4,000		4,200	
Consultancy	1,300		100		13,900	
Total	**26,000**	**87%**	**13,000**	**38%**	**22,900**	**26%**
Projects						
FIDEL promotion	-		6,300		-	
Others	-		-		4,800	
UNDP	-		-		7,700	
PAEM project income	-		2,900		-	
VOCA	-		7,300		3,900	
SOROS	500		2,800		-	
Peace Corps	-		900		4,100	
FIDEL project income	-		1,000		45,800	
Sponsorship	3,300		200		400	
TOTAL	**3,800**	**13%**	**21,400**	**62%**	**66,700**	**74%**
TOTAL INCOME (ECU)	**29,800**	**100%**	**34,400**	**100%**	**89,600**	**100%**
SERVICES PROVIDED	**% time**	**Income**	**% time**	**Income**	**% time**	**Income**
Information	-	-	-	-	20	-
General business counselling	14	1,200	30	7,900	21	9,200
Loan applications	31	12,400	25	8,600	5	4,200
Training	43	13,000	10	3,700	4	3,300
SOROS/PAEM/FIDEL	12	3,600	35	14,000	50	54,500

Table 4.7: Client Mix (1998)

Size of Client %		Field of Activity %		Ownership %	
Small	30	Manufacturing	85	Private	97
Medium	55	Services	10	State	3
Large	15	Trade	5		

Because there was virtually no access to pump priming funds, the Centre was forced to focus on the development of saleable business services, initially training and the preparation of loan and grant applications from the outset. The balance of client income has shifted from feasibility studies and training in 1996 towards consultancy services in 1998. In the same period the proportion of larger firms has increased from zero in 1996 to 15%, and the proportion of medium sized firms have increased from 45% to 55%, due to their ability to pay. Brasov is an important location for foreign investment projects, and the Centre has played an active role in providing services, (including training) for these firms. Whilst client income has stayed static over the three year period, the Centre has been able to expand by bidding for donor funded projects, including the Phare PAEM and FIDEL projects, as well as funding and in-kind contributions for project work from USAID, UNDP SOROS. These sources of income have increased from 13% in 1996 to 74% in 1998. As at Braila, the Centre at Brasov has also become very dependent on donor sources of funding. The main services now being offered are summarised in table 4.8 below:

Table 4.8: Structure and services of Centre at Brasov

Department	Activity
Financial Department	Financial consultancy Feasibility studies and business plans Micro loans: Financed by UNDP: six month loans for up to ECU 2,000
Project Management	Local PAEM project in 1997 for entrepreneur training of unemployed FIDEL projects: 5 approved 1997-9 Tourism promotion: CERT 1997-8 Soros projects, including distance learning for SMEs (1997-8) and links between SMEs and Local Authorities (1996) Production of two books: Home based Business and About Management in SMEs
Recruitment department	Recruitment services for inward investors
Marketing Department	Marketing and promotion of Centre
Training department	Courses in main management areas
Centre for Exports and Foreign Investors	Promoting exports Attracting foreign investment projects

It was not possible to carry out a full evaluation of the services provided by the Brasov Centre. However, the impression, which is supported by the results, is that the Centre is more actively involved in providing added value services to SMEs than the Centre at Braila. The quality, professionalism and experience of the Brasov staff appeared to be somewhat greater, due, in part, to the importance attached to consultancy services, the larger number and range of clients, and the capacity of Brasov to specialise.

There are several possible reasons for these disparity. There are a number of differences in ethos of the UNDP programme and the Phare programme. The UNDP programme appears to have attached more importance on the recruitment, training and development of the Manager and core staff. The UNDP programme was structured as a ‘bottom up’ initiative, which depended on a consensus and commitment being reached by the main local organisations, and providing services which local firms were prepared to pay for rather than becoming dependent on donor funds to cover its fixed costs. This was more feasible in Brasov, which is a larger and more prosperous area.

Another key factor behind the success of Brasov and many of the other UNDP sponsored Centres has been the role played by the UNDP external adviser, who was UNDP’s Project Director (rather than acting in an advisory capacity) over an extended six year period until March 1998. This coupled with the different ethos, which was pursued consistently over an extended period of time, appears to have led to the UNDP Centres becoming better established and embedded within the local economy. However the difference in ethos and attitude towards the use of donor funds for local Centres was also to play a serious problem nationally. The UNDP sponsored programme of Business Centres had the direct support of the Romanian Development Agency and came to operate independent of Phare’s programme managed through the CRIMM Foundation. This led to the setting up of two (to some extent rival networks) which has held back the development of a single national policy towards the development of Business Centres across Romania. Without clear leadership from the Government, this has resulted in a proliferation of a wide range of Centres (often under-funded and of variable quality), often set up to undertake a specific donor funded project with little regard to the longer term consequences of sustainability.

Relevance

The rationale for setting up the five Business Centres was both clear and sound. Across the country there was lack of knowledge or experience of setting up in business. It was recognised that self-employment and small businesses provide a real option for people displaced by the demise of large state owned enterprises. The aim of the Business Centres was to use public funds to subsidise the provision of information, counselling and training services to start-ups and young companies, most of whom would not be able or willing to pay the full cost of such a service. Based on the experience in Western Europe, this, it was believed, would enhance their chances of survival, help some to grow and stimulate people, particularly those facing redundancy, to consider starting their own business.

Though established as independent legal entities, the Business Centres were set up and funded by Phare acting through the CRIMM Foundation. Though denied by staff in CRIMM, the effect of this structure has been that the CDIMMs have felt dependent and partly responsible to the CRIMM Foundation. This would have been all right if CRIMM had performed the role of the National Agency for SMEs across the whole of Romania. This was not to be due to differences in political perspective. A consequence has been that a series of separate Centres, generally sponsored by different foreign donors each with a different ethos, funding and personalities, have been set up, instead of a single government supported national network of Centres. During this period, co-ordination between some donors was poor. And unfortunately, the Romanian Development Agency, and subsequently the National Agency for Privatisation (the two bodies responsible for SME policy) did not provide strong leadership to ensure that a single network of Centres was established. Whereas in all other countries, Phare has been the lead donor in the setting up of Business Advisory Centres and in many instances has played a lead role to achieve national cohesion, this was not the case in Romania.

There were main two causes of the lack of integration:

- The largest sponsor of Centres, UNDP, adopted a very different philosophy to Phare with the result that the two groups of centres were set up with very different ethos, values and funding arrangements.

- Though both bodies may now deny it, in practice neither CRIMM Foundation nor the UN-ROM Centre was willing to co-operate. Both wanted to retain their autonomy over 'their centres'. Because of the personalities involved, CRIMM was seen as having distinct political alliances, whereas the UN-ROM Centre wished to adopt a lower profile, more neutral position recognised and valued by whichever political party was in power.

