



**Phare**

**An Evaluation of Phare  
SME Programmes**

**Slovenia**

**Final Report**

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## **Introduction**

This is one of a series of ten Phare SME Country Evaluation Reports, which examines the contribution of Phare's SME programmes in an individual country. It forms part of the horizontal evaluation of 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. The author of this individual report is Dr Milford Bateman, LEDTEU, University of Wolverhampton, UK. Assistance was provided by Jolanda Lesnik and Lisa Blonder.

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 and the political make-up of Slovenia since 1991. The chapter includes sections on the financial environment and institutional developments affecting SMEs. The second chapter briefly summarises Phare's SME programmes.

The formal evaluation of the financial and institutional programmes are then set out, based on standard evaluation methodology and logical frameworks that are included in the Annex. Particular projects have been selected and detailed interviews carried out with a small sample of intermediate and final beneficiaries in selected areas. The results of each project evaluation are set out in a common format covering relevance, efficiency, effectiveness, impact and sustainability. The report ends with a brief conclusion.

## 1. Main features of SME development.

### 1.1. The macroeconomic and political context

Slovenia was the most western-oriented of the independent Republics which emerged from the dissolution of the former Yugoslavia in 1991. Because of its past history within the relatively advanced Austro-Hungarian Empire, Slovenia was able to develop a substantial manufacturing and export sector capability, as well as a significant technology sector, within the former Yugoslavia. Independence, the onset of real transition to the market economy, and the loss of markets which came about because of the wars of succession, all contributed to a major economic decline for the first few years after 1991.

**Table 1.1. Main macro-economic indicators.**

Indicator	1990	1991	1992	1993	1994	1995	1996	1997
GDP growth	-3.4	-9.3	-5.4	2.8	5.3	3.9	3.0	3.5
Inflation (annual)	549.7	117.7	201.3	32.3	19.8	12.6	9.7	6.5
Employment (000s)	818	746	692	666	647	642		
Unemployment (000s)	44	75	103	129	127	122		

Source: Statistical Office, EBRD Transition reports.

Slovenia survived its exit from the collapsing Yugoslav Federation and the subsequent economic dislocation was kept to a minimum. By re-directing its export activities towards western European markets, particularly Germany, Austria and Italy, Slovenia was able to partially offset the loss of markets in the former Yugoslavia. Moreover, as a small country with a solid reputation in some high technology and educational areas, it has succeeded in making inroads into a number of lucrative higher value-added markets. It has also greatly benefited from its tourism industry, which offers convenient and year round attractions to the major markets of Germany, Italy and Austria. However, the loss of the former Yugoslav market was not easy to absorb in the short term, and this was reflected in the poor economic performance in 1991 and 1992.

### 1.2 Growth and development of SMEs.

The Republic of Slovenia was the most market-oriented region within the former Socialist Federal Republic of Yugoslavia (SFRY), and one of the ways this was reflected was in its much more developed entrepreneurial sector. From 1945 until 1991 Slovenia was able to promote a strong crafts and catering sector, establish the bulk of the total number of hybrid "public-private" enterprises, and encourage much greater emphasis upon manufacturing, exporting and technology-intensive businesses than in the other then Yugoslav Republics. In addition, the more liberal business climate encouraged a more transparent small enterprise sector, so that the "informal economy" remained much smaller than in other former Yugoslav Republics.

In the 1980s a large number of SME support initiatives were underway in Slovenia, involving interested academics, SME specialists and those *Municipality* keen to develop new private sector opportunities (e.g. Nova Gorica). From 1989 onwards a number of Business Incubators were introduced into Slovenia, both in co-operation with those Municipality keen to support private enterprise, and with large enterprises interested to reduce their surplus employees in a socially acceptable manner. But it was not until 1988 that full recognition for private sector activities was forthcoming. The legal framework for SME development essentially came with the Law on Enterprises (1988) and Law on Crafts (1988), which were introduced as part of the radical market reform programme promoted by the then (and last) Yugoslav Prime Minister, Ante Markovic. These laws finally established almost complete freedom for entrepreneurship and private property, and led to a boom in new small enterprise registrations in Slovenia in the several years prior to the collapse of the former Yugoslavia in 1991.

After independence in 1991, Slovenia took major steps to promote SME development. In that year it became the first transition economy to establish a full-blown Ministry for Small Business. The Law on

Commercial Enterprises in 1993 removed the division between the enterprise and crafts sectors. The rate of new entry increased very rapidly.

**Table 1.2. Number of SME businesses by type of registration.**

Type of venture	1990	1991	1992	1993	1994	1995
Incorporated businesses	14,957	23,348	36,448	47,734	51,038	51,875
Individual craftshops	33,484	34,380	35,650	35,911	34,607	-
Sole proprietors	-	-	-	2,157	10,643	57,802*
Part-time crafts	n.a.	12,699	12,021	11,255	10,563	-

Source: Ministry of Small Business and Tourism.

\* in 1995 "Crafts", both full and part-time, were thenceforth classified as a category of sole proprietorship.

By 1997, though the rate of new entry had slowed considerably, the SME sector had reached the stage where it was a significant sector in the Slovenian economy.

**Table 1.3. Structure of companies in Slovenia, 1997.**

Size	Share of total number of registrations (%age)	Share of total number of employees (%age)	Share of total revenues (%age)
Large	2.4	58.7	61.6
Medium	4.0	18.1	15.6
Small	93.6	23.2	22.8

Source: Agency for Payments, Ljubljana.

The government's attention in recent years has turned away from micro-enterprise and self-employment promotion, and towards the development of more sophisticated, technology-based SMEs, involving meaningful capital investment. However, this has not been easy on account of the inability of the various Ministries to obtain from a parsimonious Finance Ministry the requisite funds. Moreover, the government and most policy-makers have been under substantial pressure to use their time and resources to decide upon the fate of the large enterprise sector through the privatisation process.

Given the relative progress made in Slovenia over the last twenty years or so, the SME sector is slated to have an important role in technology-based activities. This was one of the key recommendations of the Phare-funded "SME strategy for Slovenia" prepared by external consultants and still under discussion in the Slovenian government. However, the barriers to entry in key industrial sectors are significant, as the following table attests.

**Table 1.4. Factors hampering innovations in manufacturing and services firms**

Factor	Manufacturing firms		Service firms	
	Significance	Rating	Significance	Rating
Lack of funds	1.7	1	1.1	1
Lack of appropriate personnel	1.3	2	0.9	2
High economic risk	1.1	3	0.7	3-4
Lack of market information	1	4-5	0.6	5-7
Lack of feed-back market information	1	4-5	0.6	5-7
Lack of technology information	0.9	6-7	0.6	5-7
Climate in the enterprise	0.9	6-7	0.5	8-9
Legal ownership, standards	0.8	8-9	0.7	3-4
Ownership structure	0.8	8-9	0.5	8-9

Note: scale from 0-3 (0=unimportant,1=less important,2=important,3=decisive). N= 1,457 enterprises surveyed (880 manufacturing, 577 services).

Source: Statistical information, Ljubljana, No 72, 1998, p 6; No 73, p10. Quoted in Stanovnik P (1998) *Innovation and SMEs in the Slovenian economy during the transition period*, paper given to the WAITRO international seminar on technology management, Warsaw, 13-16 October 1998.

