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Republic of Macedonia

**Technical Assistance to SME Development
(06MAC01/07/104)**

***Report on
Enhancement of the Voucher Scheme
(2005-2007)***

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Abbreviations

APPRM (AEP)	Agency for Promotion of Entrepreneurship
BSO	Business Support Organisation
EAR	European Agency for Reconstruction
EBRD	European Bank for Restructuring and Development
EU	European Union
GDP	Gross Domestic Product
IPA	Instrument of Pre-accession assistance
LEC	Local Enterprise Centre
MoE	Ministry of Economy
MoLSP	Ministry of Labour and Social Policy
MKD	Macedonian Denar (currency)
OECD	Organisation for Economic Co-operation and Development
OP	Operational Program
R&D	Research and Development
SEE	South and Eastern Europe
SME	Small and Medium size Enterprise
UNDP	United Nations Development Program
VCS	Voucher Counselling Scheme

Executive summary

The voucher counselling scheme has already been a well adopted SME support measure in the Republic of Macedonia. In the pilot and implementation phase there has been enough experience collected, in order to put them into assessment process with the final objective to get inputs for further developments and improvements of the scheme. The quantitative evaluation's results are presented in the first chapter of the report while majority of general recommendations are provided in the second chapter.

In order to get a highly competent leadership in the management of the VCS, the APPRM's staff was invited to participate at the two training sessions on marketing and promotion of the scheme and on monitoring and evaluation of the scheme. The contents of the both trainings are provided in third and tenth chapter of the report.

One of the major issues regarding the future of the VCS in the Republic of Macedonia is definitely the funding. The funds received so far from the state budget are definitely not adequate. The truth is, that the VCS was used as an intermediate instrument for the UNDP's business plan project managed through the Employment Agency. However, welcome co-operation with UNDP cannot be understood as a permanent and sustainable solution for this issue. Despite of a great level of optimism, the possibilities of attracting IPA funds are evaluated as minor, while CIP has been programmed only for financial assistance instruments. Thus, one of the issues of the management of APPRM is to negotiate with the government an adequate funding for the VCS. The report on possible funding is attached in the chapter four of the report.

The draft proposal of APPRM's working (operational plan) is delivered in the fifth chapter. For the period of 2008-2009, main activities, financial framework and performance indicators are suggested.

One of the conditions for sustainability of every supporting scheme is a well developed monitoring and evaluation system which is proposed in the chapter six, followed by the proposal for updated payment procedures (chapter seven) which incorporate also several monitoring and evaluation permanent activities. All these besides the other management activities are of course not possible if the regular update and maintenance of the information system is not ensured. The IT plan is provided in the ninth chapter of the report.

1. Operations review

1.1. Introduction

Within developed market economies, first in the USA and later in Europe, there has been a renaissance in the small business sector. The majority of enterprises employ less than ten employees and small businesses have become a major contributor to private-sector employment, output and innovation. The wave of entrepreneurship reached transition countries with some time-lag, and the economy of the Republic of Macedonia has been characterized during early 1990's with an outburst in the number of new small companies and sole proprietors. The need to stimulate the development of the small business sector has been confirmed in the EU countries in the effort to change the dynamics of structural changes, new technologies, products and services. A great variety and number of policy initiatives have been introduced, developed by numerous agencies. They should compensate for the market failure since the free market mechanism does not adequately support the flow of new ventures.

The importance of entrepreneurship counselling for successful venture initiation and venture growth is widely acknowledged in the entrepreneurship literature. Entrepreneurship is a process of change that needs a more supportive environment to sustain it. At a meeting of Best Practice in Business Advisory, Counselling and Information Services (2000, Palais des Nations, Geneva), the participants recognized that SME services can be offered for free and/or for a fee. There was a consensus among the participants that most services can be provided at a low-cost for start-ups through business service providers. Instead of subsidizing individual entrepreneurs, subsidies should be oriented towards developing service products/activities rather than institutions. The voucher system was identified as a new type of subsidy. The essence of this report is a discussion of the soft means of a support environment for the knowledge-driven development of entrepreneurship, specifically the voucher counselling scheme (VCS) in the Republic of Macedonia.

The structure of the report is as follows: first the rationale is discussed and basic concepts underlying development of the voucher system for entrepreneurship counselling; then findings from a service quality survey are briefly presented. The development of the VCS in the Republic of Macedonia is presented and some implications and future challenges for development of the system in both countries are discussed.

1.2. The Background of the Voucher Counseling Scheme

1.2.1. The Slovenian Model

The VCS in Slovenia was developed in 2000 and found its inspiration in the early self-employment program in Slovenia and a number of practices from abroad. The self-employment program offered a combination of advisory services, information and training, together with modest financial assistance. This assistance has been provided either as a grant scheme, the optional capitalization of future unemployment benefits or, later on, as a micro-credit option. However, this scheme was administered through the network of Employment Services and only served a limited target group by merely covering the start-up phase of new ventures. Foreign practices referred to include the system of Small Business Administration in the USA, the voucher scheme in Catalunya (Spain), along with experiences from Austria and the United Kingdom. The system has to be built on a comprehensive scheme with a SME development strategy/policy, delivery mechanism and well-designed programs or projects.

The whole VCS should provide basic 'soft' support on favourable terms to different groups of beneficiaries in all localities across the country in order to ensure the equality of opportunity to start and develop one's own business. However, it should be differentiated for the various phases in the growth cycle of the new venture. The need for such support was clearly identified by research on SME development in the country:

- A sharp decline in the number of new businesses after 1994, limiting the entry of new ideas and concepts, along with the fall in the number of SMEs in the early part of this decade; and
- There are only a few dynamic, growing businesses with an important employment impact, capable of entering targeted niches in the world market, offering technological renewal, high added value, creative and rewarding jobs.

The following ten rules were acknowledged when setting up the system:

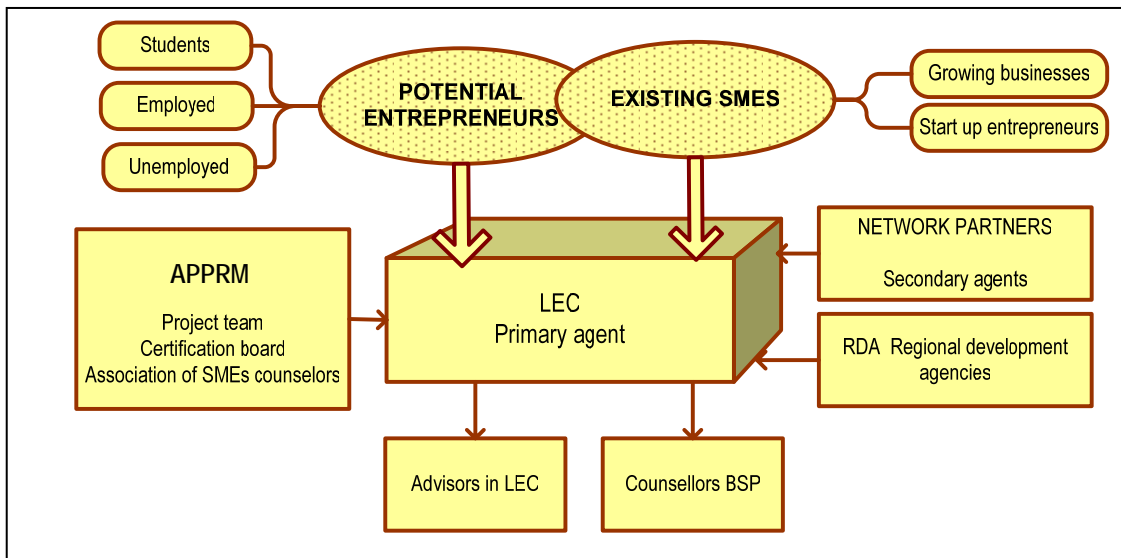
- Rule of equality: providing equal access to VCS across the country as the task of the support network (in place only in some communities).
- Rule of high quality services: a standard level of services should be assured through a process of selection, evaluation and training of business advisors.
- Rule of system transparency: the easy access of entrepreneurs/SMEs should be ensured and the system should be made transparent through uniform rules for operation and communications among the stakeholders, also enabling steady control of the use of public resources.
- Rule of the right of choice of consultant from a list of certified service providers as well as the right to replace them with another consultant in the event of the genuinely substandard quality of the advisor or incompatible business views.
- Rule of equal opportunity allowing different consultants to become members of the network irrespective of their ownership and legal status, organization, or territorial origin in order to ensure competition among service providers and to

avoid any discrimination or unjustified favouring of certain counselling organizations.

- Rule of pre-determined eligibility criteria for beneficiaries to be categorized into different target groups entitled to different packages of services.
- Rule of a differential extent of services whereby different target groups of beneficiaries are entitled according to their needs, and with different subsidy levels.
- Rule of a choice of services within a pre-determined amount of subsidized services by each beneficiary (entrepreneur/SME).
- Rule of simplicity of the scheme to avoid administrative complications while still enabling the monitoring of service provision, measuring of the quality of services and an assessment of their impact on SMEs and the local economy.
- Rule of excluding those beneficiaries that fail to comply with their responsibilities or whose business ideas do not pass the viability test.

Figure 1 shows the organizational model of the VCS. Vouchers are issued by local enterprise centres (LECs) and or business support organizations (BSOs) that are subcontractors of the management authority. For the purposes of centralized management and cash-flow control, an Internet-based application was designed that enables real-time work and voucher issuing. Every voucher issued means a certain amount of money (a grant) that needs to be allocated from the central budget to the company. The model was also adopted in

Figure 1: Organizational model of the VCS

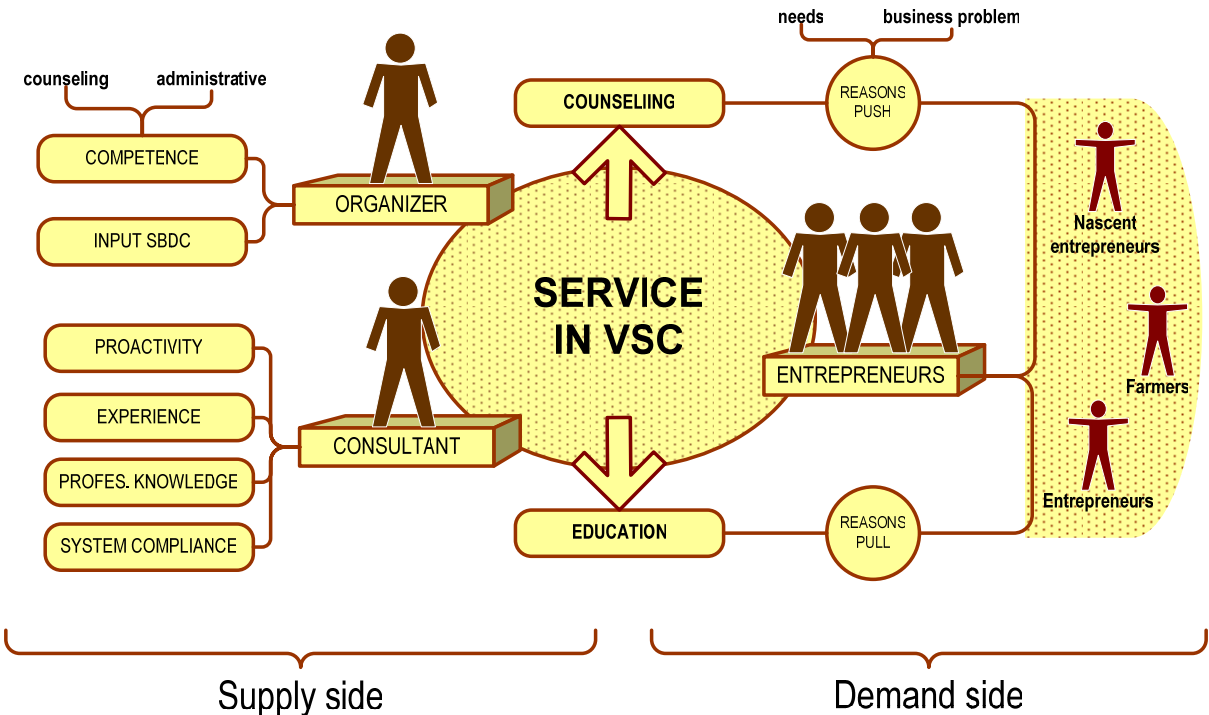


Certain limitations have to be respected concerning grant funds, namely: the total allowance per company per year, total amount of funds that can be approved by any one local centre, the commission for the local centre, and the total budget of the program. Any violations of these limitations are simply not allowed by the Internet-administered application and a related voucher cannot be issued. The process of appointing an entrepreneur to the programs starts when they visit the

local enterprise centre where a contract is signed to approve the amount of funding. A voucher is issued for each particular consulting project. On the voucher the number of consulting hours needed to accomplish the goals of the consulting is defined, together with the consultant's name. At this point, the consultant and the company can start working. After the work is completed, the consultant invoices the company for the previously agreed value of consultancy services. When the invoice is paid, half of the sum (but in no event more than the sum defined on the voucher) is claimed back by the company from the managing authority.

By the end of 2006 more than 1000 consultants had been certified to offer their services through the system. They are classified on two levels: generalists who normally consult more from a general point of view, and specialist consultants who have expertise in one or more business areas. It is difficult to estimate the proportion of consultants within the system who regard consultancy as their core business. It is evident that the fact that they have been included in the system can offer a very strong competitive advantage to them and, therefore, a very strong marketing tool. The conceptual model of the VCS is depicted in Figure 2.

