



Impact Assessment Report

Fiscal Year 2005

Prepared by: Gordana Alibasic, M&E Analyst
Ben Reno Weber, M&E Consultant
Mehmedalija Berbic, M&E Assistant

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1. Executive Summary

Monitoring and Evaluation

Fiscal Year 2005 offers the most complete picture yet of the evolving impact of SEED's work. With more than 2,000 client responses from every program area for FY 05 alone and 7,000 responses total spread over the past three years, it is now possible to evaluate trends and assess individual programs within a broader context.

Monitoring and evaluation is a constantly evolving process. SEED has a dedicated Monitoring and Evaluation (M&E) team, separate from project staff, that works to tailor SEED's M&E systems and process to the needs of individual projects while maintaining sufficient cross-programme relevance to enable aggregation of data at a global level and comparison of programmes across SEED. This report is based on the outputs of that process, which includes client surveys, follow-up interviews, and focus groups.

Market Development

SEED's market development activities have had a positive influence on the development of a sustainable market for business services. SEED's clients are satisfied with their services as a whole and as such are more likely to seek out business services, pay for services, and value those services. These conclusions are supported by client feedback, repeat clients, and willingness to pay.

Retail Training

In general, SEED's M&E process indicates that its retail training activities have had a strong impact on businesses. Clients have gained new skills, applied those skills in their businesses, and made real changes in business operations. For many clients those changes have led to significant improvements in business performance.

Business Development Services

In limited circumstances, there appears to still be a niche for developing and/or introducing new products and services into the market. Under some circumstances, this can be very successful. However, granted the diminishing returns noted by SEED in FY 04 when BDS support was a much larger part of its work, SEED should continue for the most part to develop the capacities of local BDS providers only so much as SEED itself needs them to pursue its programmatic goals.

Financial Institutions

SEED's work with Financial Institutions has strong impact and should be repeated and expanded upon as far as possible.

Linkages

SEED's linkages work had an overall positive impact on the companies with which SEED worked. While SEED is by no means wholly responsible for improvements in business performance, there was improvement in business performance in the time after SEED worked with their clients, and the clients felt that SEED made a significant contribution. Though somewhat different from IFC's traditional linkages model, SEED's

linkages program did have good impact on the small number of companies with which they have worked.

Business Membership Organizations

SEED's BMO development methodology has been highly successful in some areas and moderately successful at others. In terms of providing targeted services to businesses, creating networking and market development opportunities for their members, and serving as a vehicle for information dissemination, SEED's BMO partners have had a high level of impact on their members. As a vehicle for driving policy changes, some of SEED's partner BMOs have been very successful, others much less so. SEED's partner BMOs have increased the revenues provided by membership fees and services to members, but still remain dependent on donors for a substantial amount of their operating expenses.

Corporate Governance

In general, it seems that SEED Corporate Governance training provided good knowledge to participants, and that there was a real understanding on their part about the need for greater education. There is less clarity that SEED's pilot has had much impact on businesses, at least as of yet. Future Corporate Governance programming is planned within a more systematic framework and will proceed in greater depth, both of which should make it more effective.

Alternative Dispute Resolution

SEED's two Alternative Dispute Resolution methodologies, piloted in Belgrade, Serbia and Montenegro and Banja Luka, Bosnia and Herzegovina, were both resoundingly successful. All of the stakeholders, judges, mediators, and litigants found the mediation process to be a significant improvement over the traditional court resolution process. Several million dollars were freed from legal encumbrance, cases were resolved in significantly less time than is the norm in the region, and there were strong indications that the mediation process would be financially self-sustaining in the long run.

Business Enabling Environment

Measuring the performance of Business Enabling Environment (BEE) projects is a complex and difficult endeavor. BEE projects by their nature are long-term, affect a wide pool of end-recipients, and seek broad impact not easily attributable to one cause. This makes it difficult to determine impact without broad surveys and/or detailed economic indicators not easily available in many target countries. The costs of acquiring that information, particularly in developing countries where data is often difficult to obtain, are significant.

SEED's BEE portfolio generally reflects strong results where such results are available. Particularly in the financial sector where factoring and leasing work have born fruit, and in work focusing on improving the interaction between government and business such as business registration and inspections, SEED's projects have born fruit. In other areas, it is difficult to assess impact, and the best that can be offered is progress reports.

2. Introduction

Fiscal Year 2005 offers the most complete picture yet of the evolving impact of SEED's work. With more than 2,000 client responses spread across every program area for FY 05 alone and 7,000 responses total, SEED's impact assessment system is paying dividends in terms of its ability to give a thorough evaluation of SEED's impact on its clients and the overall effectiveness of its work. In addition with more than three years of client responses, it is now possible to evaluate trends and assess individual programs within a broader context.

SEED has worked to integrate the results of its Monitoring and Evaluation (M&E) process into every aspect of its work. During project development and design, a logical framework is developed which helps staff and management understand the scope and depth of the project. Also during the development stage, indicators are identified that can be used during and after the project as concrete measurements of success. Throughout its life cycle, each project undergoes regular monitoring and reporting. A short time after project completion, the effectiveness of the project and, as far as possible, its impact on end clients is assessed. At each of these phases reporting to project staff, management, and donors facilitates continuous improvement and/or reallocation of resources.

Monitoring and evaluation is a constantly evolving process. SEED has a dedicated Monitoring and Evaluation (M&E) team, separate from project staff, that works to tailor SEED's M&E systems and process to the needs of individual projects while maintaining sufficient cross-programme relevance to enable aggregation of data at a global level and comparison of programmes across SEED. The M&E team works with the staff to understand the intricacies of each project, but reports directly to management and to donors. At the heart of SEED's M&E work is the sophisticated management information system known as the Project Tracking Monitoring and Reporting System (PTMRS). PTMRS can integrate data from the budgets, actual expenditures, staff timesheets, quarterly reporting, customer satisfaction, and impact assessment process into a coherent whole at any point in the project lifecycle for use by project managers, SEED management, donors, and the M&E Team.

Box 1: An Independent Critique of SEED's Monitoring & Evaluation System

In 2005, the IFC hired Marco Lorenzoni, a consultant with wide-ranging experience in Monitoring and Evaluation, to conduct an independent assessment of SEED's M&E systems and processes. While making a number of recommendations on ways to improve the system in the future, his report indicated that SEED's M&E processes and systems were managed in an open and transparent fashion, and that they provided useful analyses of the effectiveness and efficiency of SEED's programming. He also concluded that while the M&E System offered some insight into the long-term impact of SEED's work, a broader assessment would need to be done over time to offer conclusive evidence of impact. A summary of his findings is attached as Annex 2 to this report.

2. 1. Monitoring and Evaluation in SEED

The monitoring and evaluation process within SEED had three main goals: The first was **institutional learning and development**. By providing management and project staff with initial client responses, consultant/trainer evaluations, and client follow-up data, the M&E process facilitated improvements during the project lifecycle and in subsequent interventions.

The second goal was **project selection and evaluation**. By combining information from client responses and independent evaluations with the applied knowledge of the project staff, SEED's management could respond to changes in the market, fill development gaps, and redirect resources to where they would have the greatest impact.

The final purpose of the monitoring and evaluation process was **external reporting** to donors, the IFC, and other partners about the progress and impact of SEED's activities.

As SEED's fiscal year 2005 (FY05) was SEED's final year of operations, this report is primarily concerned with external reporting and, to a lesser extent, with providing lessons that could be applied both to SEED's successor, the Private Enterprise Partnership – Southeast Europe (PEP-SE), and others involved in providing technical assistance to the private sector.

This report seeks to answer several basic questions:

- How has SEED affected the market for business services in the region?
- Were SEED's clients satisfied with the services that they received? Why or why not?
- Have SEED clients improved their business skills or knowledge as a result of SEED's services? If so, has that translated into concrete changes in their business operations?
- Have these changes translated into a measurable impact on the profits or employment levels of Small and Medium Enterprises?
- How has SEED contributed to improving the overall business environment in the target countries?

In addition to the FY05 Impact Assessment report generated by SEED's M&E Team, SEED has also commissioned two reports by independent external evaluators. These reports should provide additional insight into the effectiveness of SEED's interventions.

