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DESIGN, MANAGEMENT, EVALUATION AND COST RECOVERY OF BUSINESS DEVELOPMENT SERVICES AND CENTRES IN TRANSITION ECONOMIES

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Executive Summary

Government or donor-sponsored centres offering business development services (BDS) in most transitional economies are under great pressure to deliver more cost-effective services and ensure their operational and financial sustainability. In order to develop a strategy for these centres, their managers, sponsors or technical assistance providers should conduct an analysis of the types of services to be offered and their potential for cost recovery through charging fees, collaborating with private providers and eventually privatising the centres. BDS should be classified according to the types of enterprise to whom the services are directed, the complexity and the potential for cost recovery of the service. They should then be designed, managed and evaluated according to this segmentation and cost recovery potential and targets established for each service. The final evaluation of the services and the centres should take into consideration the short and medium term impact on the beneficiary enterprises, the industries and the economy in the region or country versus the set up and operational subsidy costs necessary until the centre is privatised or its autonomous financial



and operational sustainability is achieved.



1. Introduction

In recent years, consulting, advisory and training centres or agencies are being set in most developing and transitional economies to provide local enterprises- mainly small and medium sized ones- with business support or development services (called BDS in the development literature). These services or centres are frequently set up as part of multilateral or bilateral aid programmes, and sponsored or partially-funded by government bodies in charge of industrial, SME or employment development. Such centres take the form of business advisory centres (BACs), small and medium enterprise development agencies (SMEDAs), post-privatisation centres (PPCs), industrial development institutes, competitiveness or industrial modernisation centres or are simply denominated private sector development programmes (PSDPs). Generally, they all offer - among other specialised services- business consulting, information, co-operation assistance, planning, investment plan preparation and training services. Many are set up as non-commercial or non-profit legal entities, other as trusts or foundations. Finally others take the more traditional form of joint stock or limited liability companies, although with an agreement not to distribute profits to the centre founders or shareholders, at least while government or donor funding is still available.

These government or donor-funded centres frequently provide services, which in industrialised market economies are offered by associative bodies- such as chambers of commerce, employers or trade associations- or by private service suppliers. Unfortunately, in most developing and transitional countries, associative organisations don't have the means or experience to offer these services and private sector accounting, consulting or training firms are either non-existent, or too expensive to be afforded by smaller enterprises or those enterprises undergoing structural change or restructuring.

Most of these centres or agencies start offering these services free of charge, but after some period of time when government or donor funding shrinks, they charge some fees for services provided to those enterprises with the capacity to contribute in defraying the cost of services. Certain centres even set standard fee structures and project costing and control systems similar to private business service organisations. Most are, nevertheless, still trying to sort out the conflict between complying with the technical assistance objectives they were initially set up to achieve and the need to become partially or totally self-sustainable and charge for their services in commercial terms.



This article explores the types of business development services offered by these business centres, the variables that impact their design, management and improvement, and possible formulas for charging fees and recovering a significant proportion of their costs in order to become sustainability. Different cost-recovery objectives are suggested for different types of services and surrounding economic environments, and conclusions are drawn for implementation by the centres, their advisors or financial and donor organisations supporting them. These conclusions need to be tailored to the specific circumstances and status of development of the economy, local enterprises and foreign investment in each country or region.

2. Recent trends and approaches to offering BDS in transitional economies

Business development services (BDS) and programmes supported by international donors around the world are undergoing a radical change in their concept and objectives. Traditionally, governments and donors believed that BDS and the centres offering them had to be funded from the government budget and/or international donors or development institutions, and that hardly any fees could (or even should as public or semi-public institution) be charged to small or ailing enterprises for the services.

On the other hand, during the past few years, business advisory centres and other types of enterprise support agencies have proliferated in developing and transition economies with a new approach towards service delivery and management. This new approach includes incorporating effective and efficient design, management and improvement systems for the services, recovering a significant proportion of the costs from client enterprises and involving private sector consultants in the implementation. Generally, the new trends in BDS design and management across the world point towards making the centres function with techniques and incentives of private sector consulting organisations, while using government or international funding for subsidising the initial set-up phase and the services to new entrepreneurs and very small companies. These new trends can be further described as:

- Detailed segmentation of the different groups of services and the universe of potential beneficiary or client enterprises, thus supplying demand-driven services to specific groups of enterprises
- Greater emphasis on recovery of at least the direct costs of delivering the services, introducing new formulas for payment (voucher, success fees, partial payment by the enterprises, etc.)