Figure 2: Conceptual model of the VCS



1.2.2. Conditions for effectively implementing the voucher system

While conceptually offering well-conceived support to all potential entrepreneurs and SMEs, the VS needs some conditions to be fulfilled relating to financial and human resources and the system's organization to enable the support network to provide services according to basic *rules* of the system:

1. The network of local enterprise centers (LECs) should cover the whole territory. Where this support is still unavailable, the SBDC should negotiate support with neighboring LECs, private consulting firms or SME counselors on a contractual basis. The quality of LECs' administration should also be monitored and a system of quality assurance developed.
2. A computerized Internet-based on-line information system should be developed in order to avoid the burden of administrative paperwork since the system demands fairly extensive documentation to protect the public resources engaged in the system.
3. Training should ensure that all stakeholders among system providers know their role and continually improve their capabilities in both system administration and advisory skills.
4. The selection process for SME consultants should ensure the appropriate quality of basic advisory services at the start and SME consultants must update their knowledge of the regulatory system and SME legislation, while improving their counselling skills.
5. The voucher scheme has to be properly financed to ensure quality improvements over time. A lack of financial resources would weaken the whole system considerably since:
 - there would be a loss of trust with entrepreneurs if implementation were to be discontinued;
 - the best SME consultants would leave the system to pursue an alternative career;
 - the training process would be interrupted;
 - the information system could be insufficiently maintained;
 - the resulting lack of promotion would fail to meet the system's objectives.
6. The voucher scheme has to be properly promoted among potential entrepreneurs, while it is much easier to reach existing SMEs through secondary agents.

The VCS is a flexible concept and the managing authority as the top administrator can always adapt the system to the expertise level in the system of LECs as well as SME advisers and up to the amount of available financial resources along several dimensions:

- the type of services involved: besides advisory services information and training could be involved as well;
- the portfolio of counselling services could be restricted or extended;
- the extent of services could change, e.g. the number of hours allowed for specific services (counselling services) could be extended or more freedom

could be allowed to LECs' advisers-administrators to decide in individual cases;

- counselling fees could change;
- the extent of staff training and promotional activities could be adapted.

1.3. Development of VCS in the Republic of Macedonia

The Voucher Consultancy Scheme is an example of 'international best practice' for SME development and entrepreneurship promotion. VCS is modelled closely after the Slovenian VCS, which is a high profile and well established program in this country. The VCS aims to encourage established small enterprises to take up consulting services to strengthen their operations and competitiveness; and to provide aspiring entrepreneurs from among the ranks of the unemployed with counselling, training and information services to facilitate their transition into self-employment. On the supply side, the VCS aims to provide an incentive to qualified persons to enter the consulting arena and to established consultants to expand their services; and to engage business support organizations to become a regional partner of the APPRM. Self-employment assistance is provided at no cost to the unemployed while SME support is a matching grant, covering 50 % of the cost of the services.

1.3.1. Pilot and Implementation Phase

The pilot phase of the voucher system was implemented by the APPRM in cooperation with two BSOs in Skopje and Strumica in late 2005 to test the beneficiaries' demand for the program as well as the implementation approach. The basic delivery system for the VCS was established during the pilot phase and entailed the preparation of initial documentation, selection of implementing partners, design of IT support, recruitment of consultants (counsellors), and promotion of the VCS to the target group.

The VCS was further strengthened in 2006-2007 through technical inputs from the EU financed project which included: (1) restructuring the business development service portfolio, (2) streamlining the delivery process/procedures; (3) producing a manual and associated tools; preparing project documents for planning and solicitation; (4) engaging additional business support organizations as implementing partners; expanding the local; (5) business consultants register; (6) training managers, implementers and deliverers of the scheme in system modifications; and (7) re-designing the management information system to better monitor activities and results.

1.3.2. Some evidence from Implementation Phase and Phase 1

From May to December 2006 a total of Euro 42,622 was expended for VCS operations; out of this amount, slightly more money was committed toward the SME matching grant than to the self-employment assistance scheme (SEA). In SEA, 61 clients were accepted from 80 applications resulting in 118 vouchers

being issued; 8 of these vouchers expired or were cancelled. Average consulting hours per client were 23 with a value of Euro 373 or 193 per voucher. The BSO administration fee was 17% of the subsidiary value or Euro 3,868. The number of consultants in the APPRM register doubled to 50. For SMEs Euro 21,480 was expended from May to December 2007 on 55 SME clients, that were accepted from 60 applications resulting in 77 vouchers being issued. Of these, 46 were completed and 22 are ongoing, and 9 either lapsed or were cancelled. The average value of a project was almost Euro 630 (with subsidiary being one-half of this amount) comprising approx. 42 hours of consulting for each project (Euro15 paid as consulting fee hourly). The BSO administration fee was 17% of the subsidiary value or Euro 4,139. During the first implementation phase, an additional 70 local business consultants were recruited into the APPRM database bringing the total to 160 although only a quarter of them were “active”.

Positively speaking, it was stated that the scheme is designed appropriately for SME development in this country, a solid foundation has been laid for the VCS to operate efficiently and effectively, and the scheme has achieved positive albeit modest results since its inception. On the downside, the scheme’s outreach, scale and impact is fairly negligible due to the fact that the initiative has been grossly under-resourced and there are still shortcomings in organization, governance and competencies. A key question is why the scheme was not adequately funded by the government, after it was successfully piloted and strengthened via donor assistance, and considering that one of the new government’s priorities is supporting SME development to create employment. Furthermore, although various donors have expressed an interest in financially supporting the VCS, without evidence of strong government endorsement and/or significant financial contribution from the state budget, donors have opted instead to support other initiatives. Without meaningful funding the VCS will not achieve demonstrable results, and the scheme runs the risk of being dismissed as irrelevant or regarded with disdain, at least in some quarters.

The interest shown in the VCS from SMEs and from individuals, and the uptake of the vouchers offered so far, demonstrate a strong need for such assistance. The design of the delivery system was successfully adapted to the conditions in the country during the pilot phase, and is therefore a solid basis for future replication. It can be concluded that the design and intervention strategy is relevant for the conditions encountered in the country at present. As for synergy with other programs and/or organizations, APPRM staff has an extensive network of contacts in the local donor and economic development community, as well as in other countries in the SEE region such as Slovenia.

1.4. An Evaluation of the VCS

Two types of indicators are relevant to an evaluation of the VCS’s results and its impact: the adoption effect, which is typically a qualitative micro-level indicator reflected by the target participants’ satisfaction; and, the diffusion effect which is a

quantitative macro-level indicator resulting in job creation and GDP growth. In order to evaluate the service quality of the system several qualitative and quantitative techniques were used, as recommended by the OECD's recommendations in policy evaluation.

1.4.1. Methodological Approach to Evaluation

The methodological approach used qualitative and quantitative research techniques. First, structural interviews were conducted with the following target groups in the system: local organizer-consultants and consultants to SMEs. The qualitative data provided by key informants was used in developing self-reporting questionnaires which were sent to clients in the VCS in the past.

1.4.2. The Analysis of the Key Performance Indicators

The brief analysis out of the internal APPRM's data collection is provided in the table below. For the period of two years a little bit above 71.000 Euros were spent for the operation within the VCS not including the labour costs of APPRM's staff managing the scheme. It is very obvious that the VCS has been so far underfunded which seems to be the main reason for its failure to meet broader goals set in different strategic and operational documentation. However, since the objective of the assessment was more a quality assessment and stakeholders' satisfaction view, the data provided below should be regarded as of more informational rather than analytical importance.