This lack of co-ordination has been a source of unproductive rivalry between the separate networks, though this has reduced to some extent by subsequent events. The result is that Romania lacks an authoritative National SME Agency to co-ordinate, facilitate and provide the leadership needed by the Government, donors and those engaged in providing services to SMEs.

In the Braila CDIMM, despite the local participation of the local authorities, the University, the Chamber of Commerce and Entrepreneurs, the Centre receives little tangible support from its member organisations. One of the difficulties has been the lack of budget and powers of the Local Authorities to take a more active role in the affairs of the CDIMM. Whilst on a personal level, the Director of the CDIMM has been careful to build up positive relationships with his founding organisations, the level of financial support provided has been very limited.

The underlying reason for the relatively weak integration of the CDIMMs locally is that the main source of funding in the early years was from Phare via CRIMM. There was an assumption that funding would continue, either from Phare or the government, as had been the case in Hungary and Slovakia. When the subsidies stopped in 1996, the CDIMMs were poorly placed to survive on their own. With 80% of their funding coming from Phare, they had built up considerable fixed costs without commensurate independent income streams. As one commentator rather unkindly commented: the grant aid provided the opportunity for them to become "unmotivated waged pubic servants".

Up until 1996 when Phare subsidies ceased, the primary focus of the CDIMMs was the provision of information advice and training for SMEs. Subsequently through the development of the FIDEL project, the focus of Centres' work has shifted towards the design and management of a series of interesting but, in many instances, peripheral short-term projects. In the case of Braila (and many of the other Centres), these projects represent the main source of income of the Centre. Whilst it would appear that they will enable the Centre to build up substantial level of reserves, the Centre may find it very difficult to adapt when these projects comes to an end.

The position of the Phare sponsored centres was very different to the UNDP Centres, which never had access to subsidies to cover their basic running costs. As a result they have had to plan their funding and activities in a more entrepreneurial way, by paying more attention to marketing and the development of services that customers are prepared to pay for.

Efficiency

The overall performance of Braila in terms of the number of firms advised, and the level of penetration within the local economy has been somewhat limited after five years of operation. In part this appears to have been due to the limited amount of marketing and promotion undertaken within the County to explain the role of the Business Centre and the services available to small firms. After the funding subsidy from Phare ceased at the end of 1995, the Centre became more orientated towards winning and implementing projects rather than focusing on the development of an active small firm client base. It appears that the number of active clients of the Centre, i.e. those with repeat business, has not been increasing significantly. In part this may be due to the limited staff resources and time now being set aside for general and specific advisory and training services compared with other Centres such as the one at Brasov.

Though the team is limited and under resourced it is well motivated but in need of external technical assistance to upgrade the quality and range of services available. The Manager of the Centre has developed a good reputation for the Centre amongst the partners, particularly the local authorities. As with all other Centres, there is a need for a more formalised approach towards staff development and accreditation. The lack of on-going training and development for advisers linked to a professional development and accreditation system is now limiting performance.

Effectiveness

Interviews were carried out with 4 firms, which had recently used the services of the centre.

Enterprise	Company/Product	Service provided	Assessment	Rating 1-5
Co P	Manufacture of hydraulic systems employing 20 people	Information on overseas markets.	Limited market information provided by the Centre. But several international programmes suggested	2
Co Q	Manufacture of industrial labels. Set up in 1994. Now employing 9 staff	Market research services. Questions on the selection of machinery. Access to foreign expert.	Did not appear to recognise the benefits offered by the Advisory Centre	2
Co R	Milling and bakery. Set up in 1991, now employing 40 people. Turnover increased from ECU 70,000 in 1994 to 700,000 in 1998 (profits ECU 110,000)	Initially a business that received a grant. Now regularly visits the Business Centre to obtain information and talk about business opportunities.	Values the existence of the Business Centre as a source of information and networking	3
Co S	Packaging equipment. Operational from March 1993. Employs 49 full time and 14 part time staff.	Provided advice on marketing and costing	Positive impact on the management of the business	4
Summary	4 firms		Some firms obtained good advice	2.7

In summary one client thought the advice had had a good impact on the performance of the business, one felt it had some impact whilst two firms felt that the advisory services had had only a marginal impact on their business performance.

Impact (spill over effects)

The role of the Centre in Braila as a source of advice and information for small businesses is gradually becoming better known in the region, as evidenced by the steady growth in enquiries since its formation. The Centre however acknowledges that its profile and reputation locally could be improved. Marketing and promotion has been limited. Almost no budget was set aside for these important functions in the early years. Under the FIDEL programme, one of the most valuable projects for the Centre is the Development of Entrepreneurship Spirit in the County of Braila, one of the projects reviewed below.

The main impact of Phare funding has been to provide an opportunity for CDIMM staff and a growing number of external part time advisers to build up a body of experience as advisers and trainers by providing services to start ups and existing companies.

The participation of the Centre in the PAEM project to help unemployed people into business has had a significant impact on promoting the opportunities of entrepreneurship, particularly in communities faced with major plant closures.

Through its work in different parts of the region, the Centre has become increasingly aware of developments in the local and regional economy. But neither the Centre, nor the various administrations have yet undertaken economic assessment work leading to the development of local economic priorities and plans for their areas. With the greater importance now being attached to regional economic development, the Centre is in a stronger position to work with the Judet and City Administration on wider economic development issues.

The Centre works closely with the region office of the Chamber of Commerce, particularly on export related issues.

The presence of the Centre has strengthened the SME lobby locally. How far the work of the Centre has altered the entrepreneurial culture in the local area is difficult to assess, as its penetration and profile appear to be limited.

Sustainability

At the end of 1996 when the first phase of the Phare programme came to an end, several studies were carried out to assess the relative sustainability of the Phare Centres, and the other centres across Romania (see Evaluation of the CDIMMs by RDH and the review of all centres undertaken by Lancashire Enterprises). This was followed by a financial planning review by GOPA, (as part of the 1994 FM Programme) to establish the current and future financial viability of the CDIMMs. All three studies assumed that the main focus and functions of the Centres would remain largely unchanged, i.e. the provision of information, advice and training to SMEs, with a growing emphasis on increasing client income levels. Over time, this has not happened. The Centre at Braila, along with most of the other Centres have diverted much of their resources to the design and implementation of local economic development projects, initially through the PAEM programme and then FIDEL.

This experience has placed them in a stronger position to manage other Phare and Structural Funds projects, because the Centres are now familiar with Phare procedures and have skills in the design and management of projects. A consequence of becoming more involved in project work is that less emphasis has been given to the development, marketing and delivery of business advisory services to SMEs, the core reason for their establishment.