- More involvement of the private sector in the implementation of services (either through associative bodies, chambers of commerce, or directly larger firms or banks as sponsors of the centres)
- Closer links between non-financial and financial support services, albeit maintaining the necessary independence in the credit decision by the institutions/bodies granting finance
- More emphasis on requesting and supporting credit guarantee schemes of different types (regional, mutual, etc.) as opposed to traditional loans or capital
- Bottom-up approach in the implementation of services for entrepreneurs and micro-enterprises (including the regional, county and municipal bodies in the promotion and implementation of services)

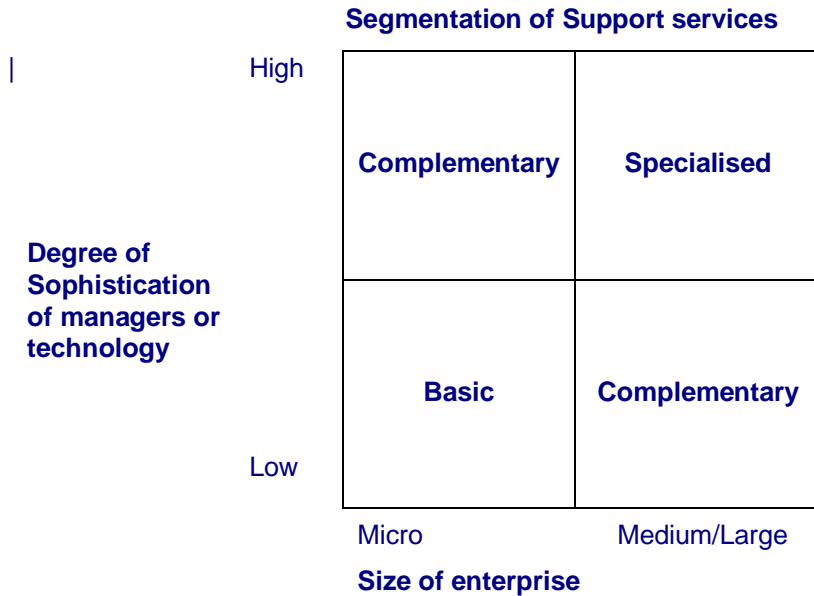
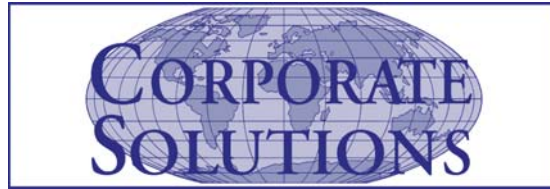
3. BDS Segmentation

A proper segmentation of BDS allows selling adequate objectives for their partial or total cost recovery, as well as BDS can be segmented according to various parameters, from the point of view of the types of services, the sector of the client or beneficiaries, degree of sophistication (or size) of the beneficiaries and so on.

The first segmentation is the type of services that are commonly offered by business development centres. Typically services can be grouped into:

- Advisory or consulting (including business plans, investment appraisals, competitiveness improvement, market research, etc.)
- Training (usually management-related)
- Business Information / co-operation
- Technology

A typical segmentation according to the beneficiary enterprises classifies the services according to the size of the client enterprise and its degree of “sophistication” (or capability to absorb/implement advanced techniques). These two variables allow a classification of BDS according to the following matrix:



The services can be therefore classified into:

Basic:

Services directed for classic start-up (non-technological or advanced services) or unsophisticated SME companies, including: training in basic accounting, types of legal entities and their obligations, basic marketing, finance or personnel administration, business plan elaboration, loan applications, business information, etc.

Complementary:

More sophisticated services in strategic planning, marketing strategy, budgeting, intermediate marketing, finance and human resources management, training, business partner search and negotiation assistance, financial options analysis, technological development, etc.