In its favour, Slovenia has a relatively strong education and technology sector *vis a vis* both the other former Yugoslav Republics and the rest of Central and Eastern Europe. Accordingly, the promotion of technology- and knowledge-intensive SMEs is a major part of the overall SME strategy of the

government. The Ministry of Science and Technology is very active in promoting SMEs and has recognised the importance of offering support for new start technology-intensive firms. It has supported two Science Parks in Slovenia so far, in Maribor and in Ljubljana. In addition, Slovenia was one of the first countries in Central and Eastern Europe to develop an entrepreneurship educational institution, in the shape of GEA College. This institution was conceived of in 1989 and established in 1990.

### 1.3. Sources of finance for SME development.

#### Background to the financial sector

Financial support for SME development in Slovenia prior to 1991 was forthcoming from the banking system. Several of the main banks currently operating have long traditions in supporting smaller-scale enterprises. As early as the 1970s, local municipalities were able to establish special funds to support small private enterprises, and these mushroomed in the 1980s. Although the sums of money involved were relatively modest, the mere fact that government was assisting in the development of small-scale private enterprises was a sign that the sector had achieved a real degree of legitimacy. The largest source of finance for new small businesses was through the remittances and savings of returning guest-workers, who were increasingly encouraged to use this significant source of finance to create themselves an employment opportunity.

It is widely recognised that Slovenia has a relative lead in the development of technology-based SMEs. However, accessing finance for those SMEs working in this area remains difficult.

#### Illustration: Spica company.

Specialists in design and manufacture of time/access control and automatic identification systems. Started as state-owned company, but privatised in 1989. Have used own money since 1989 because bank loans far too expensive and the conditions too restrictive. Their technology is still under development and so they need breathing space in which to get established in the market. Some government programme loans have seemed quite attractive to them, but on closer inspection they have hidden charges. For example, to receive a technology grant to develop their products they would have had to sub-contract out much of the work to a government research institution, which they did not want to do. The company is starting to develop a useful export market for its products, but this means a strategic marketing action plan which will be expensive to undertake. The company thinks there is little government support for potential exporters with a good product.

#### Institutions currently involved in providing SME finance.

##### *Small Business Development Fund (SBDF)*

Established in 1992 alongside the Small Business Development Centre (SBDC), the SBDF offers subsidised loans and guarantees to the SME sector using an initial capital fund of around \$23 mn. The funds go through the banking system, which must make an equivalent amount available for SME lending in order to qualify as a participant in the scheme. The fund was topped up in 1996 and 1997 using money coming in from the Privatisation programme thanks to the Privatisation Law of 1995 which stipulated that 9.5% of the funds obtained by the government from the privatisation of state property should go to the SBDF.

##### *Municipality funds*

The Law on Small Business Development (1991) allowed municipalities to establish and operate Local Funds to support SME development in their locality. Very quickly most municipalities took advantage of the new Law to formalise their previously haphazard systems of financial support to local entrepreneurs. The main method of support has been to deposit a certain amount of budgetary funds in local banks, which is then multiplied by the banks to between 3-7 times the original sum and lent to local small businesses at reduced interest rates.

##### *The Ministry of Science and Technology*

The Ministry provides credits and other forms of support for technology-based SME projects in Slovenia. It takes equity positions in the main.

**Commercial Banks**

Unlike in most other transition economies, the commercial banks in Slovenia have had little opportunity or incentive to work with foreign credit lines, because banking regulations stipulate that an equivalent amount of Tolar deposits must be made at the Central Bank. However, the commercial banking system has a very strong local presence and many commercial banks are lending to SMEs through their local branches.

**Venture and equity capital funds.**

A number of venture capital funds have been established to provide support for SMEs which require longer term finance. The Horizonte Fund started in 1995 has provided 9 investments in medium-sized businesses. The Slovene Development Capital Fund (SDCF) established in 1995 provided a total of \$US 20.5 mn for long term capital financing of SMEs.

**Credit Co-operatives (Zadrugi)**

Traditionally associated with agricultural communities, some credit co-operatives provide members with small loans for business activities. Some are now starting to provide members with micro-loans for a wider range of business areas.

**Regional Guarantee Funds.**

Regional Guarantee Funds were established as an adjunct to most Regional Business Centres. By pooling local resources and outside assistance in one fund which can cover the entire region, the Guarantee Fund can achieve critical mass. It offers loan guarantees up to \$70,000 US taking 50% of the risk with the commercial bank taking the other 50%. Interest rates are considerably lower than the bank's normal rate to take account of the lower risk involved.

**National Employment Office (NEO).**

In 1990 the NEO established a programme of assistance for those unemployed interested to move into self-employment. Regional employment offices would provide consultancy and training support for each individual, while the benefits system arranged for each individual to capitalise a certain proportion of their unemployment benefits to use as starting capital. The amount of support offered was typically between 2,000-3,000 DEM, but it was enough to underpin a new business and to leverage in additional personal financial resources. The programme accounted for nearly one quarter of all the new businesses established in Slovenia between 1991-95.

## 1.4. Institutional support structure

**Background**

Slovenia's impressive record with private business prior to the collapse of communism was at least partly a function of its institutional support structure, particularly at the municipality (*Opstina*) and city (*grad*) level. In the mid-1980s these levels of government began to reorient their economic functions away from monitoring local businesses and ensuring a continuous supply of (soft) money, and towards promoting efficiency in the enterprise sector and the entry of new businesses. One factor driving these levels of government to promote SMEs was the revenue implications. The former Yugoslavia evolved a very decentralised taxation system and prior to 1991 the bulk of tax from the nascent SME sector went to the municipality and city authorities. The city administration's of Ljubljana and Maribor became very proactive in support for the small business sector through their Economic Development departments (and continue to be so today). In the 1980s an increasing number of new institutional support initiatives were also sponsored in Slovenia, for example in Nova Gorica. Business Incubators were also introduced very early on, in order to capitalise on Slovenia's lead in technology and innovation.

After independence Slovenia has continued to build upon its experience, and it has developed what is a sophisticated and comprehensive institutional support system for SME development support.

## **Institutions.**

### ***Ministerial level***

Shortly after independence, the Slovenian government established a Ministry of Small Business. This was the only Ministry to be established by a government in Central and Eastern Europe dedicated to working solely with SMEs. The new Ministry of Small Business pushed through a new Law on Small Business Development (1991), which carved out budget resources for SME development, began to establish an SME support network, and brought into being the Small Business Development Fund. It was envisaged that the proposed network of SME support institutions would be managed by an APEX agency, the Small Business Development Centre (SBDC), and would incorporate existing, on-the-ground (individual, local government and NGO-type) initiatives, as well as assist with the establishment of new institutions at the local level. From 1993 to 1995 the SME support network went from 326 to over 700 members. However, this putative SME support network failed to gel. Partly this was because the SBDC was unable to provide an adequate level of top-down support to the network members (including financial support), and partly because many network members (particularly private individuals and consultancies) were unable to establish real roots in the local community.