Table: Key Performance Indicators for the VCS

Key Performance Indicators		Nov05 - Jan06	May-Dec06	July- Dec2007	Total (2005-2007)
		PILOT	Implement	APPRM	TOTAL
Self-Employment Assistance					
Applications	no.	35	80	110	225
New SEA clients [EA or BDPs signed]	no.	29	61	96	186
Value of BDP/EA committed (client)	Euro	475	373	303	384
Number vouchers issued	no.	69	118	156	343
Average consulting hours per SEA client	hrs.	31	23	20	25
Ave. consulting hours per voucher	hrs.	13	12	12	12
Average value of voucher	Euro	200	193	182	192
Average value per client	Euro	475	373	303	384
Value of voucher (net)	Euro	13.370	21.142	27.155	61.667
Number of projects (net)	no.	67	110	149	326
Number of projects (completed)	no	67	92	135	294
Total value of clients subsidiary	Euro	13.775	22.753	27.155	

Key Performance Indicators		Nov05 - Jan06	May-Dec06	July- Dec2007	Total (2005-2007)
		PILOT	Implement	APPRM	TOTAL 63.683
Admin Fee paid to BSO as % of counselor fees	%	17	17	19	17,67
Admin Fee paid to BSO	Euro	2342	3868	5.159	11.369
Number of SEA 'counselors-trainers' [database]	no	25	50	70	75
Number of active 'counselors-trainers' [database]					
Client satisfaction [end assignment]	%	4,70	4,70	4,90	4,77
New enterprises started	no.	29	61	81	171
New enterprises surviving one year	no.				
Number of jobs created	no.	26	54	55	135
Investment made	Euro				
Sales	Euro				
Training hours	%				
Counseling hours	%				
Information hours	%				
SME	no.				
Applications	no.	30	60	70	160
New SME clients [BDPs signed]	no.	27	55	61	143
Projects committed in BDP	no.	42	77	75	194
Value of projects [subsidiary]	Euro	11.902	24.347	30.500	66.749
Aver voucher / subsidiary	Euro	283	316	407	336
Aver amount per client	Euro	441	443	500	461
Value of projects [net]	Euro	10.520	21.480	28.000	60.000
Number of projects (net)	no.	34	68	69	171
Vouchers issued [projects contracted]	no.	42	77	75	194
Completed projects	no.	34	46	48	128
Consultants in database	no.	90	70	218	218
Number of active SME consultants	no	25	18	30	73
Admin Fee paid to BSO as % of consulting fees	%	17	17	17	17
Admin Fee paid to BSO	Euro	2.023	4.139	5.246	11.408
client satisfaction [end assignment]	%				
Increase jobs	no				
increase investment	Euro				
Sales	Euro				
increase exports [as % sales]	%				
SME Interventions By Service Areas					
Management	No.			29	29
Marketing and XD	No.			26	26
Production	No.			5	5
Quality	No.			7	7
Financial	No.			3	3

Key Performance Indicators		Nov05 - Jan06	May-Dec06	July- Dec2007	Total (2005-2007)
		PILOT	Implement	APPRM	TOTAL
IT/MIS	No.			1	1
HR/Training	No.			4	4
Total	br.			75	75

Source: APPRM official report for 2007

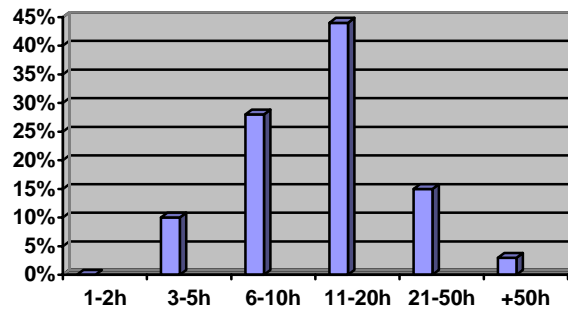
1.4.3. Evaluation of the VCS: the main findings

Further on brief explanation on the findings from the survey done in April 2008 is provided. Two different but very similar questionnaires were mailed to all the clients who participated in the VCS from the beginning until present. The BSOs and organizer-consultants were encouraged to do follow-up and get the number of returned questionnaires as high as possible. In the end 42 questionnaires were returned by SME clients and 54 by self-employed clients. Only descriptive data is provided in this chapter while several interpretations and implications derived from this study are provided in other chapters of this report.

Q1: Why did you enrol in the VCS? The company had a development project and this was the main reason for 38 % to get involved in the VCS. 33 % of the clients were encouraged by consultants and 26 % of participants needed professional help because their businesses dealt with some growing issues. It can be evaluate as positive that majority of the clients joined the VCS for some development orientation reasons rather than just problem-solving.

Q2: In which BSOs did you enter the VCS? Do you remember the name of the organizer consultant? The participants entered the name of the BSOs where they enrolled in the VCS. The BSOs were pretty equally represented in the survey. All the participants remember the organizer-consultant's name, which may indicate that in most cases there was a positive climate relationship established between the organizer-consultant and the client.

Q3: How many hours of consulting did you receive in 2007? A shown in the graph below, the majority of respondents received between 11 and 20 hours of counselling within the VCS. This amount can be evaluate as appropriate for some not very demanding consulting assignments to be done.



Q4: Do you remember the name of the consultant to whom delivered the consultancy service to you? 95 % of participants remembered the consultant's name, which they had to put it down in the survey. This finding may be interpreted as a positive sign of possible future co-operation between the two parties.

Q5: How you first came into contact with your consultant within the VCS? The consultant was recommended by friends and business colleagues in 28 % of studied cases. In 28 % of cases, the consultants were recommended by the organizer-consultants. In 13 % the consultant was picked up from the consultants' register and in another 13 % consultants approached clients with business proposals. There were only 3 % of other channels involved. Word-of-mouth (as a "classical" marketing tool in the SME sector) and BSOs obviously appear to be the most important distribution channels for the VCS.

Q6: Where did you find out about possibilities of the VCS? The most important sources of information for the VCS seem to be Employment agency (64 %) and consultants who provide counselling within the VCS (36 %).

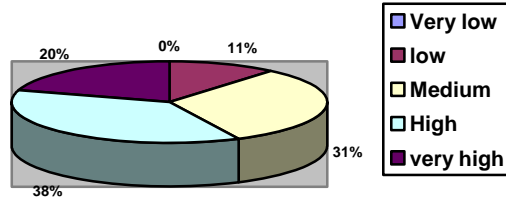
Q7: Which consulting content did you receive by from the VCS? The most frequent demand for different consulting services was for different elaborates and business plans and issues regarding production.

Q8: How satisfied are you with the following views of the VCS? The possible responses to these set of questions were from 1-highly disagree to 5-highly agree.