Much will depend on what follows with the completion of the various projects supported under FIDEL. There are number of uncertainties:

- One issue will be to what extent the Centres can find a role as a project manager for the various Structural Funds projects, expected in the future?
- A second issue will be the on-going role and relationship of the centres with respect to the Counties and Regions. In some regions, the Judets may look to the Centres to support them in carrying out economic development work.
- The third question is the relative importance that will be placed on programmes to support the formation and growth of SMEs within the structural funds programmes
- The other factor of importance is whether Government will make funds available to the Centres to undertake basic advisory and training work with SMEs.

Unless there are positive directions in at least one of these areas, the sustainability of some of the Centres will become increasingly problematic. At the end of 1998, there appeared to be no clear view within Phare on whether more funds would be available for the work of the Centres. There also appeared to be little dialogue with the Government, suggesting that the sustainability of the existing network of Business Centres was not regarded as a particularly critical issue by either Phare or the Government.

Conclusions

Table 4.9: Summary Evaluation of the Business Advisory Centres (CDIMMs)

Evaluation Measure	Comment	Rating
Relevance to government policy	Though supported in principle, the Centres do not enjoy active support of the Government, despite the growing importance now being given to SME development.	2
Relevance of the design	When the Centres were set up, there was an assumption that grant funding would continue. As a result the development of fee earning services were not a priority. Good integration with the local organisations. There seems to have been some unproductive rivalry between the networks.	3
Efficiency	Poor penetration level. Efforts diverted by the switch towards the development of specific projects. Need a system for accrediting advisers to stimulate training and development.	2
Effectiveness	The impact of the advice provided by the Centre on the subsequent performance of the businesses seems to be variable. In some cases the impact was above average and some was marginal.	2.8
Impact	A primary focus for SME development in the local area, but the level of support from other relevant bodies has been limited in practice.	2
Sustainability	Once the FIDEL programme funding runs out Centres will be particularly vulnerable. Future sustainability will depend on the availability of public sector funding and the future direction of the Regional programmes.	1
Total	Overall: a relevant body playing a useful role in the development of the local and regional economy.	2.1

4.4 Evaluation of the Local Initiatives Programme (FIDEL)

The most recent programme included in the evaluation, was the Local Initiative Programme, FIDEL, which formed the core of the 1994 SME programme. There is a considerable history to the evolution and development of this most unusual programme. The Financial Memorandum was drawn up during the most active period of the previous programme. At that date it was envisaged that CRIMM would continue to be supported by Phare as a National Agency.

In the original financial memorandum there were to be two components. The first component was orientated towards the strengthening of local advisory networks through the provision of technical assistance and training, whilst the second component was intended to provide funds to the advisory network to develop existing activities and pioneer new innovative projects. In practice the thrust of the Financial Memorandum was altered so that both components were used to support the design selection and implementation of innovative local consortia projects.

For the implementation of the new Financial Memorandum, the PMU was moved from CRIMM to FIMAN in Feb 1994. Whatever its short comings, CRIMM was first and foremost an organisation that had been set up to promote SME development in Romania. FIMAN had quite a different pedigree. It had been set up in 1992 focusing on the development of human resources at individual, institutional and community level as a key factor to accelerate change. It quickly became a specialist consultancy unit with project management skills to run major projects on behalf of donors, principally Phare. It had successfully run the following programmes

- ECU 10 million Programme for Active Employment Measures (PAEM), which resulted in the setting up of 66 local partnership projects
- ECU 1.5 million CERT programme to support the Tourism sector, through support for 48 local projects and the establishment of the Tourism Resource Centre at Brasov.
- Training component of the Phare Enterprise Restructuring and private Sector Development Programme (REPEDE)

Based to some extent on their previous experience in designing and implementing local consortia programmes, FIMAN took a similar route towards the management of the FIDEL project. Instead of orientating the funds mainly towards strengthening and extending the existing SME Development Centres, they designed a mechanism to promote additional economic development initiatives, offering incentives to the Centres to become more aware of the needs of their local communities. The mechanism was a series of calls for project proposals from consortia. A total of 416 bids were received, which resulted in 64 projects which were accepted (an acceptance rate of 15%). To achieve this, substantial resources were allocated in the preparatory phase to provide:

- Intensive marketing in the local areas to explain the thinking behind the call for proposals
- Training to local organisations to help them develop local consortia and prepare bids which conform to the EC's procurement procedure
- Evaluation of bids and allocation of funds to meet the particular circumstances of each project

The programme faced serious timescale constraints, partly due to the scale of the programme, the novelty of the approach and the departure from the original programme which Phare had drawn up with the National Agency for Privatisation (NAP), which had taken over the SME portfolio from the Romanian development Agency in 1995 and delay in securing approval for each phase of the programme from the European Commission. A summary of the timetable is set out below:

Table 4.10: Timetable of main events

Date	Event
Oct 1995	Signing of the 1994 Financial Memorandum. Delay due to the transfer of the portfolio from RDA to NAP.
Jan 1996	Appointment of long term consultants to programme for a one and half year period expiring July 1998
May 1996	*Submission of first Strategic Plan and Work programme to the EC*
Sept 1996	*Partial approach by EC (four months from submission)*
Dec 1996	*Second Work Programme and fund allocation criteria and procedures approved by FIDEL steering committee. These were sent to the EC but were not approved until June 1997.*
Jan-April 1997	Main awareness campaigns: 44 awareness seminars attended by 2,000 people
Feb – Oct 1997	Training of members of potential consortia on how to put together a consortium bid in line with EC procurement procedures. But final details could not be made available until the selection criteria had been approved by the EC
Aug 1997	First appraisal session. 24 projects were selected from 102 applications
Sept 1997	Follow up seminars in the less developed areas
Oct 1997	Second appraisal session. 25 projects selected from 135 applications. ECU 1.5 million reallocated to flood reconstruction programme
Nov 1997	Third appraisal session. 15 projects selected from 220 applications
From October 1997	Project implementation phase
July 1998	Departure of the long term consultants
Dec 1998	Completion of project implementation phase by FIMAN

The tables below summarise the key inputs and outputs of the programme:

Description	**Budget ECU**	**Activity/output**
Foreign Technical assistance	1,298,250	Contract with GOPA: March 96 – July 98
Management costs of the PMU, steering group and the resource centre	761,546	A team of five in the PMU Local staff and office costs of running FIDEL project Resource centre consists of a library, a database of institutions and an active web site.
Awareness programmes	323,828	Promotional materials and publications and books for local resource centre Media database 44 Awareness events attended by 2,000 people

Description	Budget ECU	Activity/output
Training, and institutional development	296,355	18 courses on generic issues of local initiatives 9 courses (2 weeks) for SME centre staff in project management and typical SME development services 7 courses in networking in 8 macro regions with 80 institutions 34 courses with 600 participants: 600
Preparation, implementation and supervision projects	60,000	Direct costs of managing the process, including costs of appraisal, monitoring and auditing
Local Development initiatives Direct support to SME/local initiatives: Assisting local development Participation in international programmes Total projects	 792,629 3,347,541 127,182 4,340,000	 17 projects 41 projects 6 projects 64 projects
TOTAL	7,000,000	