### ***Small Business Development Centre (SBDC).***

The SBDC was established by the Ministry of Economic Affairs in 1992. The SBDC acts as the APEX body for an emerging network of SME promotional institutions, which includes four Regional Business Centres (going to ten in the near future) and 48 Local Business Centres (which may decrease in number in future as some become regional centres). The support network was conceived as involving a wide range of local organisations interested in SME development, including local municipalities, Chambers of Economy, Chambers of Craft, NGOs, Universities and so on. In addition, the SBDC has sponsored the training of a large number of SME consultants who will work either in the LBCs and RBCs or else as private individuals. It is envisaged that the Small Business Development Fund (SBDF) will merge with the SBDC in 1999.

### ***Regional Development Agencies (RDAs)***

Slovenia remains without a formal regional level of administration, but often municipalities band together to form a quasi-regional institution to serve their common goals. However, in line with EU policy for the regions, Slovenia is increasingly focusing upon regional institutions for business support and a regional structure of administration is now being established. Many new RDAs are being established through the conversion of the existing Business Support Centres (e.g. Kranje BSC).

### ***Municipalities (Opstine)***

The municipalities in Slovenia have a long history of activity in support of the SME sector. Added to this, the Law on Local Government (1994) and Law on Financing Municipalities (1994) allocated greatly increased economic development responsibilities to the Municipalities. Municipalities are required to support small business through a budgetary allocation, and help to establish financial mechanisms for small businesses. Within most sizeable Municipalities is an office charged with local economic development, including offering small business support.

### ***Chambers of Commerce and Industry***

Though the Chambers of Commerce and Industry were revitalised after 1991, they remain somewhat tainted by their past association with large enterprises. Currently, the Chambers operate on the German system of compulsory membership, and so it has some resources to fulfil the conventional duties. They are offering many programmes of support for SMEs, particularly in the field of trade promotion and consultancy.

### ***The Chambers of Crafts***

The Chambers of Craft have been quick to work with micro-enterprises, and now offer a number of support programmes for their members.

## 2. Phares contribution to SME development.

### 2.1. Institutional development.

The importance of SME development to the overall economic fortunes of Slovenia was recognised early on by Phare and a number of projects were identified for support under regional business assistance.

**Table 2.1. Phare institutional support for regional business development.**

Project	Amount (Euro)
Regional study	300,000
Policy advice	600,000
Local Business Advisory centres	500,000
TA to Chamber of Commerce	300,000

Source: Country Operational Programme 1997, Phare.

However, Phare has had many disagreements with the Slovenian government over the design of institutional support structures, and this has led to many problems with the SME support programme. Phare invited the Ministry of Economic Affairs (Department of Small Business, DoSB) to put together a programme to establish SME support services which could be financed under Phare. The DoSB requested Phare support for a network of regional and local SME support centres to be established under the existing APEX institution, the Small Business Development Centre (SBDC) based in the capital Ljubljana. These locally-based SME support bodies would be strongly linked to local government, involve other local community actors, but also with some formal connections upwards to the Ministry itself. This plan was not approved by Phare, however, which wished to reduce the influence of the mainline Ministries in the functioning of the economy and economic support institutions and to see an independent (of government) SME support network similar to those being introduced in the rest of the transition economies. Phare officials essentially saw the Slovenian government's plan as being "...very strong on institutions, but weak on instruments to assist SMEs".

In actual fact, Phare was very much pushing to replicate Phare's "LEA model" established in Hungary where private sector-led local SME support institutions were favoured.<sup>1</sup> Early incumbents in the relevant ministries with responsibility for small business in Slovenia tended to support Phare's non-governmental approach. This approach was also supported by a number of independent bodies (e.g., NGOs, University departments) wishing to develop further their own SME promotional activities through government support. But Phare's approach was later resisted by new personnel in the Slovenian government, who took the view that there was in fact a positive role for state-led institutions in SME support. The government also calculated that it would end up having to provide substantial financial support to these SME support institutions after Phare funding ceased, and so it was better to get the structure right first time rather than make complicated adjustments at a later date. One other factor considered important, however, was Slovenia's positive experience with local state-led support for private sector development, which had seen the country develop a strong entrepreneurial sector well before the collapse of Communism. A whole cadre of current senior economists and government officials with responsibility for SME policy issues had essentially "cut their teeth" on a number of innovative SME programmes prior to independence. However, this inheritance was not fully appreciated by Phare officials and advisors, who essentially took the view that post-Communist Slovenia had little understanding or appreciation of small private enterprise development. The end result of the disagreements between Phare and the Slovenian side was a delay in the establishment of many programmes. Paradoxically, this made Slovenia - by far the most advanced of all the post-Communist economies - a relative laggard in receiving support for SME development, and one of the most problematic of all the Phare countries with regard to Phare-supported SME development programmes.

<sup>1</sup> See Country Evaluation Report: Hungary.

Eventually the original plans to support a network of SME support institutions were abandoned, and a compromise position was reached whereby Phare agreed to provide a very modest amount of financial support toward the identification and establishment of four pilot Local Business Advisory Centres (LBACs) These were located in Zagorje, Lendava, Brezice and Nova Gorica. This programme is currently underway.

## **2.2. Financial sector development.**

Almost no financial sector development activity has been supported in Slovenia. After Phare's refusal to support the SME development support strategy prepared by the DoSB (see above) resources were shifted into a plan to establish a network of Regional Loan Guarantee Schemes involving an 0.2 mn EURO allocation from Phare. It was meant to involve financial resources from the central government added to local resources from the municipality. However, the central government failed to inject its funds into the scheme and so the scheme is currently moribund.

However, under COP 1997 Phare committed 1 mn Euro of support to the establishment of a small and micro-enterprise credit line to run in the four regions also being supported with LBACs. A further 0.2 mn Euro is being committed to assist with the operation of this scheme. The credit line is expected to leverage out additional funds from the banking system. The typical size of the loan is to be between EURO 3,000 and 30,000.

### 3. Evaluation of the Kranje Business Support Centre (BSC) sub-project

#### 3.1 Background.

Kranje is the fourth largest city in Slovenia and one of the main industrial centres. It is home to a number of major industrial enterprises involved in tyre production, electronics, electrical engineering and chemicals. Most of the larger companies are facing difficult times and have had to reduce their level of employment significantly. However, at the same time the relative sophistication and depth of the industrial sector in the city, and the local level of skills and expertise, represents a significant resource for SME development. There are many possibilities for spin-off development, industrial sub-contracting and technology-based new ventures.

#### 3.2. Structure, inputs and operations.

Within the framework of SL9201/01/B001, the Kranje BSC was established in 1995 in the Kranje industrial zone. The BSC was one of the outcomes of the Phare SME development TA to the government (total cost: 642,000 EURO). It was the first BSC to be established in Slovenia. The main stake-holders in the BSC are:

- the Small Business Development Centre (SBDC)
- the Technology Development Fund of Slovenia
- the five main municipalities (*Municipality*) in the region,
- the Chamber of Crafts.

The BSC is a registered company and was originally meant to be co-financed for the first two years by the Ministry of Economic Affairs (Small Business Department) and the Ministry of Science and Technology.