Specialised:

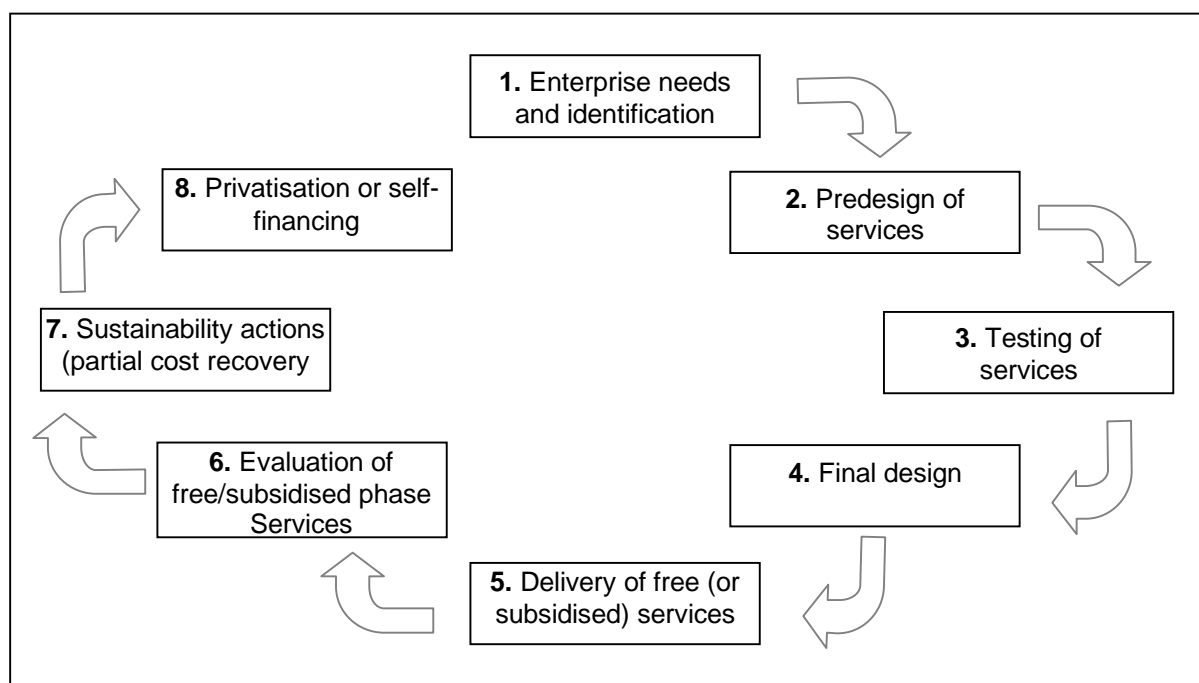
Services which address a very specific need of a fairly sophisticated nature, e.g. contract research, advance valuation, financed techniques, joint-venture set-up, etc.



4. BDS Design factors

The design of business development services (BDS) should take into consideration that the segmentation of services and clients/beneficiaries. Generally, BDS follow a design and implementation cycle which can be shown as:

Project Cycle of Business Development Services (BDS)



It must be remembered that BDS, similar to most products and services, follows a life-cycle with introductory, growth, maturity and decline phases. Generally, basic services should remain free or heavily subsidised throughout the life-cycle, as they are directed to the most vulnerable part of the business population: start-ups or micro-enterprises. Complementary BDS should start charging fees during their growth phase, to become partially or totally self-sustainable during maturity. Specialised services will normally be introduced already with fees which ensure partial cost recovery and during maturity should be offered on a fully recovered direct cost basis. This will be explained in more detail in section 7.

A correct design of BDS has to take into consideration a number of issues which will determine their implementation as well as their potential for cost recovery. These issues (or variables) have:



Eligibility of beneficiaries

The types and sizes of eligible enterprises have to be defined as accurate as possible as to direct the services to the intended beneficiaries. It is necessary to establish a mechanism that controls and corrects deviation in the beneficiary enterprises during implementation. A common bias of BDS managers is to forgo the enterprise size criteria, and serve larger enterprises than originally intended, as these are usually more solvent and accustomed to external services.

Coverage

Regional coverage must be defined as similar to eligibility, a mechanism for control and correction must be established.