Source: FIMAN Work Programme No 5. Excludes ECU 1.6 million allocated to flood relief programme

Sample

This evaluation was carried out by selecting projects from Braila, the same region used to evaluate the conditional grant scheme and the Business Advisory Centre. The Advisory Centre and the Innovation Centre were together awarded five projects, which are summarised below:

1 Development of Entrepreneurship Spirit in the County of Braila	**ECU 48,906**
Main activities TV series on business Courses seminars Development of a database of firms Business plan competition Preparation of case studies **Staffing** CDIMM 3 staff Venetia Business Club 2 people Collaborators: 8 staff **Budget** Project to be networked with 4 other centres Grant based on covering 50% of capital cost + revenue costs for the first year: Capital cost 8,500 Staff costs 22,484 Communications 5,600 Publicity materials 3,216 Office expenses 8,000 Total 48,906 **Matched funds** Own funds 33,296 Council of New Brunswick 1,500	**Overall outputs:** Increase economic efficiency by 5% in 50 existing companies 50 additional start up businesses Year 1: increase start ups by 5% Make 50 companies more efficient Year 2: increase joint ventures by 3% Introduce quality management system in 8 firms Year 3 Increase exports by 9% **Sustainability** Sale of guide books and information Contributions from County and City Administration Budget Donations from private sector Donations from domestic and foreign organisations Duration of project: two years 1998 and 1999

2 Liaison, assistance and support for export service centre	ECU 100,000
Main activities The construction of an Incubation centre with a total area of 1,200 sq m on the Free Zone at Braila to attract inward investment and export orientated firms to the area. To be a joint venture with the company that won a land concession on the Free Zone **Staffing** **Expenditure** Materials and equipment Phase 1 100,000 Phase 2 37,500 Phase 3 51,900 **Total** **189,400** Running costs (First two years) Salary and consultancy costs 30,300 Running costs 59,000 Rent and utilities 43,000 **Total** **132,000** **Sources of Funding** FIDEL programme 100,000 Internal funds of INCALF 63,000 In kind Road rail access 12,200 In kind Min of Labour Active employment measure. Bid for ECU 400,000 for Free Zone development	**Overall Outputs** Construction of 12,000 sq m premises Attraction of exporters and inward investors. No details about the marketing and promotion, the number to be attracted or impact in terms of investment or jobs **Sustainability** The intention is that the additional rental income will cover the costs of running the incubation centre on the Free Zone. It is not clear how the total capital and running costs for the first two years, amounting to ECU 321,300 are to be financed FIDEL (ECU 100,000), rental income and contributions from the innovation centre INCALF.

3 Leasing for SMEs	ECU 100,000
Main Activity Establishment of a small leasing fund of ECU 100,000 for use by SMEs to purchase fixed assets **Expenditure** Capital (year 1) 176,000 Operating Expenses 2,600 **Financed by** FIDEL programme 100,000 40% contribution from clients 67,000 Interest payments (year 1) 9,000	**Overall Projected Outputs** Year 1. Number of projects funded: 8 Year 2 6 Year 3 6 Increase in turnover of the businesses: 30% 40% financial contribution from each client **Sustainability** No account taken of defaults and leasing losses Limited budget for marketing, financial appraisal and admin expenses No details on interest rate and inflation effects

4 Technology and total quality management agency	29,100
Main activities The main purpose is to extend the work of CDIMM into technology transfer and quality standards, to improve the competitiveness of SMEs with export potential Create a database of know technological experts Encouraging technology transfer amongst SMEs, via seminars, training and symposia **Consortium** The TTQM Agency is a JV involving CDIMM Braila, Faculty of Engineering in Braila University, and two sector Research Institutes	By 1998, programmes of technology transfer and quality management had been agreed with four firms. Each programme is funded under the Technology Transfer and Quality Management programme (RO 9602). 70% of costs up to ECU 50,000 can be supported for eligible TT and QM projects proposed by companies and research institutes Several Technology Transfer projects have been identified including: Technology and quality management system in a metal construction firm Licence + quality system for manufacturer of shirts

<table>
<tr><th>5 Agricultural contracting service, ASEC in Macin</th><th>ECU 93,680</th></tr>
<tr><td>Main activities
Provision of contract services to small farms in the Macin area and business support to agricultural processors, tourism and manufacturers

Staffing
Office (2 people)
Agricultural contracting staff

Budget (contributed by FIDEL)
Agricultural machinery 54,000
Staffing (6.5 people) 18,800
Running costs 14,200
Marketing 3,050
Office costs 2,200
Other 1,430
TOTAL 93,680

Contribution from Consortium
Purchase of barn and house
to store equipment 230,000
2nd year costs 44,140</td><td>Contract services offered by ACES consortium to be 20% less than official prices (income not taken into account when determining costs)
Consultancy support is free

Target outputs:
Year 1
Assistance to 4 agricultural process companies and 3 manufacturing firms
Agricultural contracting services to small farms

Year 2
8-10 private entrepreneurs supported
Support to private service firms
Agricultural contracting</td></tr>
</table>

Relevance to the needs of the country

The main purpose of the programme was to encourage local economic organisations to consider and implement projects to support the development of their local areas, a precursor to regional development programmes. It was one component of an SME programme designed to strengthen the existing network of Advisory Centres. It would appear that there was only limited active commitment, understanding or involvement of the Ministry responsible for SME development in the design of the programme. In practice, the lead was taken by FIMAN, the external consultants, the Delegation and staff in Brussels, and the programme appeared to become an end in itself and not part of a wider strategy to develop the capacity of the network of Business Advisory Centres.

Relevance of Design

The Local Initiatives Programme was designed to achieve:

- Lcally based bottom up initiatives to support SMEs and local economic development
- Demand driven to meet the needs of defined target groups
- Synergy and partnerships involving the key local economic development bodies
- Competitive approach for allocating funding
- Organisational development of existing and new institutions
- Decentralised implementation, passing responsibility to each local consortium
- Training in Phare procedures for projects for participants
- Provide a forerunner for future regional development programmes

There were many positive features of the design including:

- Comprehensive approach seeking to involve all parts of the country
- Designed to stimulate innovative niche projects

- It involved a wide range of bodies in local economic thinking
- Promotes integration with other projects, such as PAEM
- A helpful introduction to the processes of local and regional project preparation and implementation.