It was intended that Phare's financial contribution to the BSC would be a Business Innovation Centre (BIC) project with a projected cost of 400,000 EURO. This BIC would make use of the substantial expertise accumulated in these companies - particularly in the electronics company Iskra and the tyre manufacturing company Sava - which would otherwise be lost as the industry sector contracted. The first Phare project had trained a group of local advisers and had identified a location for the BIC and incubator units which were to be a feature of the project. Crucially, the BIC was also intended to provide the BIC with its main source of revenue, through the renting out business space (albeit at discounted rates) to interested local entrepreneurs.

Kranje BIC was meant to provide support in two key areas:

- incubator facilities for technology-intensive small firms, with a focus upon exploiting the electronics and engineering skills present in the region.
- organise subcontracting and partnership exchange (SPX) in order to provide larger markets for subcontracted outputs of technology-intensive firms in the Kranje region.

### 3.3. Results and outcomes

The Kranje BSC was established after the recommendations put forward in TA contract provided under SL9201/01/B001. The main publicised outputs over three years of operation include:

- 80 business plans prepared for clients, of which over 80% obtained credit.
- 230 self-employed people assisted into business, with only five failures so far. This programme was in conjunction with the Ministry of Employment.
- 30 innovators assisted into business, with the assistance of special subventions from the SBDC.
- assisted local municipality to obtain subsidies from central government for a number of projects.

However, Phare's further 400,000 EURO contribution to the proposed BIC has not been paid over, and is not expected until mid-1999. The delay in launching the BIC was because of a disagreement between the Kranje BSC and the municipality over the provision of free business space. The original proposal put forward by the Phare contract was for the municipality to sign up for the BIC by agreeing to provide free business space. The municipality dragged its feet for nearly three years, before agreeing to provide the requisite business space. Although there were political clashes between rival parties, at least part of the reason for the delay was the municipality's reluctance to pass community-owned resources over to an overtly commercial body (i.e., the BSC).

### 3.4 Log frame outcomes.

#### Relevance.

##### *Relevance to the region*

The Kranje BSC was operating in a region with a strong technological and industrial endowment in the shape of the industrial zone in which several large companies were operating. The existence of a strong local pool of highly skilled and adaptable workers, plus a well-developed local educational and institutional infrastructure, was a very propitious background against which to develop a wide range of technology-based SMEs. The BIC initiative would therefore be of real relevance to the region and local industrial community.

##### *Relevance to the SME sector*

The BSC has effectively little active engagement with SMEs in the region since it derives 90% of its income from large firms and tendered project work from various Ministries (though this includes, but not exclusively, work relating to the SME sector). To obtain this work the BSC must compete with a considerable number of private sector consultancies in the region (including from Ljubljana, only 25 kms away) offering broadly the same services as themselves. The BSC was at pains to point out how much better they were than their many local competitors, providing a much higher level of support and efficiency, and around 10% cheaper too. However, the extent of competition would indicate that the Kranje BSC offers very little additionality in terms of SME support services provision

***Appropriateness of design?***

The Phare programme in general, and the recommendation of the TA contractor specifically, was to establish new centres of local economic development activity in the community. This new body would work within a wider local constituency of support than the traditional local economic development body, the municipality. However, this process was not always explained as fully as possible, and possibly some element of compensation should have been offered to the municipality to assist it in its new tasks. Instead, the municipality was expected to support the new BSC while having very little influence over its operations. In addition, all parties agreed that the original contract between Phare and the government and local municipality was insufficiently clear about what was expected of all parties.

**Efficiency**

For a number of reasons the Kranje BSC project was not established in an acceptable manner. The original TA component produced a report recommending the establishment of the Kranje BSC, which the government and other interested parties accepted, but the report was weak on implementation procedures and unclear on the level and nature of the contributions expected from each of the founding members. However, it was also the case that there was a general shortage of financial resources on the part of most of the founders, which translated into a general under-finding of all projects. The initial capital was forthcoming from the SBDC, but these resources were insufficient to establish a firm financial foundation for the BSC. It was at least partly because of this that the BIC initiative was supported by the BSC. This initiative planned to bring in significant Phare support (400,000 EURO) in order to establish a Business Incubator in Kranje. This BIC would mean that the BSC could both avoid its current rental outlay (1,600 DEM per month) and generate an income stream from the rental income forthcoming from the BICs tenants. The main problem, however, was the reluctance of the local municipality to release the business space, which it promised in 1996. Aside from local political factors, one apparent reason for the delay was the BSCs commercial appearance, which served to aggravate the local municipality and lead it to increasingly see its injection of community-owned resources into the BSC to be a case of “privatisation without compensation”.

**Effectiveness.**

There are strong indications that the Kranje BSC is respected within the business community in Kranje, and it has supported a number of local businesses access credit lines and other support funds, particularly those which are based in the capital Ljubljana.

**Table 3.1. Selected companies using Kranje BSC services.**

Company and date established	Activity	Number of employees	Type of BSC support given	Effect of support
El-Tec d.o.o. 1990	production and installation of electrical and heating units	50	Consultancy on growth; marketing advice; prepared business plan for credit application	obtained cheap 400,000 DEM credit from national SBDF
MS Production. 1987	high specification engineers	52	prepared business plan for credit application	obtained 35,000 DEM from Ministry of Science and Technology

The BSCs support for self-employment (230 self-employed people assisted into employment) was a successful example of entrepreneurship promotion. Of these 230 people only five have so far ceased trading. In addition, the investment capital brought in by the BSC indicate that around 150 jobs have been created. In addition, the BSCs work with the former employees of the bankrupt PEKO company has proved instrumental in helping many to find alternative employment through self-employment and new small business creation.

## Impact.

Given the nature of the business support services provided to date, and the apparent availability of private sector business support services, there is little to suggest that the BSC has made more than a marginal impact on the local community. A considerable number of private sector consultancies exist in the region and in Ljubljana, which is only 25 kms away, offering broadly the same services as the Kranje BSC. As noted above, the BSC was at pains to point out how much better they were than their many local competitors, providing a much higher level of support and efficiency, and around 10% cheaper. However, the extent of competition indicates that the Kranje BSC itself offers very little, if any, additionality in terms of SME support services provision.

The Kranje BSC is now heavily reliant on generating outside revenue in order to stay in operation. It was established with funding for only two years from central government (Ministry of Economic Affairs and Ministry of Science and Technology). Local government was supposed to take over after this period, but it has been extremely reluctant to do so. Thus, the BSC is forced to simply trawl around for whatever funding possibilities there are in the local community, preferably relating to SME development, but not necessarily so. Given this situation, the Kranje BSC naturally has little time or resources to devote to strategic issues which would be of great benefit to the local community in the longer run, but which do not generate an immediate income for the BSC. It is clear that there is major potential to stimulate a number of high technology areas in the Kranje region, such as in heating technology, composite alloys, and high specification engineering, but very little pro-active work has been done by the BSC to promote these potentially very exciting business areas. There is a very real danger that by being portrayed as a key SME development institution in Kranje, the existing BSC effectively forestalls the necessity for establishing a local SME development institution which does attempt to address the real and longer term potential of the Kranje region from SME development.