Rank	Issue	Overall mean: 4.87	Mean
1 st	The consultant was very skilled and professional.		4.90
2 nd	The content of consulting was very up-to-date for the needs of the company.		4.92
2 nd last	General impression about the consulting process is positive.		4,84
Last	Consulted had impact on better performance of the company.		4.75

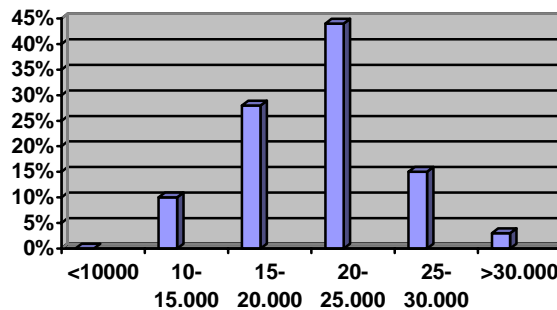
Q9: Did enrolment in the VCS bring you expected results? The expected results were met by 77 %, while 18 % think that results cannot be evaluated yet.

Q10: Evaluate the level of usefulness of the VCS! As it is obvious from the graph below there is 58 % of participants who believed that usefulness of the VCS is whether high or very high.



Q11: For you problem solving did you seek help from other external sources? 59 % of clients have never used any other external assistance to solve their problems besides the VCS. 23 % already have some experience with outsourcing assistance while 18 % are not sure how to answer this question.

Q12: What was so far the financial value of the services you received in the VCS? From the graph below it is obvious that the largest proportion of clients used the subsidiary between 20 and 25 thousands MKD (equivalent to 330 to 410 Euro).



Q13: How would you evaluate different views of your cooperation with your BSO? The possible responses were from 1-very badly to 5-very good. The overall evaluation of organizer-consultants' skills and knowledge is very high.

Rank	Issue	Overall mean: 4.69	Mean
1 st	General advice and information received		4.91
2 nd	Advise and procedures on establishing a company		4.87
2 nd last	Information about financial initiatives for SMEs		4.54
Last	Availability at official working hours		4.50

Q14: How would you evaluate different services delivered within the VCS? The possible responses were from 1-highly disagree to 5-highly agree.

Rank	Issue	Overall mean: 4.61	Mean
1 st	The organizer-consultants are highly trained regarding the VCS.		4.90
2 nd	The VCS is highly needed for spread of entrepreneurial climate in the country.		4.67
2 nd last	The entrepreneurs often get opportunity for ne networking while they are in the VCS.		4.31
Last	The services within the VCS are very well described in official publications.		4.17

Q15: How often did you use the advice from the consulting session later on?

There are 31 % of participants that claim to use the consultant's recommendations actually always and 56 % of those who use it very often. Only 8 % of clients have never used advises from the consultants.

Q16: Do you know all services within the VCS? 69 % of participants think they know about all the services within the VCS while, 10 % think they don't. 21 % are not sure how to answer to this question.

Q17: Have you ever used other forms of business consultancy outside the VCS? 36 % of participants provided a positive answer to this question, 44 % have never used a consultant outside the VCS, while 18 % are not sure how to answer to this question.

Q18: Will you use the VCS in the future if the conditions remain the same? Almost 90 % of the participants promised to come back and uses the services of the VCS while others are not sure. It is important that no respondent rejected the possibility to re-enter the VCS in the following year.

Q19: How important for you were the following reasons to enroll in the program? The possible responses were from 1-not important at all to 5-very important.

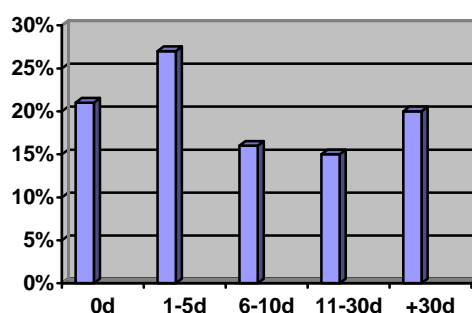
Rank	Issue	Overall mean: 3.95	Mean
1 st	I enrolled because I believed it would be useful for my business.		4.88
2 nd	I wished to prepare a long-term strategic development plan.		4.58
2 nd last	I felt the lack of entrepreneurial skills and knowledge.		3.15
Last	I wanted to be ready on time for challenges of e-business.		3.00

Q20: How would you evaluate skills and knowledge of the consultant with whom you cooperated mostly within the VCS? The possible responses were from 1-very badly to 5-very good. The overall evaluation of consultants' skills and knowledge is very high.

Rank	Issue	Overall mean: 4.75	Mean
1 st	Having enough time and patience to listen to the client		4.94
2 nd	Interpersonal skills		4.92
2 nd last	From the client he/she expect to use the suggested solutions and recommendations.		4.50
Last	He/she knows how to terminate the cooperation when the assignment is finished.		4.33

Q21: What would be the impact of the received counselling on your business performance? The expectations about the impact of the counselling are expressed to be quite optimistic: three thirds of participants think that benefits will come out very soon – within some months, while 18 % think that they may show within one year time. Other respondents expect longer time period for benefits.

Q22: How many days a year do you spend for similar activities (training, consulting)? From the diagram below, one can see that groups of respondents with several different days' periods spent on training and consulting are balanced.



Q23: Please, evaluate how much knowledge you possess in the following fields? The responses were from 1-no knowledge to 5-very high level of knowledge.

Rank	Issue	Overall mean: 3.97	Mean
1 st	Technical expertise from the area of business		4.67
2 nd	Customer relationships		4.55
2 nd last	European Union issues		3.43
Last	Accounting		3.32

Q24: How much money do you spend for the activities below? More than 80 % of respondents spent no or very little money on education and training: 28 % spend nothing and 55 % spend less than 5000 MKD (equivalent to 83 Euro) per year.

Q25: Why don't you spend more time for the activities above? The majority of the responses (almost 80 %) were linked to formal education and about 10 % to multi-day and one-day trainings and educations. The most frequent answer (82 %) was that education and training is not expected to be practical and therefore useful.

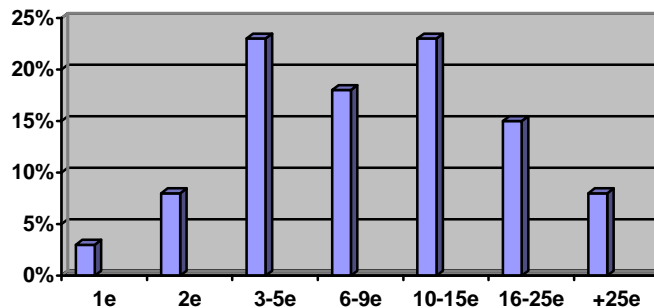
Q26: How would you evaluate the performance of your business in the last year? The responses were from 1-very bad to 5-very good.

Rank	Issue	Overall mean: 4.30	Mean
1 st	High quality of products and services		4.61
2 nd	Personal autonomy and freedom		4.41
2 nd last	Profitability of the company		4.18
Last	Financial revenues from the company		4.00

Q27: In which areas of business do you think business counseling may have biggest impact? The responses were from 1-not useful to 5-extremely useful.

Rank	Issue	Overall mean: 4.11	Mean
1 st	Increase of practical experience in entrepreneurship		4.64
2 nd	Better possibility to grow the business		4.57
2 nd last	Successful tender applications		3.76
Last	Counseling does not bring in direct financial impact		3.03

Q28: What is the number of full time employees in your business?



