



www.MethodFinder.net

Practitioner's Guide:

Business Consultancy Fund

gtz

Deutsche Gesellschaft für
Technische Zusammenarbeit
(GTZ) GmbH



Bundesministerium für
wirtschaftliche Zusammenarbeit
und Entwicklung



FRCS
Food Security, Regional
Cooperation & Security
(Georgia, Armenia, Azerbaijan)

Business Consultancy Fund

Brief Description

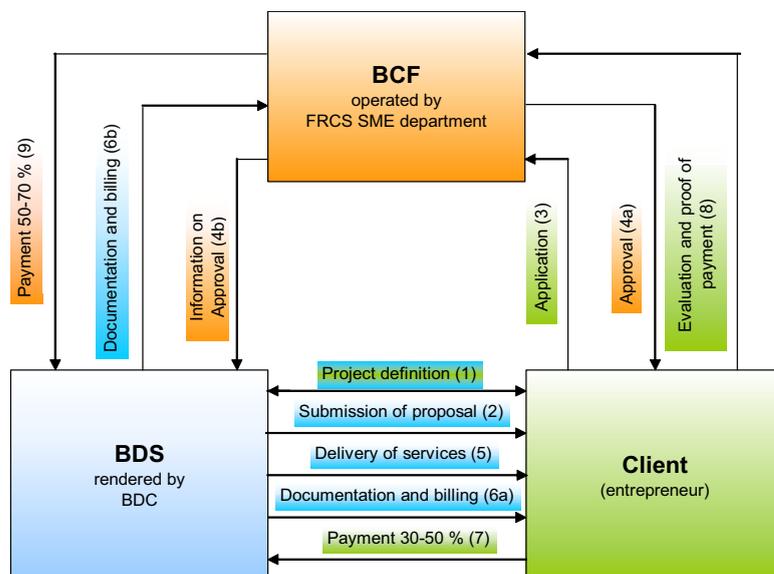


New market economies often offer few business development services and are poorly equipped to support the needs of emerging micro and small enterprises. To assist micro and small enterprises (MSEs) succeed in these environments, business centres and other advisory mechanisms must provide appropriate, targeted services. These services should fit the unique needs of MSE owners and strengthen entrepreneurial, managerial and technical skills. Despite the clear need for business advisory mechanisms, in most nascent market economies, MSE-targeted advisory services are not in high demand because: (i) entrepreneurs have no experience accessing expert advice and thus do not understand its benefits; or (ii) MSE owners cannot afford to pay for business consultancy services.

The establishment of a Business Consultancy Fund can overcome these barriers and support the growth of responsive business advisory services. Ideally, the establishment of the Business Consultancy Fund (BCF, or Fund) will encourage improved service delivery by business service providers to business people and entrepreneurs. Improved business consultations and counselling should facilitate and promote the growth of a viable and productive MSE sector in the project region, which, in turn, will increase employment and income.

Though a variety of institutional models can be used, in countries transitioning to market economies, BCFs are most often established separate and apart from governmental departments. In this case, the BCF does not hold the same legal status as a governmental entity and does not hold state registration, but is rather a voluntary instrument established by development organizations. The Fund is regulated by a set of bylaws or "BCF Regulations" and other documents approved by the relevant parties.

Figure 1: The Concept of a Business Consultancy Fund



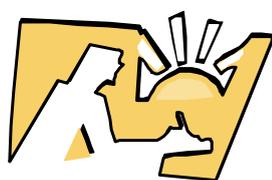
Business Consultancy Fund

Proposed Main Users

Private sector micro and small scale enterprises in the production and production-supporting services sectors, non-governmental economic development organisations, development organisations, regional and local governments.



Purpose of the Method



The purposes of the Business Consultancy Fund are to:

- ▶ Improve access to the resources and services offered to the business community by local Business Development Centres (BDCs);
- ▶ Encourage business people in the MSE sector to collaborate with regional BDCs;
- ▶ Stimulate demand for consultancy services by facilitating access and making these services more affordable at an initial stage;
- ▶ Help business people in the MSE sector operate their businesses more productively;
- ▶ Promote capacity building of business service providers;
- ▶ Improve the efficacy and financial self-reliance of business service providers;
- ▶ Increase the outreach of Business Development Centres;
- ▶ Develop stable BDC/consultant - client relationships;
- ▶ Increase awareness and knowledge of the value of consultancy services;
- ▶ Expose BDCs to real world experiences while safeguarding their operations/income.