But was it appropriate for the programme to depart from the objectives of the 1994 Financial Memorandum? The original Financial Memorandum was based on the need to strengthen the quality and uptake of services of existing business support centres, and where there were gaps, encourage additional provision. In line with this objective, an extensive audit of existing Centres was completed by Lancashire Enterprises in 1996, as a follow on from earlier evaluations undertaken by NEI in 1995 and RDH in 1996. Recommendations included the introduction of output related funding, the need for improved marketing of their services, a strengthening of the skills and competencies of staff engaged in advisory training functions, and the introduction of an accreditation system to encourage the provision of higher quality services.

The foreign consultants, with the backing the FIMAN and the delegation decided not to move towards a system of output related funding to provide the clear material incentive for Centres to market their services and increase uptake. Instead it was decided that the main effort should be focused on the FIDEL Programme. The effect of this was that Centres were to some extent diverted away from their core functions of providing basic information, advice and training for SMEs in their areas, and engage in a process of learning to prepare partnership projects to conform to EU procurement procedures. In many instances the projects were short term, low priority and sometimes unrelated to the Centre's core work, but became a crucial source of revenue. Where Centres were not successful in winning any projects, they have become more financially vulnerable and some cases have been in danger of closing due to a lack of funds.

We believe that there were a number of short comings in the basic design of the FIDEL programme. The time scale for the design, implementation and monitoring was too short, bearing in mind that each local initiative project was expected to have a minimum life of two years, and considerable time was needed to design, market and select the successful bids. In practice many of the projects needed to be supported over at least a three year period to become fully integrated and sustainable. Due to time constraints and the need to achieve full disbursement by the end of 1998, almost all of the Phare funding was allocated in year one of the project. Most projects were still in their first full year of operation (generally the set up phase) when the Phare project and the related technical assistance formally came to an end in 1998. Consequently there has been insufficient incentive or control on the subsequent performance of the project in the second year.

As designed, the programme was complex, ambitious and anticipated that the capacity of local organisations and partnerships would be more developed than was actually the case. FIMAN and the consultants opened up the programme in several different ways. Instead of working through the specific network of small business advisory services, which had been set up by the donors, any local 'not for profit' organisation or consortium were to bid for a project. In practice, as the final report of the long term consultant indicated, the best bids came through the Business Centres. FIMAN also gave little guidelines about the areas of activity that would be eligible.

We believe that it would have simplified the process and improved the quality of the projects had the competition been held with two rounds: shortlisting from an outline of the projects, and then undertaking the detailed appraisal on a small number of fully worked up proposals.

The effect of FIDEL was to encourage consortia to submit proposals for the design and delivery of new local economic initiatives. This led, in many cases, to Centres putting forward proposals for new services, rather than proposals to achieve greater uptake for existing basic information, advisory and training services. In many instances, the Centres were not sufficiently developed to take on board the design and marketing of new specialised services.

Phare payments were based on proposals rather than on results. In most projects, Phare funds were needed to purchase equipment and cover a high proportion of the first year's costs, in the hope and expectation that the local consortium would continue with the project in the second year. During the appraisal, there was not sufficient time to check the basis of the co-funding, bearing in mind that few projects were able to secure real cash contributions from members of the consortium. In the case of Braila CDIMM and the BIC, which together managed to win 5 projects, we believe that the co-funding requirement will in practice be met from the 'profit' made by the Centre from Phare funds in the first year, which will be sufficient to cover second year costs. In each case, projects included generous budgets for fixed staff costs and overheads, which would enable the consortium to achieve a substantial margin on each project at the end of the first year to cover the future running costs of the Centre in the second year.

Clearly, one of the key variables effecting the gross margin of each project, is the staff time actually devoted to each project. In many instances, a high proportion of the staff allocated to the projects were existing staff, as the projects were too short to justify hiring extra staff on a short term basis. Because these people would then have less time to undertake the core activities of the Centre, in many instances, the new projects may have had the effect of displacing the delivery of core services.

In a number of instances (e.g. the agricultural contracting service in Macin), the projects were effectively new business ventures, based on purchasing specialised equipment and selling shared producer services. In most of these cases, the proposal was backed by a full business plan. There was little or no market research, few details about who would undertake the selling and delivery of the services, and little information on the pricing of the service in relation to the competition.

After the initial pump priming no further funds would be available. Therefore, unless the projects were commercially viable, the likelihood of them surviving after the two year period will be small.

FIDEL was a one-off exercise, which necessitated that each local organisation and Centre should become familiar with issues relating to project management and Phare procurement procedures. But there is little possibility that these skills will be used again as similar projects are unlikely to be supported in this form in the future.

The design of the programme will lead to a further proliferation of under-funded business support centres, instead of concentrating resources on the most viable Centres.

In many cases too much emphasis was being placed on funding capital based projects, with the result that insufficient attention was being given to the market and achieving uptake for the service. Whilst much work was required to design the new services, there was a danger that the benefit to the end customer, generally small firms, may be limited, due to the calibre and training of staff and the lack of resources allocated to marketing and sales.

In many cases, the projects put forward by Centres appeared to have had a number of flaws, which do not appear to have been identified during the appraisal process at the time that they were approved for funding. The limited capacity of FIMAN to support the implementation and monitoring of projects in practice, has meant that many of these flaws could not be addressed. In consequence a number of project are unlikely to meet their objectives, though in many cases the objectives are not very clear, and therefore difficult to verify.

A key feature of the design was the decision to move the PMU from CRIMM to FIMAN in 1996. It is not totally clear what the longer term strategic thinking was for moving Phare resources away from an organisation set up to be the National SME Agency. Whilst FIMAN undertook a professional role as the project manager of the FIDEL programme, it has had no long term commitment or involvement in the development of the SME sector. It has tended to see FIDEL in much the same terms as the PAEM programme, rather than as a long term programme to develop the institutional capacity of the Business Development Centres that had already been set up. Thus when the FIDEL contract came to an end, so too did FIMAN's work in this area of SME Development. At the time that FIMAN was appointed, part of the difficulty may have been that the government as a whole and NAP, the body responsible for SME Development, did not see the need for a National SME Agency.

Efficiency

The level of interest generated by the FIDEL project amongst business support organisations was very considerable. This is reflected by the level of participation in the promotion and training events organised by FIMAN to help local consortia to form and to submit worthwhile bids. This effort resulted in 460 bids of which 64 (14%) were successful.

The project was seriously impeded by time delays. The final report by the Long Term Adviser felt that this was due in part to the close involvement of the Delegation and the task management in Brussels in the approval of the project at key stages of its development. Table 4.10 above includes details of delays between the submission of strategies and work plans. It is not clear to what extent these delays were due to shortcomings on the part of the Long Term Consultant and FIMAN, or due to delays within the Commission. The Long Term Adviser was particularly critical of "the extreme delay in the Fund Allocation Approval". He felt that under the Decentralised Implementation System, control of the process should have rested more with the PMU (FIMAN) rather than the Delegation. But this overlooks the controversial nature of the project, its departure from the terms of the Financial Memorandum, and the lack of detail provided in the design submitted in the initial strategy documents. However, there can be no doubt that delays in securing approval from the EC at key points in the programme reduced the time available for implementation (following project approval). As a result support from FIMAN and the foreign consultants stopped significantly before the two- year work programme being undertaken by each local consortium had been completed.