The data in this report was gathered between July of 2002 and September of 2005 (fiscal years 2003 through 2005) and reflects projects completed during that period of time. Fiscal years 2004 and 2005 (FY04) saw a dramatic upswing in the quantity and quality of client responses within every type of project. This can be jointly attributed to better processes by the M&E team and greater support from project staff. Table 1 below shows the cumulative number of customer satisfaction and impact assessment forms collected for the FY03 and FY04 as well as response rates in impact assessment surveys.

**Table 1. Cumulative customer satisfaction and impact assessment forms
from FY03 to FY05**

	FY03		FY04		FY05	
	Customer Satisfaction	Impact Assessment	Customer Satisfaction	Impact Assessment	Customer Satisfaction	Impact Assessment
Retail Consulting	40	10	58	23	84	75
Retail training	273	148	1366	431	2814	1327
Wholesale Training BDS	193	145	605	157	1165	228
Wholesale Training FI	85	17	122	24	308	260
BMO					42	33
ADR – Trg					51	75
ADR – Judges						17
ADR – Mediators						15
ADR - Clients					13	1286
BEE				8		18
Total inputs	591	320	2151	643	4477	3334
Response rate	FY03	35%	FY04	54%	FY05	67%

*The response rate includes only those projects for which Impact Assessment was due and survey conducted at the time of reporting

A more detailed explanation of the methodology underlying this report is available in Annex 1.

3. Market Development

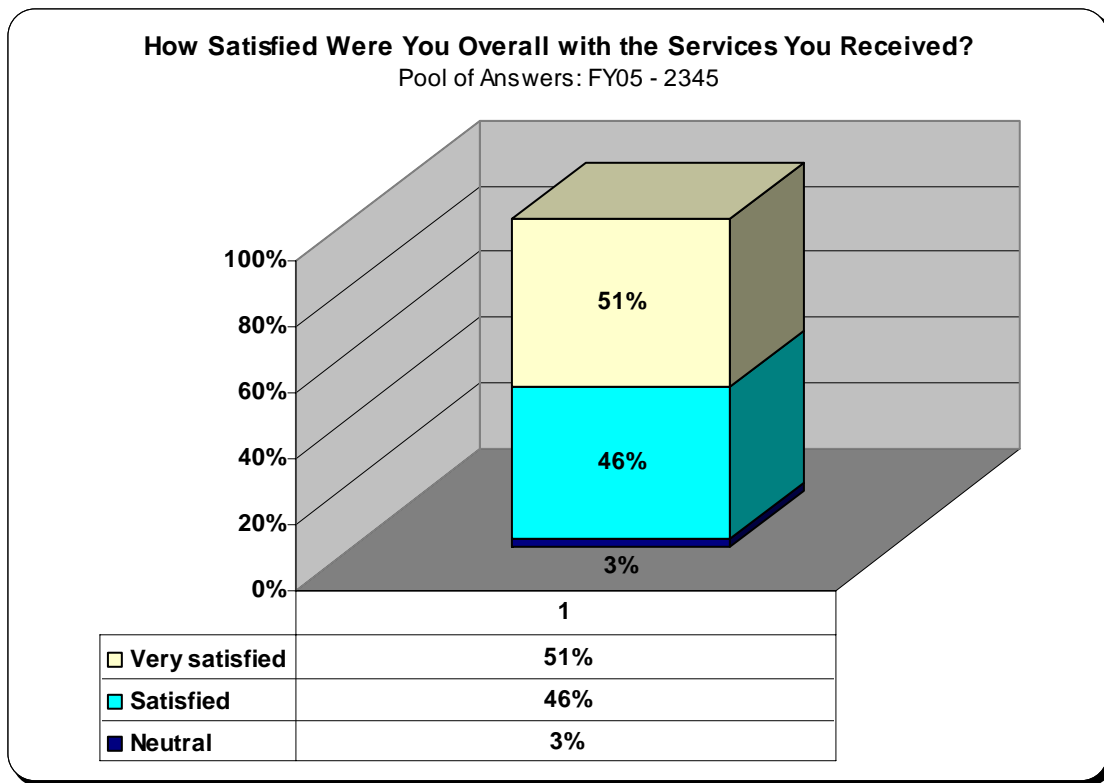
One of SEED’s primary objectives has been the development of a sustainable market for affordable business services in the region. SEED’s strategy was to build both the supply of high-quality, commercially affordable business services for SMEs, and the demand for those services. On the supply-side, SEED’s work has focused on developing the capacities of Business Development Service (BDS) providers such as private consultants, universities, and BMOs. On the demand-side, SEED has focused on developing or bringing into the region targeted trainings and consulting services either not previously available or not available at prices SMEs could reasonably afford. SEED’s rationale for providing direct services to SMEs has been to demonstrate the potential impact of these services on SMEs and thus develop demand in the market. By charging for services it delivered or facilitated, SEED sought to establish both the viability of the market, particularly the SME market, for service providers and establish an expectation of payment for services in a region still heavily influenced by donors.

3.1. Client Satisfaction

The satisfaction of SEED's clients as a group is important both as an indicator of SEED's performance and within the context of SEED's market development mandate. If SEED successfully demonstrated the benefits of paid business services to SMEs in the region, they are more likely to demand and pay for those services in the future.

In general SEED's clients continue to be satisfied or very satisfied in general with SEED's work across all project types and countries. In FY05 97% of all respondents said that they were satisfied with SEED's work, which is consistent with results in FY03 and FY04.

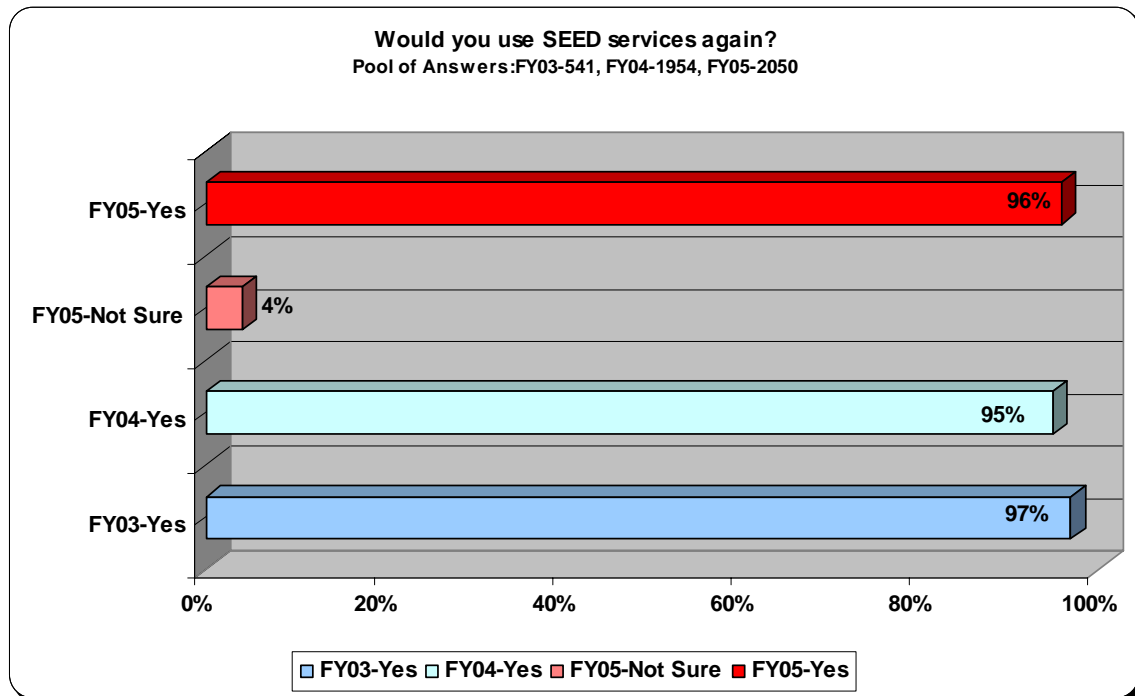
Figure 1: Overall Client Satisfaction



Each of the more than 2,000 respondents was polled at the time their intervention with SEED ended, reflecting more whether SEED met their expectations than whether their broader objectives were accomplished. This indicates a strong sense that by working with SEED, its clients are achieving their goals.