Business Consultancy Fund

Advantages



The establishment of a BCF may:

- ▶ Stimulate the demand for business development services by small enterprise clients and encourage business people to try the services;
- ▶ Improve business people's access to the information, resources and services offered by local BDCs;
- ▶ Facilitate the provision of services by private providers;
- ▶ Improve business service delivery through increased competition;
- ▶ Help BDCs produce a "demonstration effect" that increases demand for their services;
- ▶ Raise the supply of demand-driven consulting services. As business centres are encouraged to search for product development and delivery mechanisms, resulting in better consulting products and services;
- ▶ Create solid, long-term relationships between service providers and clients;
- ▶ Set standards for quality and prices for business development services;
- ▶ Educate clients that services are not free;
- ▶ Encourage local BDCs to be more pro-active and output-oriented.

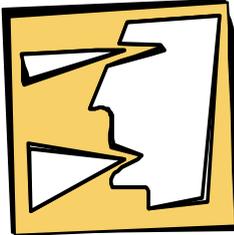
Limitations



- ▶ Consultants may lack practical experience in providing business development services in countries with a relatively young private sector;
- ▶ There may be no officially recognised education program for consultants to ensure quality standards and proficiency in the consultant's field or discipline;
- ▶ Demand for consulting services may be limited because business people fail to appreciate the benefits of the services rendered;
- ▶ Potential clients may lack knowledge of the benefits of business development services if the consulting market is under-developed;
- ▶ Willingness to pay for consulting services may be low; traditionally, governments and donors have provided business development services through public institutions or non-governmental organisations, mostly for free.

Business Consultancy Fund

Principles & General Procedures



The success of a Business Consultancy Fund is dependent upon a number of key variables, including:

- ▶ The availability of competent resource persons to provide professional business advisory services;
- ▶ The development of business advisory services responsive to the needs and demands of the target groups;
- ▶ An active business community capable of demanding advisory services and able to pay, at least in part, for them;
- ▶ Motivated and engaged project personnel who optimise the fund throughout all stages of planning, implementation and monitoring;
- ▶ The involvement of cooperating partners, who focus on regional economic development, in the funding, design and implementation process to avoid parallel structures and conflicting strategies;
- ▶ The successful marketing of BCF services in the region, so that target groups know about these services;
- ▶ Open communication with the business community about the availability of the Fund and its requirements;
- ▶ The availability of financing instruments (private savings or existing micro financial organizations) enabling entrepreneurs to implement their business plans and to expand in the targeted region; and
- ▶ A transparent and flexible decision making process which can be implemented quickly upon approval of the consulting projects.

The primary steps to establish a Business Consultancy Fund are:

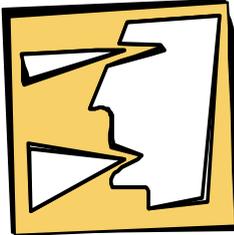
A. Introduce the idea of the BCF to Business Development Centres and other stakeholders. This can be accomplished at a kick-off meeting with local entrepreneurs, financing institutions, development organisations and other identified stakeholders.

B. Establish Fund guidelines that define (i) the target group; (ii) who is eligible to apply for business consultancy services; (iii) the type and extent of consulting services financed by the fund; and (iv) the prices and limits of the consulting services provided. As a general principle, applicants for consulting services should be required to make a financial contribution towards the cost of the consulting services. This ensures that requested services are responding to a genuine perceived need.

C. Develop an Operational Manual that sets forth the roles and relationships between the Fund, the BDC, and the MSE client. The Operational Manual should clearly define the application procedures, criteria for the acceptance of proposals, and documentation and payment procedures. The flowchart depicted in figures 1 and 2 presents schematic mechanics of a BCF operations, including the elements which should be covered in the proposed operational manual.

Business Consultancy Fund

Principles & General Procedures



D. Establish administrative and decision making structures. To operate smoothly, the Business Consultancy Fund needs an administrative institution supported by a decision making body (DMB). The responsibility for application selection should be allocated to the DMB. Members of the DMB should include representatives of the funding organisation(s), service providers, and individuals who are respected economic experts such as managers and/or owners of SMEs, micro finance institutions, commercial banks, and personnel from governmental units with MSE oversight responsibilities.

E. Inform the target community of the Business Consultancy Fund and its conditions. Before the Fund can begin operations, information about it must be disseminated to the intended target group through mechanisms such as brochures or mass media outreach (newspaper, radio, television). The information should include how entrepreneurs can request consulting services, the selection criteria, and conditions for financing and payment.