The costs associated with the technical assistance, marketing and promotion, and training which amounted to around ECU 2.8 million, were substantial in relation to the ECU 4.4 million of grants allocated for local development projects.

Effectiveness

In assessing the effectiveness of the project, it is necessary to distinguish between the consortium and the end client (the small firms) as the primary beneficiary of the programme. Undoubtedly participants in the various centres are now more familiar with Phare project and procurement procedures. Some of these skills may be deployed in the implementation of regional programmes in the future, but to what extent are these skills of relevance to their small clients?

Judging by some of the proposals, there were serious gaps in the business plans, particularly in the area of demand and the pricing of services. A number of the proposals involved the setting up of new business ventures, where FIDEL funds were being used to purchase equipment to provide a service to a group of clients. From the proposal it was not clear who would be managerially responsible and how much time they would have available for marketing and managing the venture. In a number of instances it was expected that these functions would be undertaken by the core staff in the Business Centre, which would have reduced their availability to undertake their main advisory functions within the Centre.

In other cases, the same core staff costs were budgeted in several projects. Thus in practice, staff time and costs devoted to each project is likely to be significantly below budget, thus enabling an extra margin to be earned. Monitoring of time inputs by individual members of staff in the various projects to ensure that sufficient staff time is devoted to each project will not be possible. And in many of the projects, measurable performance outcomes were not specified at the outset, partly because the local consortium lacked the experience or knowledge to be able to determine realistic target outputs. And, because Phare funding has been provided up front, there will be few sanctions that could be applied if a consortium does not achieve its targets. Since outputs are closely tied to the level of staff commitment to the project, in the less scrupulous consortia, there is a high probability that actual performance of the project may be below expectations. This will be most likely when a consortium is short of funds and needs to make a surplus on the project, to fund future Centre costs.

Turning to the five FIDEL projects in Braila, it was too soon to assess to what extent end user firms may have benefited from the FIDEL projects. In the most advanced project, involving the setting up of an agronomy and agricultural contracting service for small farms in the Macin area, good progress had been made to get the project operational before the busy autumn cultivation and replanting season. Several farms are benefiting from a more flexible and lower priced contracting service. But it was too soon to see what the longer term benefits might be and to what extent the service was meeting its management and financial targets. It was also not possible to assess the extent that having access to ‘free’ public funds to purchase capital equipment was giving the co-operative an unfair financial advantage in relation to established providers of contracting services.

At the point when the field visit was being made there were no measurable outputs for the leasing project, the new incubator for export oriented firms and the technology transfer project.

Impact (spill over effects)

The FIDEL programme was particularly designed to achieve spill over effects beyond the recipients of the services. It was intended to stimulate local development projects, which otherwise would not take place. In this respect, it is likely to be judged a success. A lot of imaginative shared services were developed to support groups of SMEs in local communities.

Have the local development projects strengthened the capacity and performance of the Business Centres providing services to small firms? In Braila, the FIDEL projects have been an important source of extra income to maintain the core staff of the Centre. But it is somewhat doubtful that the projects will lead to a step-change in the range and quality of core services or enhanced uptake.

The other intention was to involve public and private bodies in the development of local economic projects. During the awareness phase a wide range of organisations were drawn into the process. It is not clear to what extent the Local Authorities did play an active role in practice, subsequent to the initial seminars and training. In Braila, we formed the impression that the County and City Administrations, whilst being supportive in principle lacked resources and people to enable them to play an active role. Instead they tended to look to the Business Advisory Centre to design and manage the initiatives. In other regions, local authorities may have played a more active role and this has been reflected, in part, on their level of understanding and commitment towards regional development. Unfortunately, because of the short time scale for the design and implementation of FIDEL projects, in most areas, little analysis of needs was carried out either by the Business Centre or the other bodies as a basis for considering the relative merits of alternative project options in a local area. As a result, the projects that were proposed tended to be those favoured by the consortium leader.

Sustainability

Considerable effort and resources was allocated to the design and marketing of the FIDEL programme, which represented a substantial up front investment. Project management skills amongst those that were successful were undoubtedly enhanced and these will be relevant in the future. Much project management knowledge and experience was transferred to the team in FIMAN, which they will apply on future projects.

In terms of the long term sustainability of the specific projects, a few of the more financially viable projects will survive, provided they are actively marketed and can generate income from customers. But other projects are unlikely to survive. In some cases the implementation timetable has been too short, insufficient management and marketing effort has been allocated, or there are short comings in the quality of the service on offer.

A major shortcoming has been the lack of central support services and monitoring during the crucial implementation phase. Because contracts to local consortia were placed so late, many of the projects were still in the early implementation phase when the work of the long term consultant and FIMAN had come to an end. As a result it was not possible to offer the level of monitoring and follow up support necessary to help and encourage local consortia to overcome key difficulties.

Though not a primary objective of the FIDEL Programme, it has provided a much needed injection of funds to keep the Advisory Centres and other consortia going until the arrival of regional development funds. Where Centres were not successful in winning a FIDEL project, they are now financially much more vulnerable.

Conclusions

FIDEL was an operational success: against all the odds FIMAN with the support of foreign consultants managed to design promote, train, select and disburse ECU 4.4 million to 64 local economic development initiatives, despite all the delays and impediments along the way. But in terms of developing local advisory capacity, which was a prime purpose of the programme, the results are likely to be somewhat disappointing, both in terms of the numbers of small firms assisted and the benefits to the advisory centres.

Table 3.8: Summary evaluation of the FIDEL Local Initiative Programme

Evaluation Measure	Comment	Rating
Relevance to government policy	It is not clear to what extent the FIDEL programme had the support of the Government who felt that the main priority was to strengthen the performance and sustainability of Business Advisory Centres,	2
Relevance of the design	The design of the programme was too complicated and there was not enough time for the implementation phase. There was a danger that the projects diverted the attention of the centres from developing and marketing their core business services.	1
Efficiency	Considerable activity was generated, which led to large participation rates at the promotional seminars, the training sessions and in terms of the number of applications. But the costs associated with designing and disbursing the funds were very considerable (around 40% of the total project cost)	2
Effectiveness	Despite the considerable effort to train local staff, the quality of the business plans presented were mixed, with the result that the benefit of a number of projects to local businesses may be limited.	2
Impact	A number local bodies, who had not previously been closely involved in local economic development issues got considerable benefit from the awareness and training provided, and being exposed to the Phare procurement system.	2
Sustainability	The sustainability of the majority of the projects supported is likely to be limited, due to the short timescale, lack of on-going monitoring and support and the dependence of the projects on Phare funding.	1
Total		1.7

Appendix A
Background note on Evaluation Methodology

The Logical Framework approach

The Logical Framework (LF) approach has become the *de facto* EC standard for project design, monitoring and evaluation. It is now widely used throughout most of the EC's domestic and external aid programmes. The LF is simply a method of classifying a chronological series of events in a project. It distinguishes between various stages in the production process that leads to the achievement of the objectives: preparation and design, delivery of inputs, activities, delivery of outputs, achievement of immediate and wider objectives, sustainability of achievements over time. One of the main advantages of the LF is that it forces the project designer - and the evaluator - to define these events and make their occurrence verifiable by means of a set of objective indicators and assumptions. This facilitates monitoring of implementation arrangements and evaluation of achievements. In fact, a general set of evaluation criteria can be readily derived from the 'project logic' reflected in the LF, as shown in Table A1.