This conclusion supported by the number of SEED clients (96% in FY05) who indicated that, given the opportunity, they would use SEED services again.

Figure 2: Would You Use SEED Services Again?



3.2. Repeat Clients

In FY04, in addition to asking hypothetical questions about whether clients would use SEED services again, the M&E Team began tracking the number of clients who actually did. Repeat clients provide a concrete statement about the quality of SEED services, as dissatisfied clients would presumably not return to SEED, particularly granted the need to pay. Furthermore, repeat clients are in some ways a measure of SEED’s success at building demand for business services.

Table 2: Number of Repeat Training Client Companies

	Repeat Training Client Companies				Total # client companies	% of Repeat clients
	2 times	3 times	4+ times	Total		
Albania	44	20	23	87	321	27%
Bosnia and Herzegovina	113	29	45	187	742	25%
Macedonia	38	10	14	62	405	15%
Serbia and Montenegro	51	14	19	84	758	11%
Total	246	73	101	420	2228	19%

There are number of clients who have used SEED 8 to 16 times in different trainings. They are listed in Annex 3 as SEED’s most frequent clients in trainings.

This chart only includes client companies, not individuals who have attended several SEED trainings.

Table 3: Number of Repeat Consulting Clients

	Repeat Consulting Clients				Total	Percentage
	2 times	3 times	4+ times	Total	# clients	%
Albania	1	2	1	4	28	14%
Bosnia and Herzegovina	6	1	3	10	50	20%
Macedonia	2	2	0	4	23	17%
Serbia and Montenegro	4	0	1	5	36	14%
Total	13	5	4	22	137	16%

The percentages of repeat clients in both training and consulting have improved since FY04. The M&E Team believes that the improvement is related to the increasing transition from one-off interventions to more focused, demand-driven programmes with greater technical specificity in both their training and their consulting work.

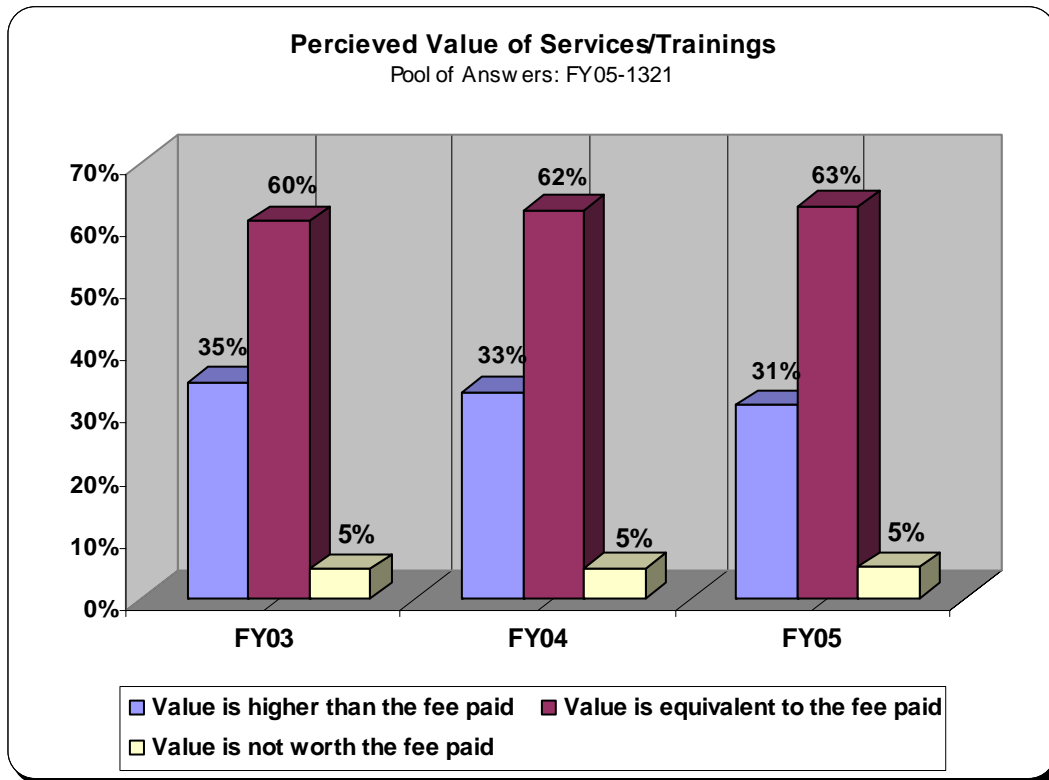
It is difficult to establish benchmarks for these numbers because of SEED's unique position in the market, but the M&E Team is satisfied that the level of repeat client participation in the program is consistent with other indicators of SEED's market development impact.

3.3. Pricing

As one of SEED's ultimate goals was the development of a sustainable market for paid business services, SEED's pricing is extremely important. Excess subsidies crowd out local competitors and retard market development, however while the market for businesses services remains in its infancy, low prices are essential to attracting businesses that might not otherwise be willing to participate. This is particularly true in markets such as Southeast Europe in which there are many donors operating with heavily subsidized or completely free business consulting and training products.

In FY05 SEED's clients (94%) felt that SEED services were worth the price they paid. In fact a significant minority (31%) say that SEED services were worth more than the price they paid, and that they would be willing to pay more in the future.

Figure 3: Perceived Value of Services



These numbers should not be taken at face value, as it is unlikely that the clients surveyed would actually use the exact same services again, so there is little disincentive for them to indicate that the price should rise. However, combined with the number of repeat clients and the steadily increasing number of paying clients from year to year (see Figure 4 below), there is significant evidence for an increase in the general willingness to pay for business services.

3.4. Cost Recovery

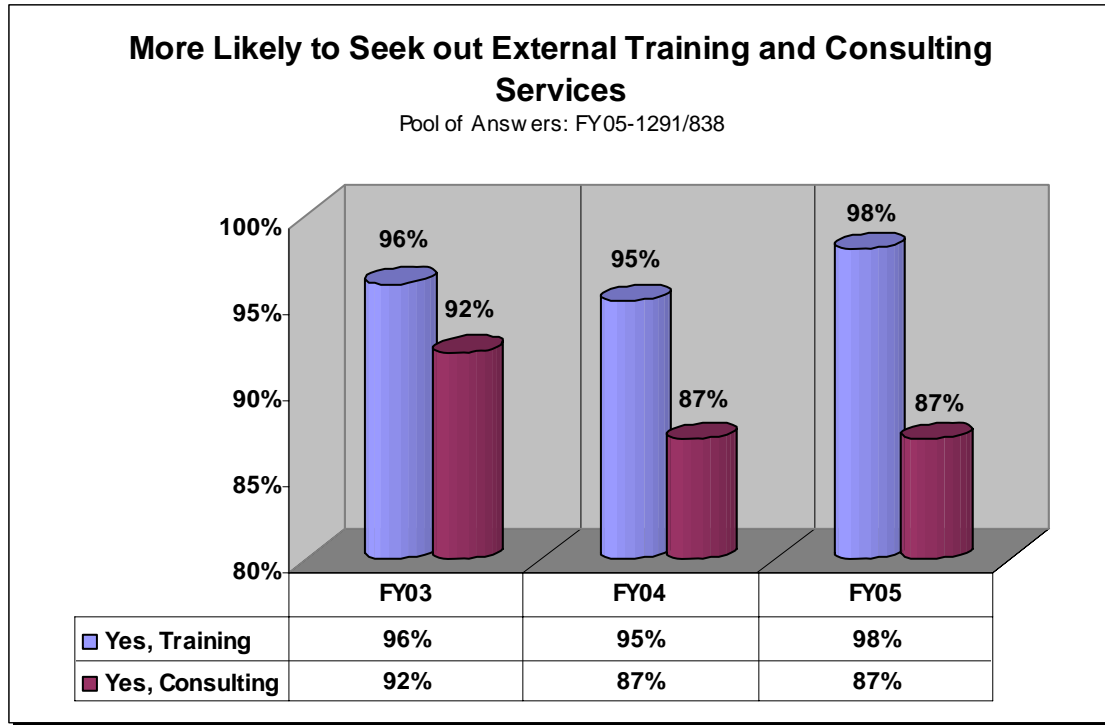
As part of its market development activities, SEED continues to push for full local cost recovery. While this is not a reality for many of its products, nor should it be granted its development mission, SEED seeks to cover a high percentage of its costs in fees. For FY04, SEED covered approximately 82% of its local SME training and consulting costs with fees, indicating a significant willingness to pay on the part of SEED's clients, and significant progress in developing a sustainable market for business services. Local costs do not include international consultants retained for individual modules or trainings, although international consultants are used for only a minority (27%) of projects.