Duplication/competition among services:

Frequently various centres are institutions, funded by the same organisation of funds pool, will compete or offer similar services. An often asked question is to what extent is it an efficient use of funds/resources to subsidise several competing programmes. In order to address this issue, an analysis of supply and demand of the competitive services becomes necessary, which is carried out in section 7 of this article.

Decentralisation/centralisation:

Services can be designed and/or implemented centrally or in a highly decentralised/regionalised manner. The centralisation/decentralisation can affect various stages:

- Design: Generally design is done by a central unit, in the main sponsoring institution frequently, the donor subsidising/funding the service. It must be remembered that a degree of adaptation to local conditions or regions is always necessary. A highly decentralised model would even allow the regional offices to propose a design services, which are then only approved/ratified by the central unit.
- Promotion: Promotion is frequently centralised as this is perceived to be more cost effective. Recent approaches to promotion of BDS involve regional and municipal bodies fully and equips them with sufficient information and material to pursue their own promotional efforts of BDS in exchange for a role in the implementation. The use of advanced technology in promotion is also a necessity if costs and coverage are aims to be effective at a reasonable cost (internet, databases, etc.)
- Implementation: Centralisation of implementation is only effective for specialised services and complementary ones in the start-up phase. Basic services need to be delivered close to the entrepreneur or small businessman, and this is generally where he interacts with his environment, either local or regional bodies or associations. Complementary services



can be offered initially centralised, but should be decentralised and regionalised whenever cost and staffing constraints allow. Generally, this happens in the growth phase and it requires between two or three years after start-up. In any case, the decentralisation of implementation requires the collaboration of the local authorities or business associations and their willingness to run with some of the costs and risks of the service delivery.

Involvement/promotion of private suppliers: More and more BDS programmes involve private suppliers of services as subcontractors or temporary managers of programme implementation. Private local consulting firms, training institutes and research centres collaborate with the subsidised business centres in a mutually convenient relationships. the business centres expands and acquires additional skills, while the private institutions gain visibility, experience exposure to new clients. Obviously, the barrier to such collaboration is that the level of remuneration of the private firms is usually substantially higher than those which would be offered by a centre funded with public funds, whether domestic or international. To overcome such barrier, innovative remuneration formulas have to be devised, such as success fee remuneration or contract completion bonuses or remuneration partially based on the fees obtained from enterprises. The involvement and promotion of private service suppliers has the obvious advantage of familiarising private consultants or firms with the procedures and methodologies of the centres, which will facilitate later their involvement in its privatisation or autonomous operation.

Alternatively, in certain countries and/or supporting organisations, the design formula chosen implies the set-up and temporary management of the centre by a foreign contracting company. After the temporary period, the centre is passed to local management, and the foreign firm may remain as an adviser and expert assistance to the local management, together with other private service suppliers. When this is the case, it is recommended that an incentive is built into the management or technical assistance contract, so that the management is delegated as soon as feasible to local management, and that part of the remuneration is partly dependent on the achievement of the sustainability objectives.

5. BDS Management factors

The effective implementation of BDS requires not only that the above-mentioned factors are optimally designed for a specific type of services and their potential beneficiaries. Additionally, many management factors affect the best allocation of resources of delivering BDS. Several of these are:



- Marketing and promotion: marketing and promotional efforts have to be well directed to the target enterprise population, promotion should be channelled through associations, chambers or commerce (when existing), local and regional administrations and other bodies.
- Organisations and human resources: attracting, training and keeping qualified personnel is probably the single greatest challenge for business advisory centres. Its trained staff are generally attractive to client companies, private consulting centres and training institutes. A variable remuneration is frequently not possible when paid with government or donor funds this variable proportion has to be often sourced from the fees obtained from enterprises
- Administration and procedures: business services funded by government or donor funds frequently follow administrative procedures which replicate those of government agencies. This stifles the service provision and discourages enterprises from applying (especially smaller ones).