Q29: Do you think you will increase your activities and employ more people in the near future? Almost three quarters of the respondents are quite optimistic about their business future and believe they will manage to expand their operations.

Q30: What is your main activity? Two thirds of the researched companies were dealing with some kind production activity and 28 % are in construction business. Less than half of the companies reported more than one activity they deal with.

Q31: What is the legal form of your business? All the participants founded their companies as limited liability companies.

Q32: Who are your most important customers? Close to 60 % of respondents are servicing both, households and other businesses. 26 % of them are entirely in the business-to-business market while 8 % are in retailing market. Interestingly, none of the respondents is supplying to the government or public institutions.

Q33: How many products (services) which are results of your knowledge have you placed in the market for the last two years? The respondents claimed relatively high number of their own products they placed on the market which in a way does not correspond to answers to the question Q35. The explanation may be that the respondents may have misunderstood the meaning of “your knowledge” and counted also the products which they buy from domestic or foreign suppliers.

0	1	2-3	4-5	6-10	+11	Don't know
5 %	5 %	33 %	18 %	5 %	18 %	10 %

Q34: How many technological solutions do you in average introduce every year? From the table below one can see that entrepreneurs evaluate themselves as quite successful in implementation of technological solutions. However, the question raised at such points may always be how they understand and interpret the research question.

0	1	2-3	4-5	6-10	+11	Don't know
15 %	21 %	18 %	18 %	0 %	8 %	8 %

Q35: What is your proportion of spending for R&D activities? The majority of participants (69 %) confess that they spent nothing (13 %) or very little – below 10 % (56 %) for research and development activities. This may be a warning for policy-makers to put much more effort into development oriented business support programs.

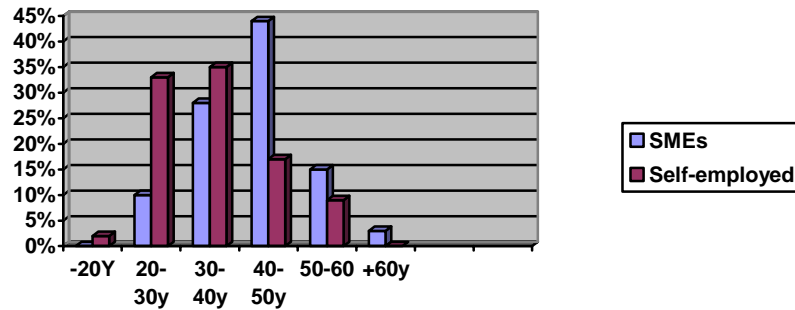
Q36: Do you regard your business as a family business? 67 % of companies regard themselves as family business, which is quite expected for a transition economy.

Q37: What is the age of the company? Young companies (1 to 2 years) were represented with 15 %, older companies of 10 years and more with 38 %, while 3 – 5 years old companies accounted for 23 %, and 5 – 10 years old companies for 18 % of the total sample.

Q38: What is your position in the company? 82 % of respondents were either owners, managers or founders of the company.

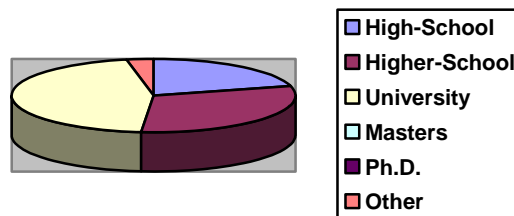
Q39: Your gender? Only 15 % of participants in the survey were women, which may indicate that they are neglected in entrepreneurial activities in the population of the country.

Q40: Your age? From the graph below it can be observed that majority of clients is in their middle age, while self-employed population tends to be younger and less experienced.

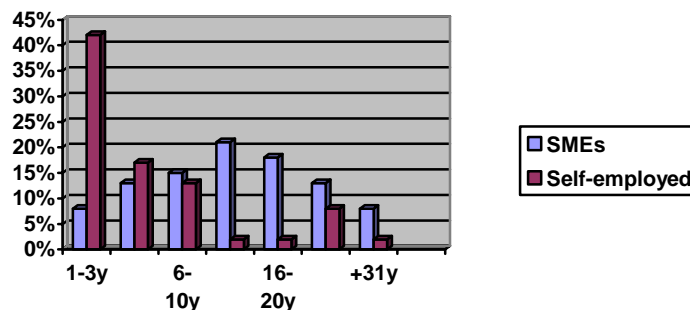


Q41: What is your civil status? About one half of the respondents thought that their civil status was not important for the issues researched. Among those who responded, around 60 % were married and 40 % were not married.

Q42: What is your level of education? As seen from the graph below, the SME participants are quite well educated which should be by no means interpreted as significant for the whole population and is probably the fact, that higher educated entrepreneurs, are more likely to seek useful information and find assistance for their business challenges.



Q43: Years of working experience? As one can observe in the graph below, there self-employed population is entering the VCS with far less working experience.



Q44: In which area do you have the most experience? It is interesting that 56 % of respondents have most experience in marketing and sales, followed by those with manufacturing experience (26 %) and managerial experience (13 %).

1.4.4. Some comments of findings

The evaluation of the VCS revealed some insightful findings covering two interactive elements within the system: consultants and entrepreneurs.

Potential entrepreneurs. In the beginning prevailing group in the system were registered unemployed job-seekers who were, at least theoretically, least likely to be the founders of growth-oriented companies. Clearly, the system needs to involve a larger number of more 'productive' groups, students and existing employees. In terms of motives for participating in the system, the analysis could not identify any significant difference between the pull and push decision factors. Services for potential entrepreneurs focus on business plan preparations but neglected the practical content concerning the challenges that await every newborn entrepreneur, such as a lack of finance for future development, expensive sources of financing, aggressive competition, accessibility of information on new market opportunities, lack of a trained workforce, payment collection difficulties etc.

Existing SMEs. The most likely sign-in sources were formal channels such as chambers and local entrepreneurship centres, creating opportunities for popularization through both the more credible channel of personal networks and the more efficient channel of the Internet. By joining the program entrepreneurs mostly expected help with practical goals such as winning public tenders, getting loans, standards certificates etc. The program is hence currently more oriented to consulting than educational training, which is primarily determined by the approach of individual consultants. Instead of such a one-course-menu service, a more proactive and long-term stance would be better for them. Evidence from the past shows there is more demand for consulting services that meet the short-term objectives of a company, for instance the preparation of business and investment plans, designing applications for public tenders, meeting standards required by new legislation, financial restructuring etc.

Only a small proportion of the services have focused on the long-term development of a company. Strategic and marketing plans, human resources development plans, business plans to attract equity capital, feasibility studies for inventing a new product or services have so far been rare. Therefore, a mechanism should be introduced to attract companies to become more involved in long-term thinking.

Entrepreneurs involved in the system believe entrepreneurial education is generally useful for it contributes to knowledge accumulation in their company and leveraging of future growth, while in the future they look for other long-term effects from counselling: the capability to more quickly adapt to the market and technology, a boosted local reputation, and augmentation of the social network.