3.5. Demonstration Effects

As SEED's activities are geared towards developing the market for business services as a whole, SEED's impact on the demand for business services in the market is an important indicator. When surveyed, 98% of SEED's clients indicated that they were more likely to

seek out other training as a result of having worked with SEED. The vast majority (87%) of SEED’s clients indicated that they were more likely to seek out consulting services as a result of SEED’s intervention.

Figure 4: More likely to Seek out External Training and Consulting Services

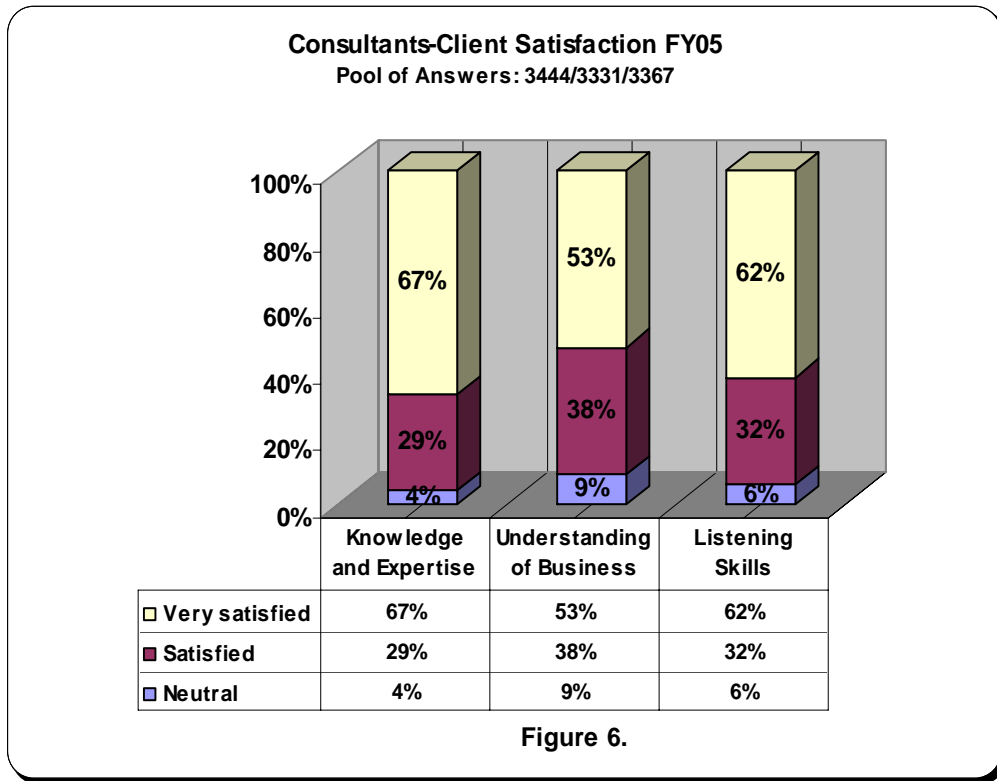


While this is far from conclusive, it is indicative that SEED is having a positive impact on the market.

3.6. Client Satisfaction with Consultants and Trainers

The Chart bellow shows client satisfaction on SEED selection of consultants and trainers. Based on these evaluations of consultants / trainers, SEED used to decide who to engage within projects. The vast majority of SEED clients were either satisfied or very satisfied with consultants and trainers of which 62% were very satisfied.

Figure 5: Client satisfaction with Consultants



Conclusions

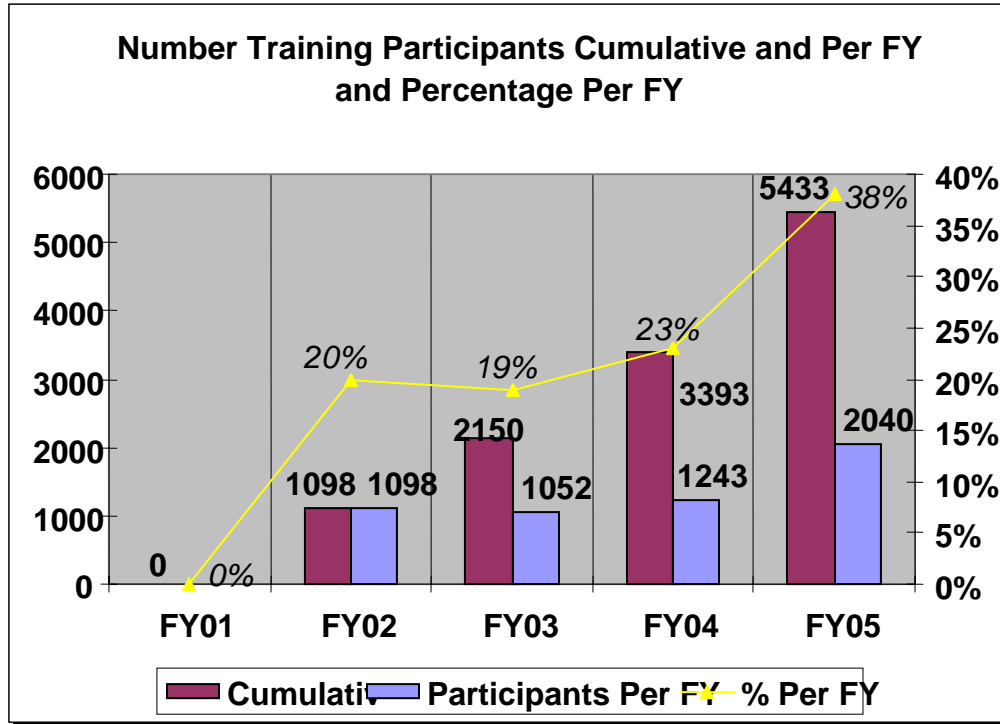
SEED’s **market development** activities have had a **positive influence** on the development of a sustainable market for business services. **SEED’s clients are satisfied** with their services as a whole and as such are **more likely to seek out business services, pay for services, and value those services.** These conclusions are **supported by client feedback, repeat clients, and willingness to pay.**

Based on surveyor’s experience it could be also concluded that clients appreciate to be contacted in order to give response on client satisfaction and project evaluation after intervention. Maintaining relations with clients during and after the end of project is very important from clients’ point of view.

4. SME Training

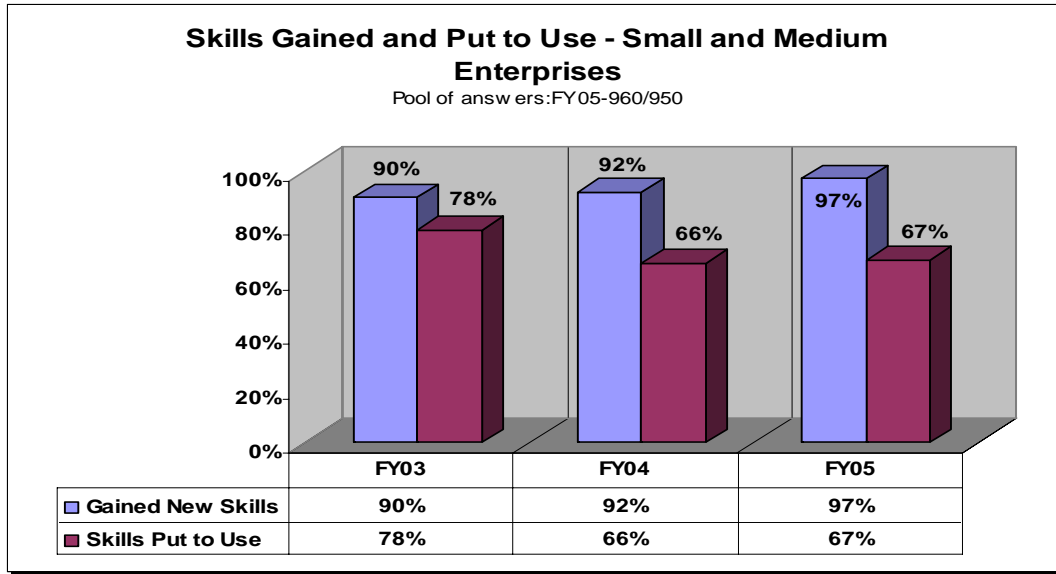
In FY05, SEED's facilitated training for more than 2,000 participants from SMEs, Financial Institutions, BMOs, government officials, and BDS providers.