Bureaucratic procedures have to be avoided, although adequate control, auditing and reporting have to be established. Generally, it is better to establish strict regular audits than require burdensome upfront administrative procedures for application, processing and approval of projects.
- Computer systems: the installation of modern, open-architecture computer networks is preferable, with internet and external connections. This obviously depends greatly on the state of the telecommunication infrastructure of the country/region. The adequate connections to internet and international databases is a pre-requisite for business information and co-operation and increasingly so for consulting and training.
- Coordination with other centres/institutions: obviously no business centre should pretend to offer services to enterprises in isolation. Co-ordination with other service providers, institutions, professionals, academics and officials is critical to delivering effective services, or directing them to another institution or service provider. Relationships with the sponsoring or founding institution(s) is critical, as many founding institutions consider these centres or agencies as their subsidiaries or units. Experience shows that business centres should be independent and enjoy a large degree of autonomy. Few companies go to a government body to request non-financial assistance and the image of the centre should be that of an “independent, agile, service-oriented institution”, not a government agency (which has a different role).



6. BDS Quality Control factors

BDS should not be static services, even if perfectly designed and managed they should incorporate systems and procedures for their continuous improvement. Regarding the continuous improvement several systems must be established:

- Quality control and self-evaluation systems: like all service organisations, business centre should have clearly-defined service quality control systems and methods for internal evaluation of its results, staff and services. These systems should resemble or follow international quality standards for service organisations (ISO, EFOM or other).
- Continuous updating and use of information technologies: modern computerised and internet-based technologies allow the business centres to offer the latest services using these techniques, but also save a considerable amount in telecommunications, travel and research costs. Certain services, such as business information, co-operation and marketing research rely so heavily on information technologies, that they cannot be offered credibly without them. Therefore this implies that there will be not only set-up costs but also high depreciation and obsolescence costs for the centres.

7. Competition among publicly-funded and privately offered BDS

An inevitable question of funding or supporting BDS in a country or regions is to what degree should government or international institutions support competing agencies or centres offering similar services. In order to answer such dilemma, it is necessary to refer to the segmentation provided under section 3. If the competition is in basic services, it is generally not a problem per se, as there is usually an almost unlimited need for entrepreneurial assistance throughout the world. The issue then becomes one of allocation of scarce resources to competing regions/areas: one should allocate the available budgets according to objective parameters, such as population density, level of income unemployment, etc.

For the denominated complementary services, the analysis of competition among services has to be based on whether the impact of a new centre or service in a region does not diminish the impact of the existing ones, both publicly funded and private ones. Generally, there is a specific supply (public + private) and demand curve for each type of services, and the supply of new publicly-funded service may distort competition if these latter ones very low-priced or free services to the same universe of enterprises.



Generally speaking, in markets with little-developed private services for small, mid-sized and problem companies, introducing one or several complementary services (consulting, training, business co-operation, etc.) will not distort the services market, but rather act as a catalyst and promoter of such services. Moreover, if there is a specific policy to use subcontracted private specialists, this provides a fertile ground for allowing the subcontractors to develop specialised, complementary or competing private services.

On the other hand, competition in nearby areas of specialised services makes little sense, as these services are expensive to set-up and are used by a minority of enterprise. Setting them up with public funds should only be considered if they fill a temporary gap in their development or a concrete industrial policy objective (such as development of technology in a specific field or sector).

8. Evaluation of impact, effectiveness and efficiency of BDS

BDS should be evaluated according to two main criteria: their effectiveness (as measured by the impact they have on enterprises and the economy) and their efficiency (as measured by the quantity and quality of the outputs-services - versus inputs-resources - provided). An evaluation of BDS effectiveness and efficiency can be further broken down into the following categories :

<u>Effectiveness/Impact</u>	<u>Efficiency</u>
-Short-term impact on the areas of the enterprise affected by the BDS	- Efficiency of design
- Medium-term impact on the enterprise	- Efficiency of management
- Long-term impact on the region and environment	- Efficiency of the systems of the systems for continuous improvement

Effectiveness and Impact Evaluation

The impact evaluation measures both the short term impact (outputs versus objectives plus the results on the areas where the programme should have had its effect), and the medium and long term impact on the private sector, regional economy, employment, environment and other areas.