## Sustainability.

Currently, 90% of the revenue which sustains the BSC is derived from two sources:

- commercial consultancy in the region, mainly to large enterprises
- fees from undertaking project work tendered out by various Ministries and other organisations

The remaining 10% of revenue comes from subventions from the Small Business Development Centre (SBDC), the APEX organisation located in Ljubljana. In tendering for work from various Ministries, the BSC indicated that it tended to charge up to 10% less than their private sector competitors, and so it was confident that it could win enough business in order to survive. The BSC hopes that its survival will in future be assured thanks to it being accepted to register as the Regional Development Agency (RDA) for the Gorenjska Region. This would be expected to generate significant revenue flows in future years, and allow it to expand its operations considerably. The much-delayed Business Incubator is also calculated to provide an additional income for the BSC.

The Kranje BSC would appear to have achieved a sustainable level of operations. However, it is quite clear that sustainability has effectively been achieved by the *de facto* conversion of the BSC into a conventional private sector consultancy company with no particular focus upon SMEs. The BSC has, in fact, been forced to move away from any direct contact with SMEs, and towards working with large enterprises and miscellaneous contracting activities. This carries an obvious danger: the mere fact that there (still) exists a functioning BSC in the region could be interpreted as a case of SME development being fully addressed in the region, when in fact this is quite clearly not the case. This is what was meant by the frequent comment that the existing BSC network in Slovenia “..is getting to be quite strong on institutions, but very weak on instruments”.

### Table 3.2. Summary evaluation of the Kranje BSC

<b>Evaluation measure</b>	<b>Comment</b>	<b>Rating</b>
Relevance to the region	Kranje region was a major centre for industrial and technology-based companies, which could have underpinned the development of a wide range of technology-based SMEs. The BIC initiative, if operated appropriately, could play a key supporting role as well.	4
Relevance to the SME sector	Existing local private sector business support services capacity was high, and SMEs also have easy access to companies in Ljubljana. So little additionality of support services provision.	1
Appropriateness of design	TA component and plan of action was clear about what to do (i.e., establish a BSC) but was not clear about how to do this, or how to develop a local constituency of support to provide financial support for the BSC. Insufficient effort to placate the municipality which felt it was being marginalised by the BSC as it was effectively taking over much of its traditional area of operations (i.e., local economic development)	2
Efficiency	Because of the inability on all sides to agree of the funding structure, the BSC has effectively been launched as a straightforward private consultancy body. BIC initiative still not operational after five years.	1
Effectiveness	Indications are that the BSC staff are skilled and have been effective in providing support for a number of local businesses.	3
Impact	Little impact on account of its pre-occupation with seeking out funding sources in order to remain in business. BSC's services compete directly with local private sector companies, indicating that there is very little additionality. Almost no pro-active support for local SMEs: BSC simply undertakes whatever SME-related (in fact, any) contracts it can win. And BIC not operational for four years, so no impact here.	1
Sustainability	Although it appears likely to survive as an institution, this has come at a heavy price: the BSC increasingly offers little pro-active support to the local SME sector, has little contact with SMEs, has little interest in longer run initiatives, and provides almost no real additionality in business support services provision to the SME sector.	1
Total	The BSC is de facto an independent (though efficiently operated) consultancy company competing with other similar companies for the same market opportunities. Currently, very little additionality in services provision, though the BIC initiative suggests that it may make a bigger contribution to the community in future.	1.9

## 4. Evaluation of the Phare-sponsored Regional Centre for Development in Zasavje

### 4.1. Background.

The Zasavje region is one of Slovenia's main coal-mining areas. Having significant deposits of lignite it also became the centre of several power generation complexes. Both of these industries became the regions main employers, with a sub-structure of medium-sized employers emerging around the technologies used in mining and power generation.

Zasavje was considered an appropriate region for Phare support for two economic reasons<sup>2</sup>:

- first, as the centre of a coal-mining region in decline, the level of unemployment was expected to rise to an unacceptable level if no compensatory measures were introduced.
- second, prior to the collapse of the former Yugoslavia the region had already begun to abandon the emphasis upon simply securing government subsidies to prop up its existing large enterprise sector, and the region began to reflect a comparatively high level of civic consciousness and business culture. *Inter alia* this had been translated into a number of public policy initiatives with regard to unemployment, the most important of these being the establishment of a local Development Agency for the restructuring of the economy in Zagorje which was established in 1991 by the mayors of the three municipalities (see below).

### 4.2. Structure, Phare inputs and operations.

The Regional Centre for Development (*Regionalni Center za Razvoj*) was established with the assistance of Phare funding in 1995. It was established as a non-profit making limited liability company. The founders were:

- five municipalities
- four handicraft Chambers
- one Economic Chamber
- Small Business Development Centre (Ljubljana)
- Development Agency in Zagorje ob Savi municipality
- several companies in the Zagorje ob Savi municipality

The RCD has 13 full time consultants working with the SME sector who are each responsible for undertaking and generating project work to the value of twice their costs to the RCD. Funding for the RCD to meet around 50% of the running costs is meant to come from the Ministry of Small Business and Tourism (via the SBDC), but this money has been delayed on some occasions. The remaining 50% was intended to come from the municipalities, local banks, and other bodies, In fact, it comes from two sources, each accounting for just under half of the total revenue stream:

- basic consultancy work at market rates. This includes work for the local municipalities, which purchase blocks of time from the RCD, which the RCD then disburses to SMEs from the relevant municipality who seek advice and assistance.

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<sup>2</sup> It should also be pointed out that Zasavje was home to several prominent politicians at that time, including the State Secretary for Small Business Development who was responsible for nominating the four regions for Phare support.

- tendering for, and working on, individual projects. Most of these projects come from the various Ministries in Ljubljana, but some are from the private sector. Few have any relevance to SME development directly.

The RCD also derives a limited income from the Guarantee Fund of Zasavje which it manages as part of its portfolio of activities. The Fund (5 mn DEM) was obtained from the Ministry of Economic Affairs after an open competition between all regions. The Fund was obtained largely because Zasavje is a coal-mining region experiencing major economic problems.

Phare's contribution was a one year budget to enable the institution to become established. This 500,000 EURO budget for 1995-96 was broken down between:

- technical assistance 380,000 EURO
- institutional support 120,000 EURO

Essentially, the 500,000 EURO paid for the RCD's salary and expenses requirements for one year (1995). After much delay, a further 120,000 EURO was made available for 1997-98 for a number of special projects, which are currently being implemented.

It appears likely that the RCD will become one of the new Regional Development Agencies (RDAs) which will benefit and become the official focus for EU funded regional development programmes leading up to, and after, the accession of Slovenia into the EU.

### **4.3. Outputs and results**

The RCD considers that it has established itself as a major forum for economic development in the Zagorje region. It has a full workload of consultancy activity in relation to the SME sector, and is planning to recruit additional consultants as business improves. However, the bulk of the consultancy work with SMEs is sub-contracted out to independent consultants. Thus, the RCD essentially acts as a co-ordinating agency for this work. It is not clear if it is developing a range of skills in-house.

It is also not possible to separate out the contribution made by the Phare funds to its services to the SME sector. Overall, the RCD estimates that it has a continuing relationship with 300 SMEs, which it has provided either with assistance to obtain credit, a guarantee through the Fund, and/or consultancy advice.

There were two distinct outputs generated by the additional (120,000 EURO) Phare funding.

- 15 SME advisors were trained by the consulting firm (GOPA)
- four sub-projects were developed from initial ideas. These sub-projects were: a Business Development Centre in Trbovlje; industrial and handicraft zones; a tourism project; and, the Centre for International Co-operation.