Figure 6: Number of Training Participants per Fiscal Year



Many of these participants was surveyed both immediately after the training and several months later. The depth of this data in each year and over time enables us to look at these results with some confidence

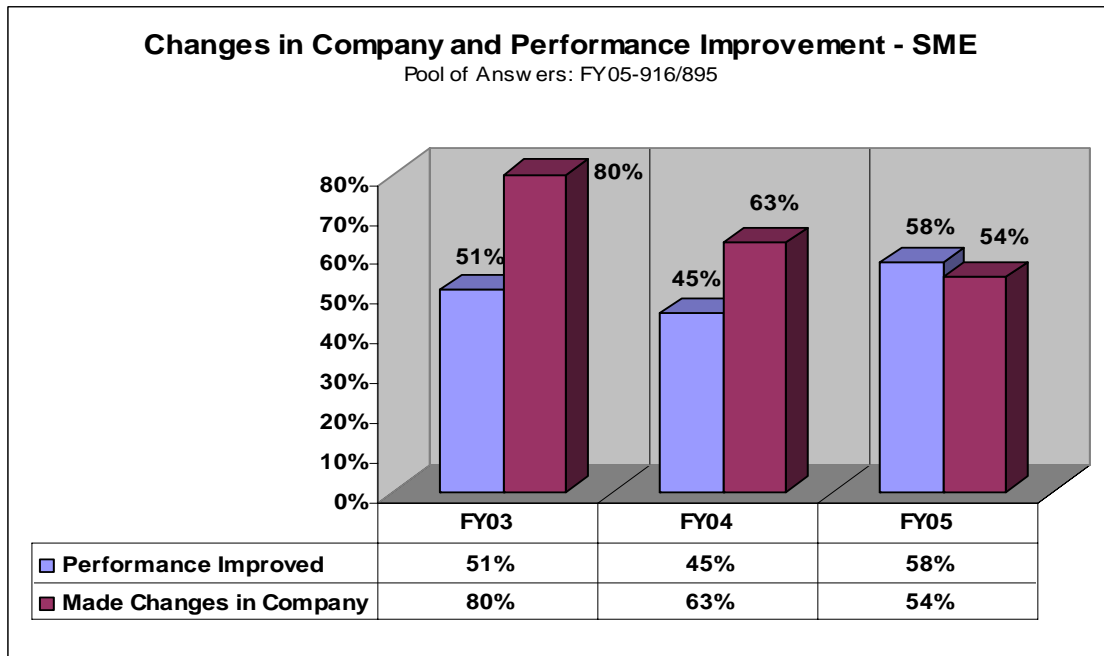
Figure 7: SME Training- Skills Gained and Put to Use



When contacted several months after the training was completed, more than 90% of SEED’s clients indicated that they had gained new skills, and more than 60% indicated that they were immediately able to put those skills to use in their businesses.

In FY 05, just under 60% of clients made changes in their business as a result of SEED’s trainings, and just over half (54%) felt that those changes led directly to an improvement in business performance.

Figure 8: SME Training- Changes in Company and Performance Improved



In FY04, the best results came from SEED's "technical" trainings (HACCP, FIDIC, HR Management, Customer Service, ISO, Leasing training, etc.) focused on specific sectors, precise skills, or with a great deal of depth. In FY 05, SEED focused almost exclusively on those types of trainings, with strong results. Particularly as the market for training in Southeast Europe has developed and grown more sophisticated, in part because of SEED's efforts, the continued high impact of SEED's work is remarkable.

Based on comments from client surveys we realized that participants' selection is very important for training effectiveness and any further outcome and impact. No matter how well the training is designed and delivered if training participants are from are not related to the training topic result is not achieved. They are not able to apply gained knowledge if their work is not related with training topics and training doesn't reach the final goal.

Conclusions

In general, SEED's M&E process indicates that its **retail training activities** have had a **strong impact** on businesses. Clients have **gained new skills, applied those skills in their businesses**, and made **real changes** in business operations. For many clients those changes have led to significant **improvements in business performance**.

Recommendation:

Selection of training participants is very important. The training participants work should be related to training topics in order to achieve the final goal, new knowledge applied and improved performance.

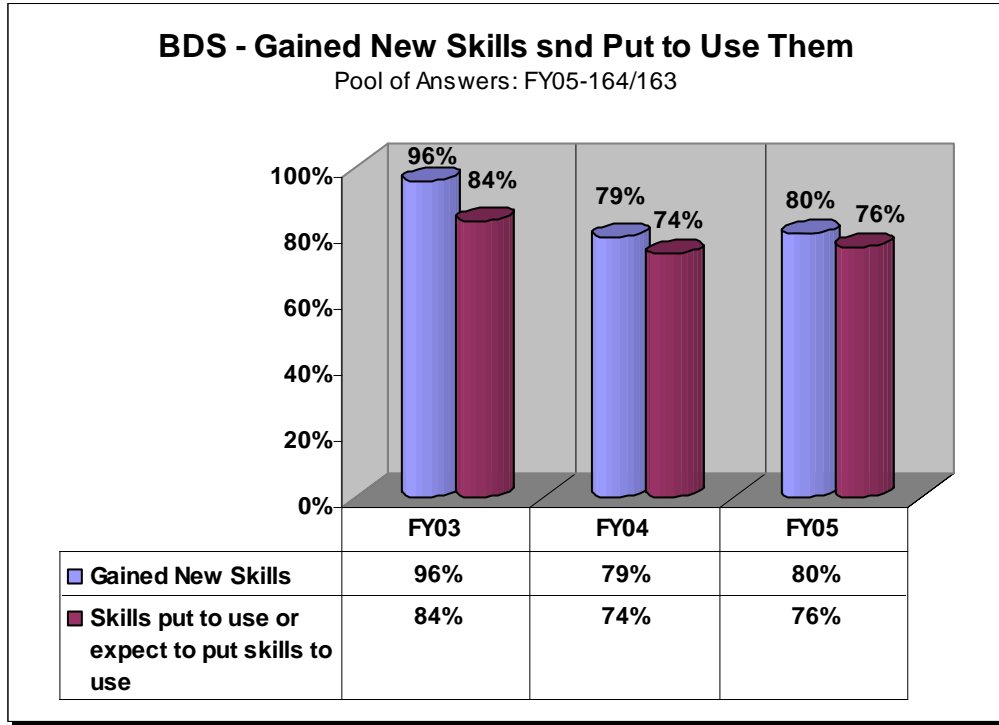
5. Business Development Services Training

Business Development Services, as the name indicates, refer to organizations or institutions that offer business services to SMEs. In working with them, SEED's intent was to broaden their offerings and to help them extend down into the SME market. As the market developed and many groups began offering a wider range of business services, the demand for and effectiveness of SEED's BDS work began to decline.

This was validated in the FY 04 Impact Assessment Report.