The starting point in the classification of events is to identify the ***outputs*** of projects. Outputs are the final deliverables, the point at which the responsibility of the project management stops. In the case of institutional reform projects, outputs usually consist of trained human resources and proposals for legal, regulatory and organisational reform. Implementation of the reforms is usually not the responsibility of a project team; it is up to owners and decision-makers in the beneficiary institution to do so. Some projects may include support in the implementation phase, but final responsibility for implementation can never be attributed to an external consultant or expert. In SME financial projects, outputs involve the number, cost and type of investments made.

Outputs are generated by means of ***inputs***, which are used in activities. The Phare programme mainly delivers technical assistance inputs and finance. In some cases, complementary equipment deliveries may also be included.

The ***efficiency*** criterion evaluates the transformation of inputs into outputs, both in quantitative (where feasible) and qualitative terms. These relate to such issues as the rate of disbursement, the number of people/organisations, who have received the input (finance or know how) in relation to the public sector costs involved.

Once outputs have been delivered, they should contribute to the achievement of project objectives. Standard LF's identify objectives at two levels: immediate and wider objectives. More levels can be inserted where useful. Objectives should be formulated within reasonable 'distance' from the outputs. If not, too many noise factors will come in between and verification of the correlation between outputs and objectives becomes impossible.

Effectiveness assesses the extent to which outputs contribute to immediate objectives. Thus for financial projects or technical assistance (in terms of advice, training or information provision) to what extent did the support result in improved performance of the organisation that received the benefit?

Impact assesses the extent to which outputs contribute to wider objectives. In what measurable ways did the improvements in the recipients' performance result in wider, spill over effects, such as providing a demonstration effect, raising awareness.

The ***sustainability*** criterion assess the extent to which this impact is sustainable over a longer time horizon, particularly when Phare technical or financial assistance has come to an end.

Table A1: Logical Framework and derived Evaluation Criteria

Project Logic:	Evaluation criteria:	Indicators for institution building/reform projects:
Sustainable over time	**Sustainability**	Long-term viability factors
⇑		
Wider objectives	**Impact**	Spill over effects beyond the immediate recipients
⇑		
Immediate objectives	**Effectiveness**	Measurable changes in the recipient's performance as a result of the input
⇑		
Outputs	**Efficiency**	Amount of work undertaken, numbers of participants, and rate of disbursement in relation to the inputs
⇑		
Inputs		Time, effort and public sector cost of the inputs

Relevance Criterion

Apart from a project level evaluation, the LF methodology also allows for a programme or policy level approach, revolving around the *relevance* criterion. There are three aspects to relevance:

a) an assessment of the overall programme, including its project level components, with respect to the needs, policies and strategies of the country: *to what extent did the project meet the needs and priorities of the country?*
b) an assessment of the appropriateness of the programme and its projects: *to what extent was the design of the project appropriate?*
c) an assessment of Phare's comparative advantage in carrying out this programme: *should Phare be engaged in this work?*

Using these principals, logical frameworks have been constructed for each type of project being assessed: financial programmes, the provision of policy advice, support for the development of National Agencies, and the provision of business support services through Business Support Centres and through Business Innovation Centres. In each case the logical framework has been reconstructed to define the project, its inputs, outputs, immediate objectives and wider objectives. Against each evaluation criteria, the log frame sets out the key questions to be considered, verifiable indicators that should be used, and the sources of information according to the tables.

Appendix B

Log Frame: Phare Financial Programmes for SMEs

Objectives	Evaluation Questions	Verifiable indicators	Sources of information
Description of the project			
Access to external sources of finance by SMEs, including • Grants • Micro loans • Small loans (generally on a longer term basis) • Guarantees for loans • Equity funds			
Inputs		**Indicator**	**Sources of information**
Phare cash contribution and terms of lending Co financing by Bank or Government Technical assistance to enhance credit management skills Possible involvement of Business Support Agencies in assisting clients to prepare business plans or provide a monitoring service to the bank		Standard input table summarising the conditions of the loan Inventory of alternative sources of finance	Bank records Country Reports
Outputs	**Efficiency of financial programme**	**Indicator**	**Sources of information**
Finance to SMEs	Level of subsidy Appraisal process: how well did the selection of enterprises conform to the project design?	Comparison of revenues and all costs	Input-output table + interview with the bank
Immediate results	**Effectiveness (on enterprise performance)**	**Indicator**	**Sources of information**
Improved economic performance of SMEs	Has the investment led to an improvement in the performance of firms receiving finance? Did the improved performance justify the use of subsidised credit?	Increases in investment, employment, outputs and profits.	Interviews with selected firms, inspection of loan files and feedback from credit officers

	Were the firms receiving funds the most appropriate?	Target market for fund The level of demand List of applications and selection process. Could the firms have received funds from other sources? Why did they seek funds from this source? What if they had not managed to obtain finance?	Bank data and interviews with enterprises
Wider objectives	**Impact (spill over effects)**	**Indicator**	**Sources of information**
Improved access to external finance by SMEs	Learning and demonstration effects within the firms receiving finance	How has their attitudes towards finance changed as a result of having to negotiate and repay a loan?	Questions to firms, their advisers and the credit officer
	Learning and demonstration effects leading to changes in lending policies of bank (and other banks)	More active lending/co funding by bank and government	Questions to bank on their lending policy
	Lower transaction costs in bank	More professional approach to credit management	Questions to bank on whether their credit management has improved, and reduced spreads now being sought
	Larger client base for the bank (through lowering risks and demonstrating creditworthiness etc)	Greater access of clients to market based finance	Questions to bank (how many Phare clients become clients of the bank)
	What effect did the programme have on the market (volume and price) for financial services to SMEs	Did it increase competitiveness or distort the market	Questions to the banks and managers of other financial programmes
	Has this project contributed to a greater understanding in Government, agencies, and small firms about the role of financial for SMEs	Improved understanding of the critical issues	Interviews with Ministry, Foundation, and Banks
	Has this project led to the government, donors and banks introducing more effective financial programmes?	Introduction of better designed financial programmes	Review the design of most recent financial programmes