#### 4.4. Log frame outcomes.

##### Relevance.

###### *Relevance to the region*

The enormous economic problems in the Zagorje region made it imperative that an economic development agency be established in the region to attempt to catalyse local economic actors into action. The most important problem was the decline of the coal-mining industry which was creating a major economic problem in the valley, which *inter alia* was creating a number of social problems, including a significant increase in the relocation of younger persons to other more prosperous regions of Slovenia.

###### *Relevance to the SME sector*

The relative backwardness and continuing decline of the Zagorje region meant that the SME sector desperately required a support institution able to assist them in a number of their activities. There were very few capable institutions to provide such services in the region, partly because many capable SME business consultants had relocated to Ljubljana. The RCD therefore provided an important service in co-ordinating, up-grading and marketing the SME support capacity which existed in the region.

###### *Appropriateness of design*

The Phare SME programme was designed to develop and strengthen SME support institutions in Slovenia, which included a brief to assist with their establishment in those regions where such institutions were absent. In Slovenia there had been strong support private enterprise development from local municipalities prior to the collapse of the former Yugoslavia. In Zagorje a proto-Regional Development institution already existed in the shape of the "Local Development Agency for the Restructuring of the Economy" which was established in 1991. This Agency was established on the direction of the Mayors in three municipalities in the region, and jointly owned by the three municipalities. Over a four year period the Agency made, by all accounts, a significant contribution to local/regional economic development. It was able to make available around 3 mn DEM of low cost SME credit through the local banking system, which resulted in 140 credit lines for SMEs averaging around 20,000 DEM each.<sup>3</sup> The credit line directly led to the creation of around 450 jobs in the handicraft sector. Other initiatives were also underway after 1991 as the region sought to strengthen itself just before independence. The interview programme confirmed the belief that the Agency appeared to be well-regarded in the community. Not surprisingly, many of the personnel in the old Agency used their experience to obtain positions in the new Agency. Moreover, Phare's decision to locate the project in Zagorje was a specific recognition that the Agency was working well in supporting SME development in the region, i.e., "that things were going on there".

It must be questioned, therefore, why a seemingly efficient local state-led institution was not considered appropriate to act as the channel for Phare funding into SME development, and thus why a completely new institution had to be established. This is particularly ironic in view of the fact that, in a major dispute with the Slovenian government, the EU delegation had refused to finance the plan by the Department of Small Business for networks of new local and regional SME support institutions on the grounds that there was already existing SME support capacity at the local and regional which should be utilised first.<sup>4</sup>

##### Efficiency.

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<sup>3</sup> The municipalities deposited money in the bank which was used to bring down the very high level of interest which the banks would otherwise have had to charge on the much higher risk private sector SME projects which they were then reviewing. This initiative was thus able to successfully "crowd in" a number of SME projects which would otherwise have not found institutional funding at that time.

<sup>4</sup> However, the "existing capacity" the EU delegation was referring to was almost exclusively non-governmental.

The RCD was established with very few problems. This was mainly because key personnel simply relocated into the RCD from its effective predecessor, the Local Development Agency. The main outputs of the RCD has been its work with 300 SME clients using financial support provided by its associated municipalities. It has successfully undertaken of a number of programmes for the Ministry of Small Business and Tourism.

The RCD has also established a number of project activities with the latest injection of Phare finance (120,000 EURO), but there have been problems on account of the large workload imposed upon a single ex-pat consultant. The four sub-projects - Business Development Centre in Trbovlje, industrial and handicraft zones, a tourism project, and the Centre for International Co-operation - have been difficult to co-ordinate and finance out of the small budget. Phare's idea to establish the projects, and then hope that local finance would be leveraged in as the projects got going, has not been an entirely unproblematic model to use.

### Effectiveness.

The RCD's team of 11 consultants are seen in the local business community to be of a high standard - skilled, knowledgeable and hard-working. They are able to deliver a good service to the clients and, because of this, are able to win new SME consultancy business in the face of determined competition from other providers, including companies located in Ljubljana.

A significant proportion of the companies assisted by the RCD consultants have received help in order to tap into local funding sources.

**Table 4.1. Selection of enterprises supported by the RCD.**

Company and date established	Activity	Number of employees	Type of support given by RCD	Effect of support
Oberc. 1978, re-registered in 1991	Manufacturer of polythene sheets, film and bags.	10	Support with preparation of loan application to SBDF.	Received loan of 200,000 DEM, plus two smaller loans from SBDF.
Studio Moderna. 1991	health products and natural medicines	22	Marketing and contacts; assistance with preparation of credit application to bank	Obtained loan from local bank to purchase business space.
Ultra. Established in 1960s, but second company to be privatised in Slovenia in 1989	industrial electronics for the petrochemical and oil industry	50	Market information; assistance with obtaining a loan from the SBDF. (firm is an institutional member of the RCD)	Obtained some new business through RCD; obtained loan from SBDF

### Impact.

The RCD's impact on the SME sector has a number of facets. It has provided an efficient group of consultants through which the municipalities can discharge their duties to provide local entrepreneurs with basic business advice and support. The region's history of backwardness, and the attraction of nearby Ljubljana, has resulted in relatively few other possibilities of obtaining business support and advice.

However, the project work undertaken by the RCD is something different, and there is a strong consultancy sector in Ljubljana very interested to undertake just this sort of work. Therefore, the impact of the RCD here is much less. A range of other institutions would very easily have been able to undertake the sort of projects currently being undertaken by the RCD.

Moreover, the simultaneous phasing out of the Local Development Agency for the Restructuring of the Economy, simultaneous to the development of the capacity of the RCD, has inevitably meant that the net development capacity in the region has not improved as much as it could have. The net impact of the RCD is therefore reduced substantially. As in virtually all other transition economies, it is clear that Phare's strategy was to direct all its financial support towards the Zagorje RCD's operations, while avoiding any direct engagement with the municipality, including its already existing forms of SME support capacity. One could argue, therefore, that the municipality's capacity to develop and promote constructive and longer run local economic development solutions, including those relating to SMEs, could have been significantly increased had Phare channelled at least some of its resources here. By not doing so, the municipality has been reduced to the status of a non-participant in local economic development, and has effectively turned over its local economic development activities to the Phare supported RCD. This aspect of Phare's strategy has serious longer run implications for local and regional economic development in Zagorje, particularly if the RCD is unwilling or unable to correctly discharge its new responsibilities in an appropriate manner.

In addition, the heavy current emphasis on fee-paying work has inevitably meant that certain longer run economic development activities are being ignored because they do not generate fee-paying work. There are a number of exciting economic development paths to explore in the Zagorje region relating to technical subcontractor development, but little evidence so far that these possibilities are being followed up seriously. The RCD is, thus, largely reactive (i.e., it simply does what those with the financial resources pay it to do) rather than pro-active (i.e., trying to find out, secure the necessary financial support, and then do, what is best for the longer term interests of the SME sector and the business community).