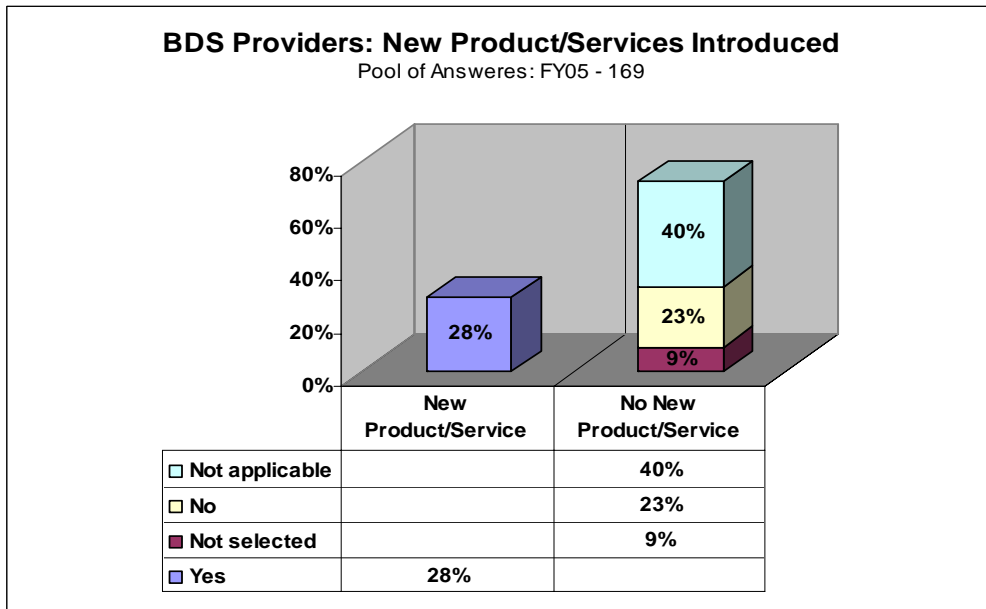
After FY 04, SEED's strategy changed and SEED began to focus on developing the local capacity to implement their broader programming, rather than on developing products that could be sold into the local market independently. In FY 05, SEED's BDS clients overwhelmingly (80%) indicate that they have gained new skills from SEED's interventions, and that they either have been able to put those skills to use (53%) or expect to be able to put those skills to use (23%). These numbers are unsurprising granted the shift in SEED's strategy- most of their training was immediately put to use by SEED.

Figure 9: BDS Providers- Skills Gained and Put to Use



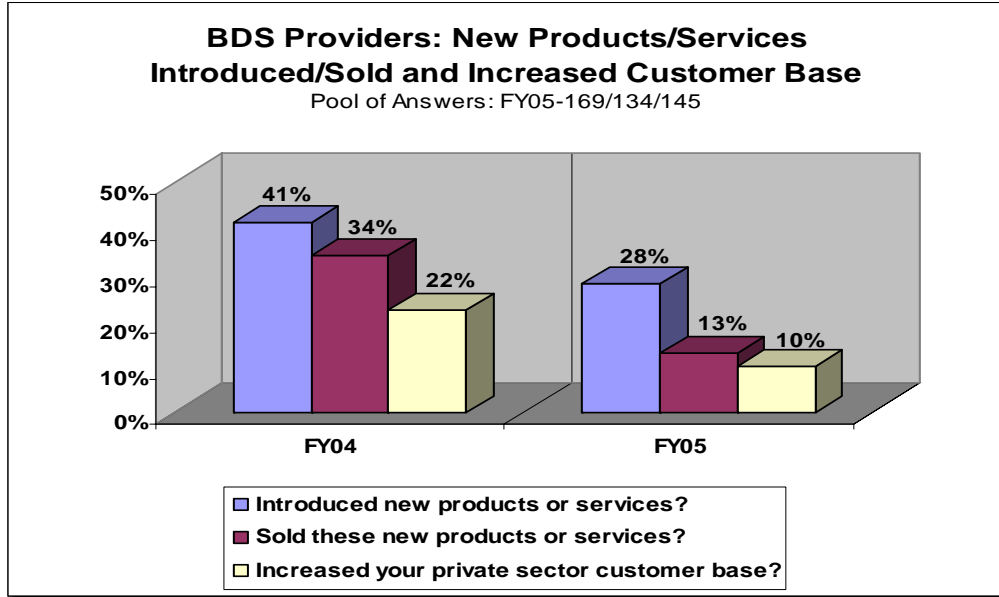
However when it comes to actually introducing new skills and products into the market, only about 47 of the 169 BDS clients that responded to the M&E Team’s surveys felt that introducing new products or services was applicable as a goal of their interaction with SEED. The others did not select an answer, answered no, or replied that introducing new products or services was not applicable.

Figure 10: BDS Providers: Introduced new services



The other training recipients had different goals. However, of those who indicated that a goal of their interaction with SEED was to develop new services for their markets, SEED had considerable success in helping them get those products to market.

Figure 11: BDS Providers-New Products and Services



Conclusions

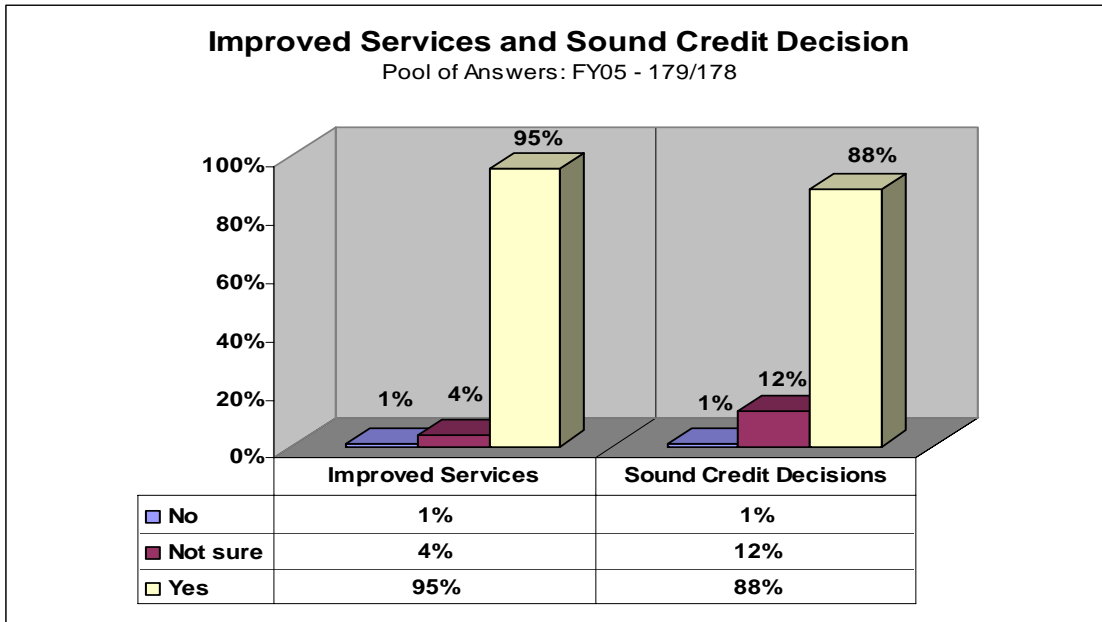
In **limited circumstances**, there appears to **still be a niche** for **developing and/or introducing new products and services** into the market. Under **some circumstances**, this can be **very successful**. However, granted **the diminishing returns** noted by SEED in FY 04 when BDS support was a much larger part of its work, **SEED should continue** for the most part **to develop the capacities of local BDS providers only so much as it needs them to pursue its programmatic goals**.

6. Financial Institutions

SEED’s interactions with Financial Institutions dramatically changed at the end of FY 04 and throughout FY 05. Instead of more general trainings focused on basic skills required for dealing with SMEs, SEED developed and delivered a set of highly specific trainings dealing with issues such as leasing, factoring, financial derivatives, environmental risk management, and microfinance. When surveyed about these interventions, financial institution managers and employees had remarkably good things to say.