1.5. Conclusions and implications

The evaluation has pointed out certain program development activities that should be undertaken in the future to better tailor the program to support entrepreneurs in the knowledge-based society. The program itself also offers many opportunities to teachers of entrepreneurship to disseminate their knowledge on one hand and to enhance the creation of actionable knowledge on the other.

Our survey among existing clients of the VCS shows that the current contents of offered services meet entrepreneurs' requirements. However, in the future the system should more actively involve programs to support a shift from the traditional technical orientation of small entrepreneurs to a more conscious marketing orientation. This can only be done through the more active implementation of practical education programs and workshops. This is also very closely tied to the quality of service offered in the system and consultants' payment management. The action plan of suggested changes in the VCS could be summarized as follows:

- Develop a systematic approach to attract competent consultants to the system.
- Develop a long-term action plan and enforce consultants' personal and professional qualification improvements through formal and informal forms of training, education, and placements.
- Develop a variable payment system to consultants in which a variable part of the payment depends on the future success of the consulted company.
- Develop systematic marketing channels of the system, including potential domestic and foreign partners that deal with SMEs as their main target group.

From the investment point of view, the development of conceptual metrics of returns on investments in the system is demanded. These metrics will be needed in future negotiations to ascertain appropriate budget financing.

Finally, on the demand side customer re-targeting is an important objective. So far, the system has been used more by micro companies, lifestyle businesses, small family businesses and similar rather than companies that should, by definition, be responsible for economic growth: fast growing dynamic enterprises, hi-tech companies, spin-offs from research institutions etc. Certainly one reason for this is that the annual limit of is too low for any serious consulting projects to be undertaken in larger micro enterprises. Accordingly, an increase in that amount should be considered in the future. The other reason may be found in the lack of consultants who are truly able to understand the very specific needs of more ambitious and growth-oriented entrepreneurs and their companies.

The transfer of the know-how of a best-practice type of a business support service is likely to have many important meanings for the future activities. (1) Being one of the first cases of this kind, the story of a successful know-how transfer of the VCS from Slovenia to the Republic of Macedonia may become a role model for the future activities of this type. Implementing a well proved business support scheme may directly reduce the development costs and give governments opportunities to

allocate more resources for the active phase of the scheme and make more resources available for the final beneficiaries. (2) Publicly funded scheme needs a regular system of evaluation. For the case of the Republic of Macedonia, this evaluation which has been so far done through an EAR funded technical assistance project, may in the future partly base on the benchmarking procedure done on the comparison with the evaluation findings, achieved in Slovenia with possible comparative development of the key performance indicators which may become a part of the longitudinal evaluation process. (3) The state of the Art of the development of the VCS in the Republic of Macedonia may be estimated as to be three years behind Slovenia, measured in the time framework. However, the speed of the future development of the VCS in the country may be substantially increased by implementation of the already tested protocols from Slovenia. (4) When Slovenia became full time member of the EU, the VCS was one of the very few schemes, specialized in the SMEs support which was financed from the EU structural policy measures funds. This may be a good opportunity also for the Republic of Macedonia, once this country may become eligible for this way of other forms EU finance apart from pre-accession assistance.

2. Recommendations for further activities and development of the VCS in the Republic of Macedonia

The VCS has been going on for more than two years. In the time being the great majority of operational questions have been completely resolved and stabilized on the levels of all involved agents of the program. The question which remained in a way open is the issues of eligible services within the scheme. Deriving from the assessment done in spring 2008, there are certain minor problems pointed out, however the main emphasis is put on actual content issues of the VCS.

2.1. General findings from the survey for 2005 - 2007

The VCS is of a great importance for development and spread of entrepreneurial culture in FYR Macedonia and also contributes to balanced and sustainable regional development of the country. Speaking about the later, some parallel studies may impose that there will remain certain gap even after the setting-up the SME and innovation support infrastructure in all regions of the Republic of Macedonia. To balance the innovative potential of regions it is necessary to invest into creative class which is in this case highly skilled and available labor force.

Generally it can be said that the management of the VCS is well established, professionalized and, on the satisfactory level. These conclusions can be derived from the survey which was done among clients who express very high level of satisfaction with the services of VCS.

One of the most important targets of the economic program of the government of the Republic of Macedonia has been and, probably will remain a decrease of the level of unemployment in the country. This is confirmed also by several programs dealing with the issues and challenges of fostering self-employment. Some of them have also sponsored been by international donor organizations (UNDP). From the assessment, it turns out that self-employment activities may have large and so far unused potential among those individuals, which all employed in creative activities requiring specialized skills and knowledge. In this sense, the VCS program remains to be of a great importance because it stimulates a proactive behavior among the unemployed population. The research has confirmed that individuals that pursue the process of self-employment need further assistance not only on informal levels (friends, family, etc.), but also formal assistance of BSOs, opportunities to participate at different workshops and seminars etc.

A possible reduction in the quantity of services provided by the VCS is highly unadvised. It is believed that both training and counseling for entrepreneurship and SME development are very important activities and their possible down-sizing may bring negative impacts of further development not only of the VCS but of the system of SME support as a whole. With entrepreneurs, especially those who are young and un-experienced it is noticed over and over again that they fail to

recognize business problems soon enough, before these become symptomatic. Mostly those, who are characterized with a low level of business skills and knowledge, are often too deep in troubles once they get aware of them. It is often too late even for short-effect trouble shooting, not to mention an often forgone opportunity for professional approach to problem solving, which might have been backed up by the VCS. The training for SME management skills is valuable mostly to strengthen individuals' general level of business knowledge among very small SMEs. Among the elements of needed business knowledge, courses like basics of business communication, foreign language knowledge and similar, should definitely find their place. In the Republic of Macedonia, the majority of SMEs are small, with owner/managers having relatively low level of formal education (as evaluated from several local experts), especially in comparison with those rare examples which already successfully operate on competitive global and European markets. This is a positive argument to recognize the soft support measures like SME counseling and training as a key channel for long-term improvement of this issue. Subsidized SME counseling within the VCS is an ice-breaking process in the common mentality of entrepreneurs. The survey has indicated that entrepreneurs which have used the subsidized services within the VCS more often demand for counseling which is not subsidized anymore.

2.2. Operational view of VCS

BSOs generally estimate the VCS as a very positive contribution to the development of the SME sector in the Republic of Macedonia. As probably the most impactful view is their exposure of the fact that participant receive the positive feeling that government is interested for problems and troubles of SMEs and is willing to provide some help and assistance. The second important issue is also the local availability of the program. The BSOs and representative organizer-consultants believe that higher level of efficiency would be achieved with better utilization of the information system which backs up the VCS.

The majority of operational problems seem to come from sometimes not adequately defined relationship between the APPRM as a management authority of the VCS and BSOs as the local/regional deliverers of the scheme. The BSOs often think that there is still some room for improving any possible inconsistency regarding the eligibility of different services for different target groups. Although the government has committed itself to thrive for the lower level of administrative bureaucratic requirements in all fields, the quantity of the prescript documentation is sometimes frustrating, especially for those lower educated clients.