**Illustration: the "Ultra" company**

Ultra was the second company to be privatised in Slovenia in 1989, after some years as a moderately successful socially-owned company. Its business is in the engineering field (petrochemicals, oil industry), and in the last few years it has grown into one of the most successful medium-sized companies in Slovenia. Though employing only just over 50 employees, the company subcontracts out much of its requirements for labour, components and technical services to smaller firms in the Zagorje region - the company claims to have regular sub-contracting contacts with upwards of 300 smaller firms and engineering artisans in the region. It is now starting on a major export drive. Ultra appears quite dependent on its subcontracting base for high quality, affordable and timely inputs, which would suggest that an initiative which strengthens this supplier base would be useful from both Ultra's point of view, and for the smaller suppliers who would be better positioned to diversify into new markets. The subcontracting base is a vital part of the company's success and could significantly benefit from a number of measures which enable them to up-grade their sub-contracting performance with regard to Ultra, but also assist them into diversifying and locating new market opportunities building upon their already high product specifications and high-level experience accumulated working with Ultra.

## Sustainability.

It is difficult to assess the sustainability of the RCD. It currently has a sound financial basis upon which to function. The consultancy work with SMEs subsidised by the municipalities, is expected to continue for some time yet, while the tendered projects won by the RCD from various Ministries are likely to increase as the country further recovers from the double whammy of independence and transition. Moreover, it will shortly have a new role as the Regional Development Agency (RDA) for the Zagorje region. As an RDA, the RCD will become the recipient of substantial financial flows from the EU as Slovenia gears up for accession, and this should ensure its future.

However, the main driving force behind its activities to date has been the need to generate external income, and this tends to convey the very strong impression that it is losing sight of its original mission to support SME development in the region. For sure, it is quite clear that the RCD has had little time to work on longer term projects of benefit to the SME sector which generate no fee income or financial support from the Ministries. Moreover, the subventions provided by the municipalities to cover the partial cost of advice and support to those SMEs in its territory will rise in future to, at least partly, reflect the opportunity cost of these services - that is, the revenues generated by their more affluent and/or larger clients, or through the RCD's work as an RDA. This will impose an increasing burden on the municipalities' budget in order to ensure that their SMEs retain access to business support services, and they could well relinquish that burden at some stage to leave the local SME sector with little support.

Overall, revenue generation would appear to have evolved to become a significant part of the activities of the RCD. While these help to sustain the RCD as an institution, sustainability is being achieved at the cost of severely diluting its impact within the local SME and wider business community. As an institution which simply seeks self-preservation it may actually offer little to the local community: worse, it may deter the establishment of an institution which can address the major economic development problems in the local community.

**Table. 4.2. Summary evaluation of the Zagorje RCD.**

Evaluation measure	Comment	Rating
Relevance to the region	Region has major economic and social problems, so RCD desperately required.	5
Relevance to the SME sector	Meant to provided a level and type of SME support which was not already available in the private sector.	4
Appropriateness of design	Supplanted an existing, and apparently well-functioning, municipality-led SME support institution. Commercial orientation meant that it would inevitably have to focus upon finding the best fee-paying clients and projects, rather than finding out what was really needed to develop the SME sector in a very depressed region of the country.	1
Efficiency	With the help of subsidies from the municipalities has supported over 300 SMEs. Has undertaken a wide range of projects for the Ministries and established a number of new projects.	3
Effectiveness	The RCD has provided a high level of support to recipient SMEs. Has helped many to obtain financial support.	3
Impact	Has provided useful additional support for SMEs in the region. But the over-arching need to generate external income means that it is a reactive institution, rather than pro-active in its support for SMEs.	2
Sustainability	As an institution will easily survive into the future. But it is losing sight of its original mandate to support SMEs because of its increasing commercialisation. Also has a high cost structure, which bodes ill for the municipalities if they wish to support SMEs through the RCD.	1
Total	Well functioning and respected institution within the business	2.7

<b>Evaluation measure</b>	<b>Comment</b>	<b>Rating</b>
	community, and works well with municipalities to provide a quality support service for SMEs. But it is consumed by the need to secure sources of income, and this is reducing its impact upon the SME sector. It is overwhelmingly an operational body, rather than a strategic one.	

## 5. Conclusion.

Given Slovenia's status as the most advanced of the transition economies, Phare programmes of support for SME development have surprisingly been largely unsuccessful. There was no support for a comprehensive network of local SME support institutions, and few of the planned financial programmes managed to make any headway and become operational. It is thus difficult to evaluate Phare's contribution to SME development since few programmes were supported which actually involved substantial Phare funding: in most cases, Phare funding was a very modest contribution to a project.

Quite clearly, a large measure of responsibility for this poor state of affairs can be traced back to the fundamental differences which were to emerge between the Department of Small Business (then within the Ministry of Economic Affairs) and Phare. The Department of Small Business (DoSB) was interested to establish a comprehensive SME support network in Slovenia, and it wanted to use the forthcoming Phare financial support to achieve this aim. However, it wished to retain control over, and effectively manage, the support network through its own already established structures, principally the Small Business Development Centre (SBDC). This preference by the DoSB was not unrelated to the realisation that, ultimately, the state would end up supporting the network of support institutions once Phare financial support ceased. The spectre of independent SME support institutions eventually commercialising and losing sight of the SME client base, or else folding completely was (albeit with the benefit of some hindsight), an entirely realistic scenario to have in mind at that time.

However, the wish to retain some element of control over the resulting SME support structures was understood by Phare to be a case of the DoSB wanting to "...interfere and unjustifiably control". Instead, Phare pushed to see existing SME institutions promoted by Phare funds. Phare was strongly supported in this argument by a range of independent institutions (e.g., University departments, NGOs, private consultancies) which had invested significantly in developing SME support capacities, and who now naturally wanted to see a return on this investment in the shape of Phare financial support. However, Phare made an exception to its rule of using existing institutions if this meant being called upon to support existing municipality-led SME support structures. Senior Phare officials and advisors at the time were strongly resistant to the idea of local state-led SME support. One element of this resistance by Phare was a misunderstanding of the nature of the local municipality SME support structures which had emerged under the particularly liberal version of Communism practised in Slovenia prior to 1991. In fact, Slovenia had significant experience of a range of very useful municipality-led SME development initiatives, including in the main cities of Ljubljana and Maribor, but also in other regions where there was less economic activity, such as in Nova Gorica. This experience, where it was actually understood, was not considered valuable enough to suggest a model of SME support different to that being implemented elsewhere in Eastern Europe.

In the wake of this disagreement, therefore, the planned SME support programme was effectively abandoned. The programme, which eventually emerged consisted of modest funding into a number of local SME support institutions. Municipality-led institutions were side-lined, and new independent ones constructed in their place, often simply re-employing the same municipality officials. Quite apart from the conventional efficiency losses incurred by a further episode of re-structuring, it is also the case that the new independent SME support institutions do not function as well as intended. For a start, since they are entirely independent of state (local and central) funding and must generate their own resources, they are experiencing major problems with sustainability and "mission drift. The new independent SME support institutions have rapidly commercialised their operations to the extent that they are now "quasi-consultancies". Some of these SME institutions have branched out to establish more technically-focused support bodies for SME development, such as Business Incubators and Business Innovation Centres (BICs). The use of these terms conveys an impression of support for technology-based SMEs, but in actual fact little real support has been in evidence: as elsewhere in the transition economies, these terms are misnomers, covering up for what is otherwise simply an income-generating facility for its parent institution.