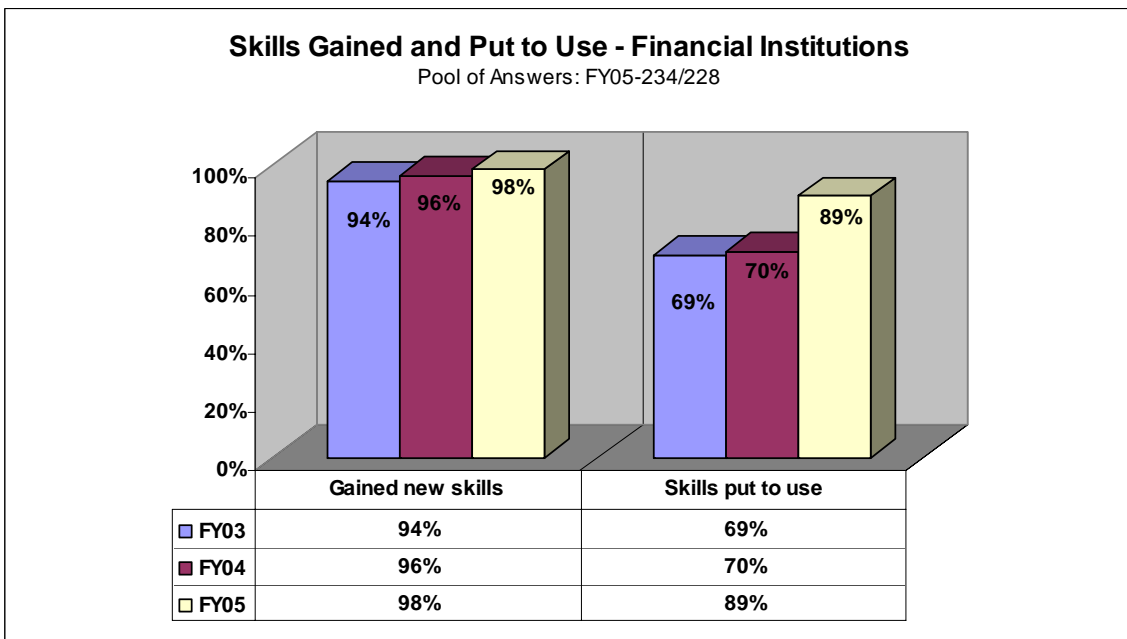
The vast majority of those surveyed felt that the training they received would have a positive impact on their ability to provide services to their clients (95%) and to make sound credit decisions (88%).

Figure 12: Training would have positive impact on services and credit decisions



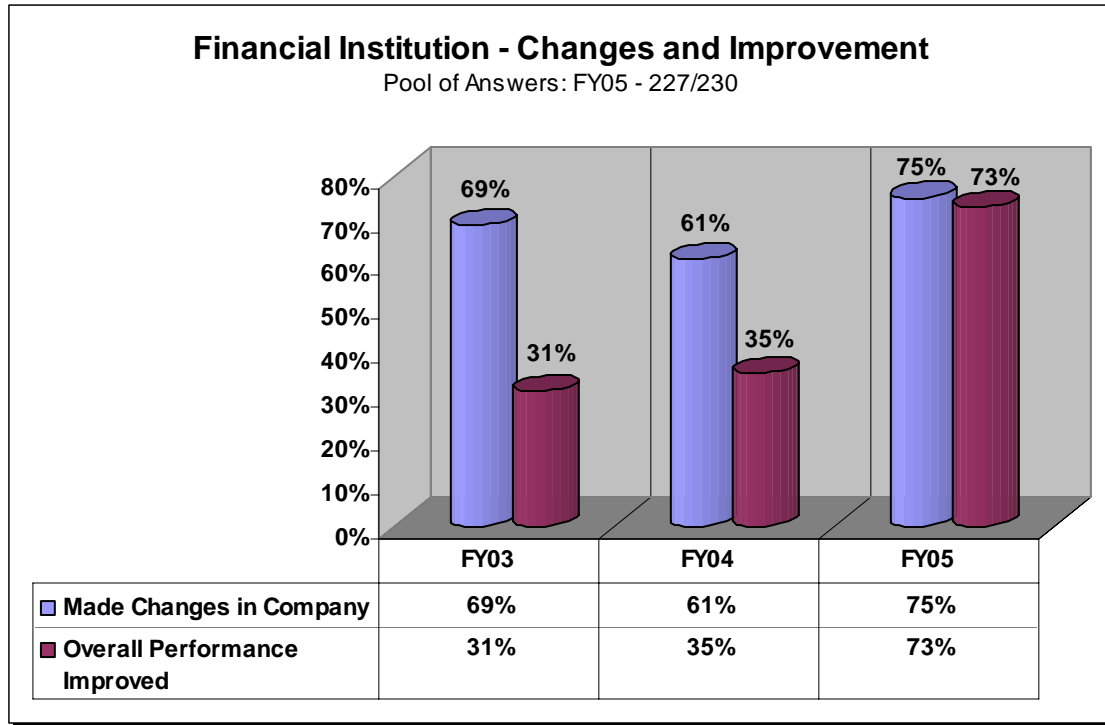
Please note that the number of responses from FY05 is significantly higher than for previous years.

Figure 13: Financial Institutions- Skills Gained and Put to Use



In FY05, 75% of SEED financial institution clients felt that their organizations (banks or microfinance organizations) made changes as a result of SEED’s work. However, in FY 05 a much greater number of clients felt that those changes had led to an overall improvement in the performance of the institution as a whole.

Figure 14: Financial Institutions - Made Changes in Organization



Conclusions

SEED’s work with **Financial Institutions** has **strong impact** and should be **repeated** and **expanded** upon as far as possible.

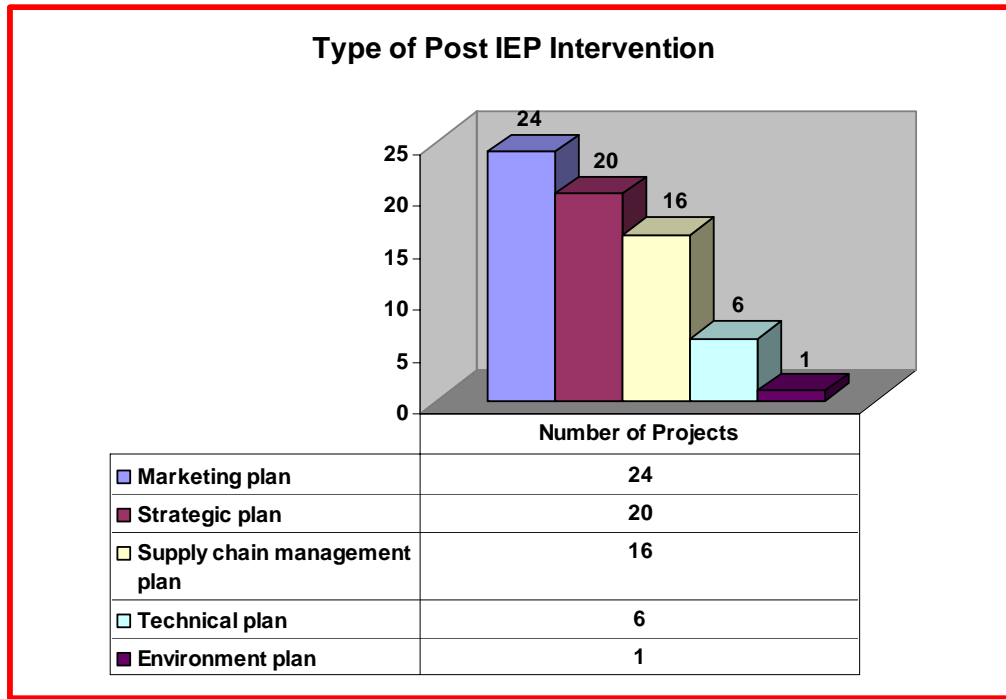
Recommendation

In general, training participants from financial institutions highly valued SEED trainings and expressed willingness to participate in other trainings. This should be taking into consideration for any PEP SE programs which might target financial institutions as beneficiaries or intermediaries (e.g. Corporate Governance program).