F. Train BDC staff on the Fund's application, documentation and payment procedures, and train the Fund's decision making body on the procedures for the approval of proposals.

G. Contract the business service provider to provide services and apply the procedures. After application approval, a contract between BCF administration and the business service provider will be concluded which states the project approved, amount and use of local grant and its provision, rights and responsibilities of the parties according to project implementation rules. After the contract is signed, the grant is provided according to the operational manual.

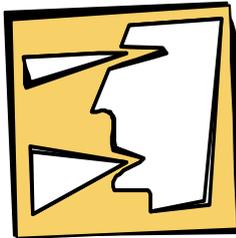
H. Monitor the Fund implementation and revise the regulations and procedures if necessary. The BCF-administration should control use of the Fund and check the quantity and quality of services performed. It should assess the financing requests and raise additional funds as necessary.

DMB members should be authorised to make principle adjustment to the conditions governing the Fund when necessary to account for unforeseen changes.

I. Evaluate the impact of the Business Consultancy Fund. Periodic evaluations should take place every three to six months, as determined in advance by the DMB. An external party should report on the services provided and determine the extent to which the Fund delivered the intended direct and indirect benefits to the target groups.

Business Consultancy Fund

Principles & General Procedures



Step-by-step BCF operational overview

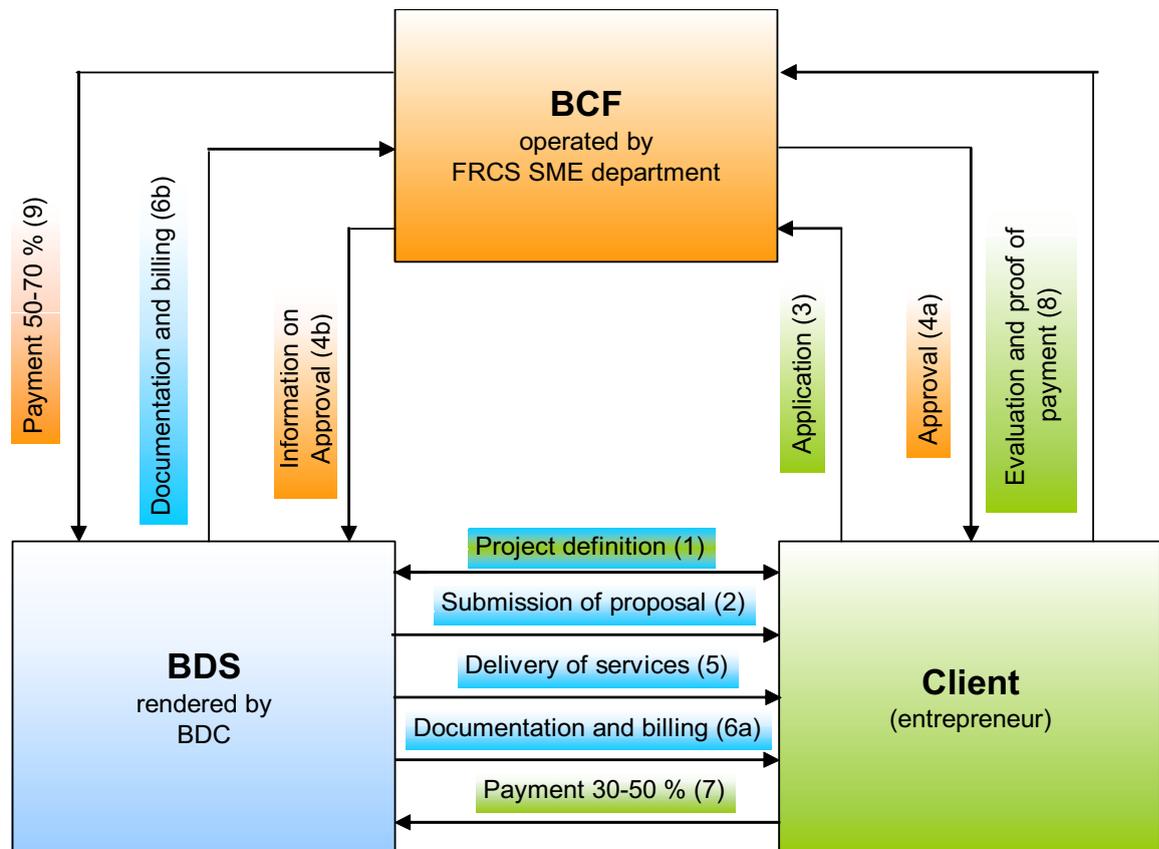
The step-by-step process required for developing a BCF has been graphically depicted in figure 1. The approach to be followed is as follows:

(1) **Project definition:** The BDC defines the project together with the client.