This impact is usually measured with some relevant quantifiable variables in that functional area, such as: number of orders, defective or rejected parts, professional qualifications of staff, absenteeism rates, production or distribution costs, etc. The short-term impact on the beneficiary firms should ideally be measured against the same variables on a sample of companies, which have not benefited from the programme (control group). This measurement can be designed:

- **experimental**: large samples with random or non-random selection of the sample and comparison with a control group
- **quasi-experimental** : careful, but non-statistically relevant comparison of a sample against a control group (also carefully but not randomly selected)
- **non-experimental**: a sample is compared before the programme and after the programme, but not against a control group.
- **case studies**: selected examples on which conclusions are inferred

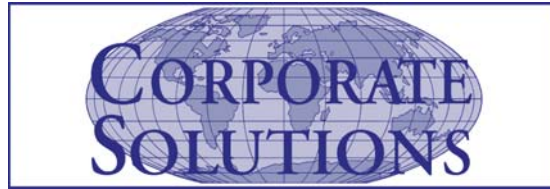
Depending on the desired size, data availability and precision needed of the measurement of impact, the evaluator must choose one of the above sample designs.

The **short-term impact** evaluation should be based on estimating the measurable effects after some period (usually one year) of the BDS on the areas which have been the objective of the outputs of the programme and therefore its effect on the business processes of the beneficiary firms:

- product design
- research and development
- strategic planning
- marketing and sales
- product and process development
- order fulfilment and distribution
- support services (IT, HRM, finance, etc.)

The **medium and long-term impact** should be based first on the enterprise efficiency, profitability or other relevant financial or competitiveness variable (return to shareholders, market share, cost relative to competitors, etc.). It should be measured at least one year after the service has been provided, and usually compared with a sample of companies which have not benefited from the service, the control group.

This impact analysis should be based on an economic analysis of the cost-benefit of the services after the completion of the programme, or some important milestone within its development. It should include the derived economic and social benefits (to suppliers,



employment, technology development, etc.) in the region or country and its environment. The variables for its evaluation can be some of the following:

Variables for BDS Impact and Effectiveness Evaluation

Category of impact	Variables of Analysis
1. Enterprise outputs and efficiency	<ul style="list-style-type: none"> - Growth of sales, value added, wages, capital and profitability ratios (return on assets, capital, etc.) - Productivity of firms (capital labour and value added ratios) - Investment and capital growth - Relative costs versus imports/competitive foreign products
2. Employment and qualification	<ul style="list-style-type: none"> - Employment creation by category and sector - Wages/Salaries levels by category - Levels of qualifications by category
3. Safety, environment and other benefits	<ul style="list-style-type: none"> - Usage of energy - Safety levels and measures - Recycling and disposal of waste

Efficiency Evaluation

Regarding the efficiency evaluation, the variables used in it can be the same as those described for the analysis of design, management and continuous improvement of BDS:

Variables of BDS Efficiency Evaluation

Category	Variables of Analysis
1. Efficiency of Design	<ul style="list-style-type: none"> - Eligibility of beneficiaries - Coverage - Duplication/competition among programmes - Cost recovery formulas - Decentralisation/centralisation of delivery - Promotion of private supply of services
2. Programme Management	<ul style="list-style-type: none"> - Own staff/external provision of services - Marketing and promotion techniques and tools - Organisation and human resources - Administration and procedures - Computer support systems - Co-ordination with external institutions
3. Continuous Improvement of Programme	<ul style="list-style-type: none"> - Self-evaluation and quality control systems - Use of advanced technologies and techniques



The analysis and conclusions of BDS evaluation of each variable should be developed independently, but later discussed with the directors and shareholders of the centres offering the BDS, so as to refocus or improve the services.

9. Cost-recovery and sustainability of BDS

BDS should charge to recover a proportion of their costs as soon as possible. This not only prepares the transition to self-sustainability or privatisation, it also creates a working environment which equates it with private sector competitors, subcontractors and the enterprises themselves.

The proportion of costs and fee levels will depend on the type of services and the stage in the life-cycle of the centre offering the services. In order to understand the components of costs to be recovered, we can divide the costs of delivering BDS into:

W – set up costs (infrastructures, legal, design, etc.)