The BSOs would also appreciate a more partnership type relationship with the managing authority, wishing for themselves more cooperation and less delegation. It is also believed that public awareness on the national level may be increased in the future. The level of recognition of the VCS remains relatively low, because only around one fifth of the clients think that they are informed about all the available services in the VCS. Some BSOs would also appreciate a possible invitation into

discussion for the further development of the VCS especially on the issues of local delivery of the scheme which should not only be the national level's responsibility.

2.3. Content view of VCS ad possible improvements

The content view and recommendations are linked to the particular target groups and availability of eligible services. Analysis of the following target groups seems to be reasonable: (1) unemployed persons, (2) potential entrepreneurs and, (3) SME clients. The following recommendations are based on the general findings of the assessment done and operational views of the overall management of the VCS. The particular recommendations for fields like: monitoring and evaluation, management information system and information system development, payment procedures, marketing etc. are contributed in the separate chapters of the report.

Possible improvements for the VCS are rounded into the following content fields: (1) quality of services provided, (2) availability of different services, (3) enrollment of different target groups and, (4) administrative and technical view.

2.3.1. Quality of services provided

The quality of services and its permanent control seems to be one of the key success issues for further development of the VCS. The quality of the service is mostly dependant on the quality already functionally embedded in the process of the delivery of the service which is naturally of an extensive dependence on the consultants' ability to deliver the counseling service on highest possible professional standards. The following measures are recommended for permanent and continuous improvements of the quality of the VCS services delivered:

- Regular assessments and improvements of the criteria required by consultants wishing to enter the VCS.
- Regular assessments of skills and quality of services delivered by the existing consultants in the VCS.
- Reduction of administrative work burden from consultants. Possible increase of administrative requirements may reduce the consultants' availability for quality work with the clients.
- Introduction of group counseling for the target groups which are estimated to be appropriate for this innovative way of counseling service delivery. The unemployed may be the suitable target group to do so.
- Improvements and regular updates of the consultants' register with upgrade of the option, that consultants' references may be peered by potential future clients.
- Higher level of cooperation and efficiency of the BSO network activities.

2.3.2. Availability of different services

The responses from the clients, BSOs and the newest research findings, mostly conclusions from research on “entrepreneurial intentions” show that possible downsizing of available services would not be a reasonable action. Potential entrepreneurs are individuals in the processes of changing their careers or defining them. Empirical studies from all over the world show that an individual’s decision about changing his/her career is pretty much dependant from his/her abilities to recognize, and understand his/her own abilities for entrepreneurship and also understanding opportunities to obtain these abilities. By fostering entrepreneurship training and counseling it is therefore positively contributed to higher level of understanding of opportunities to gain the abilities for an entrepreneurial career. In short, research of cognitive processes of those individuals who assess the dilemma of pursuing an entrepreneurial career and self-employment has shown that awareness of own entrepreneurial abilities is of a key importance for later entrepreneurial survival and success.

In a country like the Republic of Macedonia where research (more anecdotic rather than empirical) has shown that the level of entrepreneurial activity and intentions is rather low, the wide-spread availability of education, training and, last but not least, counseling services is of a crucial importance. The process of introducing values linked to overall raise of entrepreneurial and innovation level is extremely complex one. In the indirect matter, these needs may be stimulated through trainings while for direct impact the entrepreneurs need more intensively a tailor-made assistance in identification of their particular business challenges. Many entrepreneurs may not be aware that in spite of being so far successfully competitive at the global market, they daily face with challenges of the global environment which is conditioned with innovative competitiveness. Entrepreneurial training and counseling may substantially increase this level of awareness. The explained problematic is connected with the diversity of the demanded counseling services, revealed from the survey. Apparently some fields are in average twice less frequent (marketing, human resource, finance, law and growth) than other (actually the assistance in preparation of different elaborates is most frequent) which may indicate a certain level of unbalanced awareness of different business challenges.

The following measures are recommended for permanent and continuous improvements of the content of the VCS services delivered:

- Organizing-consultants should encourage the clients to demand also for neglected fields of expertise.
- The management authority should together with the BSOs, consultants and clients stimulate not only entrepreneurial ability type of services but also services that bring in broader knowledge and skills.

2.3.3. Enrollment of different target groups

In the process of harmonization of the legislation of the Republic of Macedonia, with the legislation of the European Union certain business activities may be discriminatory expelled from the eligibility of the voucher scheme (normally regulated with the state aid regulation and/or law, in some countries and also in European Union with special regulation for SMEs). This threat may especially apply for agriculture, fishery, coal industry, shipyards, and steel production together with steel manufacturing (also small parts production which is often produced by SMEs as subcontractors to larger companies – bolts and nuts, springs, chains, bonds, etc.).

Another concern is also very modest number of potential entrepreneurs (not-self employed) included in the VCS. In the developed market economies some recent research has been directed also to the questions related to entrepreneurial intentions in the active populations. The reason for this lays in the often proved finding that self-employed entrepreneurs, far more necessity rather than opportunity driven are much more less likely to be carriers if sustainable economic development of a country.

The following measures are recommended for permanent and continuous improvements on the enrollment of different target groups in the VCS services delivered:

- Close collaboration of APPRM with the corresponding body of the government of the Republic of Macedonia which is in charge to prepare and administrate the state regulations.
- Reduce the entry requirements and stimulate more intensive enrollment of potential entrepreneurs.

2.3.4. Administrative and technical view

Among administrative and technical views of the VCS the following issues are counted: hourly rate for consultant-organizers, eligible activities of consultants, updating of the consultants' register and promotion of the VCS.

The following measures are recommended for permanent and continuous improvements of administrative and technical views in the VCS services delivered:

- Increased hourly rate of organizer-consultants. It should at least follow the inflation rate.
- Spread in the hourly rate of consultants. The option of paid follow up after delivered consulting service should be introduced in order to stimulate a long-term relationship between a consultant and a client.
- Regular update of the consultants' register. The managing authority is responsible for the updates. Also, the content may be improved by adding an internet forum based discussion possibility where consultants and clients may exchange their experience.
- APPRM should prepare an integral promotional campaign for the VCS.

2.4. Conclusions

It is believed that the VCS is the key support policy measure for entrepreneurship and SME sector development, especially in the area of soft-support measures which are often neglected against the classical financial support form of government's assistance not only to SMEs but also other industrial sectors' members. In the target communities the VCS is very well accepted. Even more, the overall evaluation based on the opinions of the clients may be interpreted as excellent. However, the image of the VCS should be built forward in the future.

There should be the awareness about limitations of the VCS present. This type of support can successfully contribute to the development of entrepreneurial culture and SME sector as such only if other conditions are secured, such as fair and stimulating taxation system and legal system which enable the normal conditions for doing business.

For the end, there is a thought about measuring the efficiency of the scheme. This is described as an example of a soft measure of support, which has been worldwide recognized and established supporting instrument. Even from the term "soft" one can derive that it is highly unrealistic to put forward explicitly quantitative objectives.