Relevance and design	**Indicators**	**Sources of information**
To what extent did the programme fit into the needs and policies of the country		
• how relevant is the project to the needs of the country	Country analysis	Questions to banks, and Ministry
• to what extent was the project at variance with other government policies (particularly in relation to the provision of subsidised finance to a small number of enterprises)	Country analysis	ditto
• to what extent does the project address a real funding gap	Country analysis	
• to what extent did the provision of finance 'crowd out' other sources, and to what extent was it additional		ditto
To what extent was the design appropriate		
• choice of instrument,	Consultants assessment	Country report
• target group of enterprises	Ditto	Country report
• risk profile of project	Ditto	Questions to bank
• timing of delivery	Ditto	Country report
• choice of institution and terms of the agreement	Ditto	Input output table
• ownership rights of the Phare sourced funds	Ditto	Questions to bank, Ministry and delegation
• pricing and other conditions to the end client: is the implied subsidy justified	Ditto	Input output table
• potential role of co-financing from government or financial institution	Ditto	Input output tables and questions to bank and Ministry
Was this an appropriate project for Phare?		
• what other options should have been considered to improve the flow of finance to SMEs?	Assessment by consultants	
• what were the opportunity costs of the project from Phare's point of view	Ditto	
• to what extent has their been overlap and duplication with other donors	Country analysis	Country report

Sustainability	**Indicators**	**Sources of information**
Financial sustainability of programme	Positive internal rate of return, net of donor and government support If not, what rate is the fund being depleted, how long will it survive?	Bank data on the financial performance of the programme
Clear and satisfactory arrangements for the ownership and management of the programme to continue to fulfil its original aims and objectives following the 'exit' of Phare	Is it clear who owns and is responsible for the money donated by Phare to the programme? Is there a clear decision making structure for the management of the fund	Interviews with bank and Ministry Review the legal agreement for the fund and changes that have been made
Soundness of the management of the fund without further technical assistance	Competence of the team managing the fund	Interviews with the Bank

Appendix C

Log Frame: Phare support for the provision of policy advice

Objectives	Evaluation criteria	Verifiable indicators	Sources of information
Project description			
Provision of TA to government and ministries responsible for SME development or where their operations likely to impact on SME development (positively and negatively)			
Inputs			
Cost of TA (salaries and expenses); equipment and premises restoration;			
Outputs	**Efficiency questions**	**Indicator**	**Sources of information**
Policy advice, promotion of SME concept in government, draft legislation, SME "events".	Total cost of advice against measures undertaken	Cost of programme	Delegation, government, ministries.

Immediate objectives	**Effectiveness**	**Indicator**	**Sources of information**
To point to areas where government can make major contribution to SME development; to improve the "SME-friendliness" of other business undertaken by government.	Government implements direct SME supporting measures, including new legislation; government changes its operations in other areas to reflect need to support (or not to frustrate) SMEs development	Quality and quantity of new government measures; quality and quantity of amendments to other government operations.	Government, ministries, delegation
Wider objectives	**Impact**	**Indicators**	**Sources of information**
To make the overall environment in which government operates more "SME-friendly" and increase the responsiveness of SMEs to this environment.	Government is more "SME-friendly" and SMEs respond to this new working environment.	Audit of government activities; SME sector's assessment of governments degree of "SME-friendliness"; degree to which SME sector responds to governments new measures and framework for operating ("take-up").	Government and ministries; survey of business attitudes to government; SME's knowledge of and response rate to government measures.
	Relevance	**Indicator**	**Sources of information**
	Was advice of a better quality than internal advisors; was it a simply substitute for an internal appointment; did the use of an ex-pat create more resistance to "SME-friendly" measures or less; was it ignored because of "free market" stance of government.	nature of advice offered (standard solution or something new); response of government departments to advice; working relationships of advisor with domestic SME advisors.	government; advisory measures; interviews with domestic advisors; assessment of government programmes.
	Sustainability	**Indicator**	**Sources of information**
	Will the measures survive a change in government; is domestic support for nature of measures growing; degree to which measures are perceived to be "imposed from outside"	measures have continued after change in government; extent to which domestic SME advisors have accepted the measures as "best practice".	Government; interviews with other domestic advisors.

Appendix D

Log Frame: Phare support to Business Advisory Centres

Objectives	Evaluation criteria	Verifiable indicators	Sources of information
Project description			
Establishment of a network of Business Advisory/Support Centres, targeted at start-ups and assisting the unemployed into business, and also addressing regional development issues (e.g., major plant closures).			
Inputs			
Phare financial contribution, leveraged co-financing arrangement with government, TA to support business advisors deliberate involvement as channel for Phare loans and grants.			
Outputs	**Efficiency questions**	**Indicator**	**Sources of information**
Business advisory support, training support, marketing activities	Level of subsidy included in the programmes	Total cost of the support to the BAC, including per client	The BAC, particularly central agency (if exists).

Immediate objectives	**Effectiveness**	**Indicator**	**Sources of information**
To improve the management performance of SMEs, to increase the chances of access to finance for SMEs supported by BAC	Performance of SMEs supported by BAC improved, improved access to finance for those SMEs supported	performance of those SMEs receiving Phare support, access to finance of Phare supported SMEs	BAC, central Agency, interview programme of local entrepreneurs having received Phare support.
Wider objectives	**Impact**	**Indicator**	**Sources of information**
Improving the performance of the SME sector, establishing better access to finance via BACs, stimulating the development of private sector support programmes, raising awareness of the entrepreneurship option.	Overall performance of SME sector improves, SMEs gain greater access to finance, demonstration effects upon private sector business support services.	Aggregate effect of SMEs supported, greater amount of financial support to SMEs, changes in capacity of private sector business advisory services,	BAC, central Agency (if exists), survey of private sector business advisory capacity,
	Relevance	**Indicator**	**Sources of information**
	Does the BAC fill a gap in the service provision, does the BAC duplicate private sector services, are private sector services precluded from developing because of the Phare support to the BAC, is the BAC willing to support high risk - high social return SMEs	Level of private sector provision of business support services, price of BAC services compared to market price, the number of SMEs supported which would have been willing and able to access private sector support, BAC client portfolio.	BAC, central Agency (if exists), interview survey of BAC-supported entrepreneurs
	Sustainability	**Indicator**	**Sources of information**
	Will the BAC retain its original objectives, who is going to accept long term responsibility for the BAC,	Changes in original objectives and target client group, user fee income as a percentage of total income (current and planned), plans for alternative funding,	BAC, BAC client portfolio,