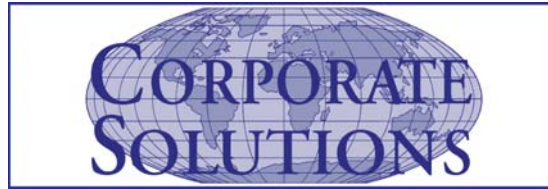
X – Operational fixed costs (fixed staff, rentals, office, depreciation, etc.)

Y – Operational variable costs (telecommunications, travel printing, etc.)

Z – Subcontractor costs (freelances, specialist companies, etc.)

Total costs of the BDS are therefore W plus the annual direct costs of operation. Annual direct costs are therefore $X + Y + Z$, and its full recovery. The ultimate objective of a sustainable service, as set-up costs are usually considered a non-recoverable investment by the government or donor organisation.

But attaining full direct cost recovery is only possible after a number of years of operation, and even then only for certain types of services and within certain economic environments. An ultimate cost recovery objective should be established for each type of BDS, according to its total costs and the level of economic development of the country/region where it is offered:



Segmentation of Possible Subsidies for BDS suppliers

High	<ul style="list-style-type: none"> Set up services and subsidise costs until private providers offer similar services 	<ul style="list-style-type: none"> Set up services and establish fees for total direct costs recovery. Privatise or transfer to private/mixed management
Total costs	<ul style="list-style-type: none"> Set up services and charge some fees for partial or total recovery of direct costs 	<ul style="list-style-type: none"> Leave services to the private sector, or assist with subsidies to private providers if at all
Low		
	Low	Medium/High
	Level of country/region economic development	

It is obvious that every case is a different one and it becomes difficult to establish fixed objectives, but certain rules can be applied:

- In medium/high or medium income countries or regions, the objective should always be full direct cost recovery after a number of years (3-5) If set up costs are high, the public sector can assist in the setting-up costs, or subsidies can be fixed for private providers on a competitive basis.
- In medium/low income countries, cost-recovery objectives can vary, but generally should target at least 50% of direct costs. It must be remembered that usually costs of publicly or donor-funded programmes will be inflated and a 50% recovery of inflated costs could ensure the self-financing of the service at a lower cost level.
- In low income countries, cost recovery objectives of 10-20% of direct cost might be more reasonable, but should be charged. As mentioned before, the commitment and attitude of a paying client (even if only to the 10-20% cost level) is usually much better than that of a free beneficiary of services.

Once a chart with cost-recovery objectives is established for each type of service, the next step is establishing the fee structure and possible formulas for payment for each service. When straight fees based on time are not feasible in a specific market, certain alternative formulas have to be explored:

- Success fees based on signed agreements, partnerships or contracts obtained
- Fees based on cost reductions, savings and productivity improvements



- Success fees based on financing obtained through the application, assistance of the centre
- Fees based on certain other quantifiable objectives achieved (outlets distributed, responses obtained, etc.)

Generally, a proportion of the fee should always be charged up front, in any case of formula chosen, to indicate commitment from the client.

Fee levels should be also referred to time and service provided, so as to avoid the potential for becoming a pure trader or broker. Justification of the formula has to be made on the basis that the client cannot pay the full fees up front.

Once fees have been established per type of service, a full operational and sustainability plan has to be drafted for the business advisory centre. This sustainability plan has to plan for several years the estimated proportion expected to recovered of the direct costs of the centre and standard financial reporting and control systems established. External auditing, monitoring and control should emphasise the degree of cost-recovery, as much as the operational efficiency of the centre and the success in collaborating with private subcontractors, as a proxy to the potential for sustainable integration into the service environment of the country or region.

10. Conclusions

Business development services providers and other enterprise support organisations should consider which parameters make their BDS achieve a greater impact with a maximum of operational efficiency. These services should be tailored to an enterprise population which is defined as narrowly as possible, and their variables (or parameters) tested in a pilot phase.

Final design has to include the cost recovery objectives, the formulas for recovering cost, charging fees and potential for sustainability without government or donor financing. The time horizon and objectives for the direct cost recovery depends on the type of service, total cost of delivering it, the level of economic development of the country or region where it is offered and the structure and resources of the centres. All these variables should be combined to establish a plan for financial and operational sustainability of the centre and its transfer to private or mixed public/private management and ownership.