(2) **Submission of proposal:** After the project has been defined, the Business Development Centre service provider submits a project proposal and a financial proposal to the client.

The project proposal identifies the problem confronted by the enterprise and defines the consultancy services that would address the problem. Figure 2 is a sample project proposal form.

Figure 1: The Concept of a Business Consultancy Fund



Business Consultancy Fund

Principles & General Procedures

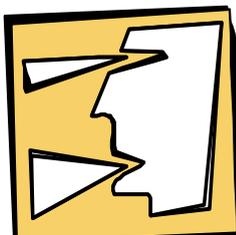


Figure 3: Suggested "Financial Project Proposal" form

Financial Proposal according to Project Proposal

Description of the consulting task	Consulting days required	Name of the consultants participating at project	USD per day	Total USD (VAT excluded)	Deliverables (reports, etc.)
Project stage Nr. 1:					
Project stage Nr. 2:					
Project stage Nr. 3:					

Total USD:

Planned project commencement date: _____

Closing date: _____

Other application selection criteria could include:

- ▶ A good match between the application and the activities of business centre and its specialization;
- ▶ Range of services presented in one package and ratio between cost of consulting services and expected output (cost-benefit-ratio);
- ▶ Availability of, or access to, financial resources to follow the recommendations and business plans;
- ▶ Realization by the applicant/client of necessity to have the consultancy service and readiness to make his/her financial input.

(4b) Contracting: At the same time the proposal is approved, the BCF administration informs the BDC about the consulting assignment and contracts with the BDC to provide the consulting services according to the approved project proposal.

(5) Delivery of Services: The BDC delivers the services as defined in the project proposal.

(6a) Documentation and Billing: The BDC summarizes all activities and results in a written report and submits the final report and bill to the client.

(6b) Copies of the final report, work report and the bill are submitted to the BCF administration.

(7) Payment: After the client's acceptance of the written report, the client pays the agreed contribution, between twenty and fifty percent, towards the financing of the consulting services.

Business Consultancy Fund

Principles & General Procedures

Figure 4: Suggested "Evaluation Sheet" form

Evaluation of Consulting Service			
Please evaluate your cooperation with the consultant according to the following criteria:			
Total evaluation of consulting service		The results of the consulting service (measures, recommendations, ...) are	
very satisfied	<input type="radio"/>	very helpful	<input type="radio"/>
satisfied	<input type="radio"/>	helpful	<input type="radio"/>
less satisfied	<input type="radio"/>	less helpful	<input type="radio"/>
not satisfied	<input type="radio"/>	not helpful	<input type="radio"/>
The consultant took into account the enterprise's situation		The written documentation of the consulting process is	
completely	<input type="radio"/>	very informative	<input type="radio"/>
mainly	<input type="radio"/>	informative	<input type="radio"/>
sufficiently	<input type="radio"/>	usable	<input type="radio"/>
not enough	<input type="radio"/>	not usable	<input type="radio"/>
Date, Signature: _____			

(8) Evaluation and Proof of Payment: The client submits to the BCF-administration an evaluation of the consulting services and proof of payment. Figure 4 is a sample Evaluation Sheet.

After checking the documents, the BCF administration pays the remaining amount for the provision of the consulting services. The BCF administration is entitled to suspend payments for consultancy and counseling services which do not meet the quality requirements, the regulations of the fund, or fail to fulfil the assignments.

It is important for the business centres to be cognizant of, and sensitive when dealing with, confidential and proprietary information. Business consultancies may have access to the following confidential and proprietary information about their clients:

- ▶ Actual financial data from the current and past two to three years of the company to be compared for evaluation and analysis purposes.
- ▶ Structure of assets and liabilities.
- ▶ New ideas and future plans of the company, in terms of new product development, new design, new markets, new approaches to the market.

Business Consultancy Fund

References and Sources Used



FRCS/GTZ Project Team Georgia, **Manual of Operation for Business Consultancy Fund**, 2005.

FRCS/GTZ Project Team Armenia, **The order for application to Business Consulting Fund and payment and consulting services delivered by Business Promoting Centres (Manual)**, 2005.

GTZ Summary, **Business Development Services**, Eschborn.

Stueckler, Erwin, **Business Consultancy Fund**, Austria, June 2001.

Vashakidze, Eka, Evaluation Report on I : **Cycle of business Consultancy Fund**.