Overall, the Phare SME programme in Slovenia achieved far less than could have been expected. It suffered from a disagreement between Phare and the Slovenian government, with the result that the SME programme was comparatively minor and inconsequential. What institutions have been supported by Phare are generally working well within the limits imposed upon them by insufficient funding, but they are increasingly commercialising their activities and moving into new business areas unrelated to their original target client groups.

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## Appendix A

### Evaluation methodology and approach

#### The Logical Framework approach

The Logical Framework (LF) approach has become the *de facto* EU standard for project design, monitoring and evaluation. It is now widely used throughout most of the EU'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 central point in the classification of events is 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.

Outputs are generated by means of *inputs*, which are used in activities. The Phare programme mainly delivers technical assistance inputs. In some cases, complementary equipment deliveries may also be included. Financial and physical investment inputs are, so far; rather limited under the Phare programme, although they may be important for some projects.

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/organisation 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 assesses 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**

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

## 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:

- 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?*
- An assessment of the appropriateness of the programme and its projects: *to what extent was the design of the project appropriate?*
- 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 summary table below:

Table A2: Standard Log frame table used for the Evaluation

Objectives	Evaluation Questions	Verifiable indicators	Sources of information
Description of the project			
Inputs		Indicator	Sources of information
Outputs	Efficiency of programme	Indicator	Sources of information
Immediate results	Effectiveness (on performance)	Indicator	Sources of information
Wider objectives	Impact (spill over effects)	Indicator	Sources of information
Relevance and design		Indicators	Sources of information
To what extent did the programme fit into the needs and policies of the country			
To what extent was the design appropriate			
Was this an appropriate project for Phare?			
Sustainability		Indicators	Sources of information

**Annex B.****List of institutions/individuals consulted.**

<b>Institution</b>	<b>Name</b>	<b>Function</b>
EU DG1A, Brussels	Erica Gerretsen	Slovenia Task manager
EU Delegation, Ljubljana	Catherine Wendt	SME Coordinator
Chamber of Crafts, Ljubljana	Vinko Lapuh	Director
National Labour Office, Ljubljana	Rodna Komovec	Sector Head: Employment and vocational guidance
Small Business Development Fund (SBDF) Ljubljana	Lojzka Podvrsnik Zoran Sirca	Director Assistant Director
Phare PMU	Ivo Piry	Head of Unit
Small Business Development centre (SBDC) Ljubljana	Bozidar Marot	Director
Economics Institute, Maribor	Viljenka Godina	Director
Economics Faculty, University of Ljubljana	Prof Miroslav Glas	Economist and SME advisor to the government
Economics Faculty, University of Ljubljana	Prof Maks Tajnikar	Economist, former Minister for Small Business (1991- 2), Minister for Economic Affairs (1992-4)
Institute for Economic Research, Ljubljana	Dr Peter Stanovnik	Director
European Bank for Reconstruction and Development, Ljubljana	Agneta Hallman	Senior Banker
Ministry of Small Business and Tourism, Maribor	Janko Razgorsek, Joze Smole, Maja Tomanic- Vidovic. Janko Steharnik	Minister, State Secretary, Councillor to the Minister  Councillor to the government
Regional Centre for Development, Zagorje	Tomo Garantini	Director
Regional Small Business Development Centre, Kranje	Bogomir Filipic	Vice Manager
“Podjetnik” (Entrepreneur) magazine, Ljubljana	Joze Vilfan	Director
GOPA Consultants, Ljubljana	Brian McCarthy	Project Leader, SME programme
Horizonte Venture Capital Fund, Ljubljana	Mate Pensa	Director
Economic Development Department, City of Maribor Council, Maribor	Karin Jurse	Head of Department

<b>Institution</b>	<b>Name</b>	<b>Function</b>
Economic Development Department, City of Ljubljana, Ljubljana	Vanja Rangus	Head of Department
EU Delegation, Ljubljana	Amir Naqvi	Head of Delegation

## 2. List of enterprises visited.

<b>Company name</b>	<b>Interviewee</b>	<b>Position</b>
El-TEC	Damjan Mulej	Owner
MS Production	Miklavz Zornik	Owner
Oberc	Stefan Oberc	Owner
Ultra	Gregor Breznik	Owner
SPICA	Andrija Pusi	Owner
Studio Moderna	Natasha Cesko-Jesensek	Co-owner

## Annex C.

## Log Frame: Phare support to Business Support Centres (BSC)

Objectives	Evaluation criteria	Verifiable indicators	Sources of information
<b>Project description</b>			
Establishment of a Business Support Centre targeted at providing advice and support for new start and small firms, and with supporting the wider economic development process in the region.			
<b>Inputs</b>			
Phare TA and financial inputs; leveraged financial inputs from all levels of government.			
<b>Outputs</b>	<b>Efficiency questions</b>	<b>Indicator</b>	<b>Sources of information</b>
Number of SMEs supported, training programmes operated, packages of finance provided; wider economic development initiatives facilitated.	Level of subsidy included in the programmes. Established in an appropriate time period.	Total cost of the support to the BSC, and time taken to establish programmes.	The BSC, particularly central agency (if exists).

<b>Immediate objectives</b>	<b>Effectiveness</b>	<b>Indicator</b>	<b>Sources of information</b>
To improve the management performance of SMEs, to increase the chances of access to finance for SMEs supported by BSC	Performance of SMEs supported by BSC improved, some improved access to finance for those SMEs supported	performance of those SMEs receiving Phare support; access to finance of Phare supported SMEs; perception of BSC in community	BSC, central Agency, interview programme of local entrepreneurs having received Phare support.
<b>Wider objectives</b>	<b>Impact</b>	<b>Indicator</b>	<b>Sources of information</b>
Improving the performance of the SME sector, establishing better access to finance via BSCs, stimulating the development of private sector support programmes, raising awareness of the entrepreneurship option.	Overall support capacity available for SME sector increases; increase in number of strategic initiatives designed to support SMEs; demonstration effects upon private sector business support services; has the capacity of the BSC improved; wider economic development capacity improved.	Aggregate effect on long term status of SME sector, greater amount of financial support to SMEs, changes in overall capacity of business advisory services, number of economic development initiatives being undertaken.	BSC, central Agency (if exists), survey of private sector business advisory capacity,
	<b>Relevance</b>	<b>Indicator</b>	<b>Sources of information</b>
	Does the BSC fill a gap in the service provision; does the BSC duplicate private sector services; are private sector services precluded from developing because of the Phare support to the BSC; is the BSC willing to support longer term-higher risk SMEs and strategic programmes	Level of private sector provision of business support services; price of BSC services compared to market price; number of SMEs supported which would have been willing and able to access private sector support; BSC client portfolio.	BSC, central Agency (if exists), interview survey of BSC-supported entrepreneurs

	<b>Sustainability</b>	<b>Indicator</b>	<b>Sources of information</b>
	How far will the BSC divert from its original objectives if it attains a sustainable level of operations; who is going to accept long term responsibility for the BSC if not.	Changes in original objectives and target client group; competition with private sector providers; user fee income as a percentage of total income (current and planned); plans for alternative funding,	BSC, BSC client portfolio,