7. Consulting

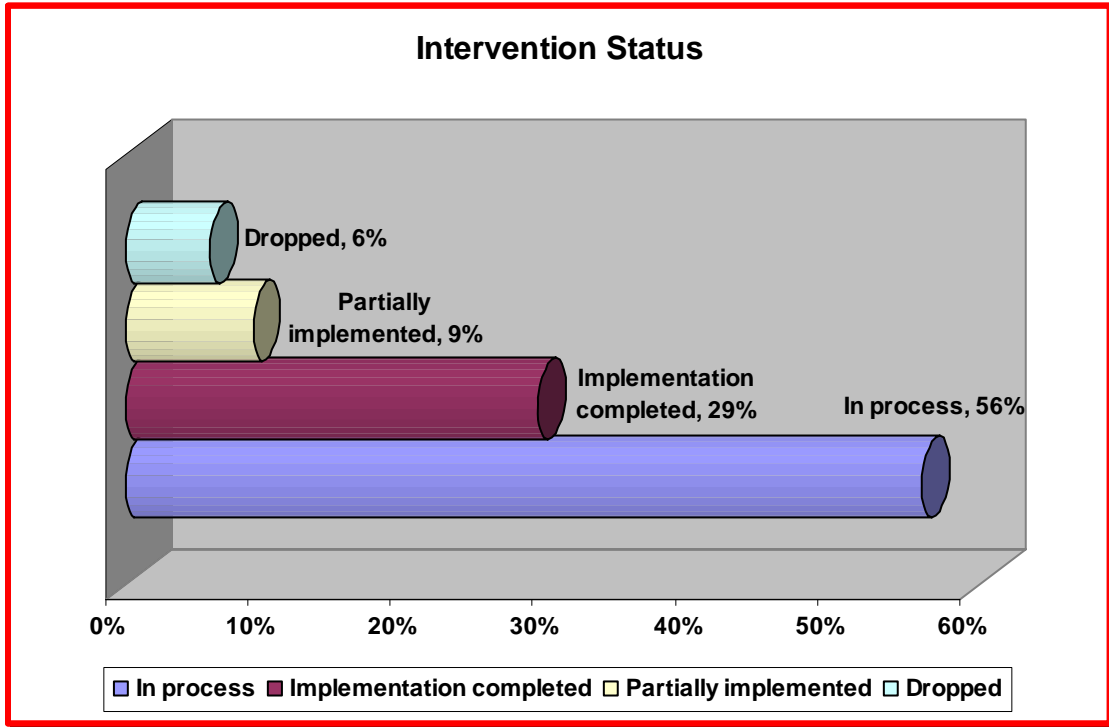
SEED's consulting work involves work directly with a client on the issues specifically facing their business. This category includes anything from Internal Enhancement Plans (IEPs) to market analysis to supply chain optimization to help preparing an investment plan. The chart below breaks down the types of consulting SEED facilitated in FY05.

Figure 15: Type of Direct Intervention in the Company



These interventions resulted in recommendations which were in different stage of implementation at the moment when survey was conducted. Final results of interventions may be expected some time after recommendations implemented. This leads to conclusions that some of these surveys either were conducted a little bit earlier than they should have been or some recommendations were not implemental, so the final goal was not achieved. In order to avoid this it would be better to conduct outcome / impact surveys after eight to ten months rather than six months after consulting intervention completed.

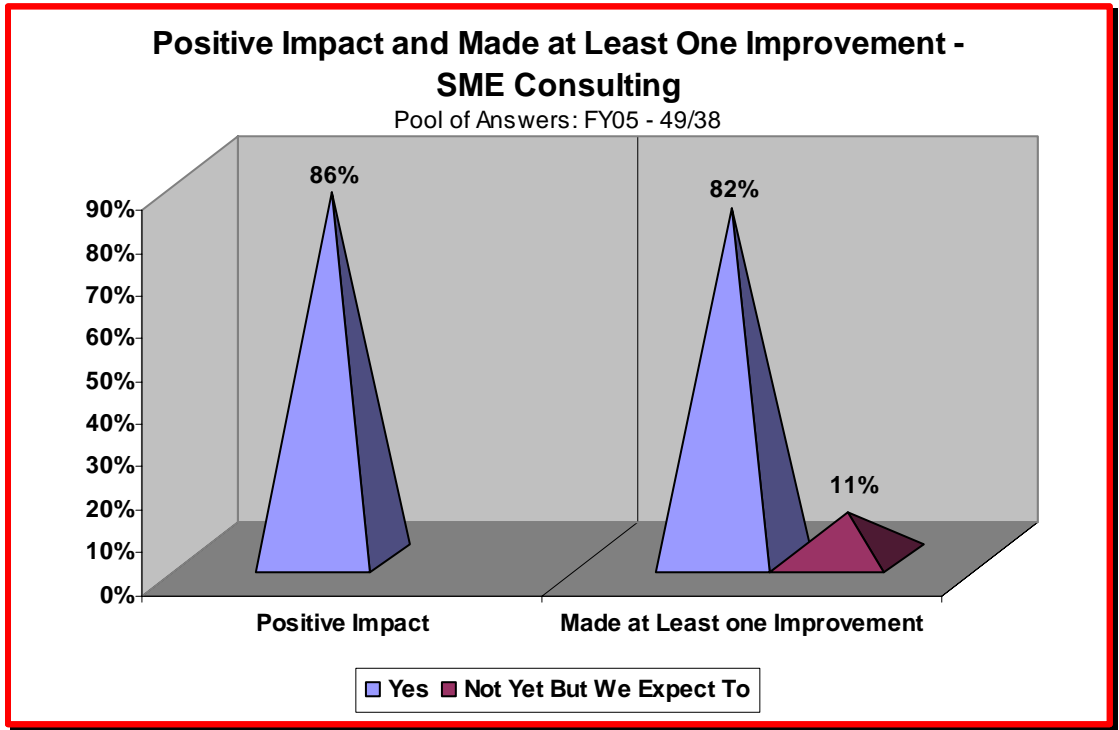
Figure 16: Status of Direct Intervention in the Company



Consulting clients are generally the most difficult group from which to obtain impact assessment results, as generally the only person qualified to comment on the impact of SEED’s work is the General Manager, who is often less willing to spend time discussing work which was completed at least six months earlier. To address this issue, during FY 04 the M&E Team piloted the use of involved in-person interviews for SME Consulting projects. This approach has met with considerable success in FY 05, giving the M&E Team its best picture yet of the impact of SEED’s consulting work. For FY 05, the M&E Team succeeded in getting impact assessment results from 50 SME consulting projects, up from 18 in FY04. A response pool of this size has enabled the M&E Team to get a good sense of the value of SEED’s consulting services in the eyes of their clients.

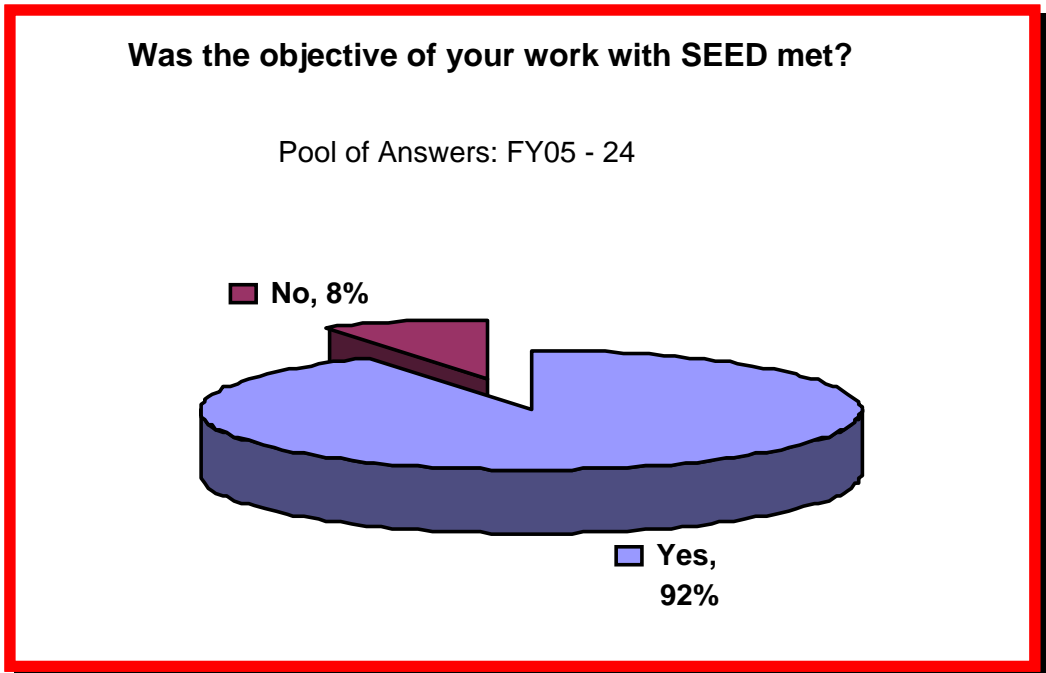
Of these responses 86% of SEED’s clients indicated that SEED’s intervention had a positive impact, while 14% indicated that SEED had no impact. 82% of those who responded had made at least one improvement on the basis of SEED’s work.

Figure 17: SME Consulting- Positive Impact and Improvements Made



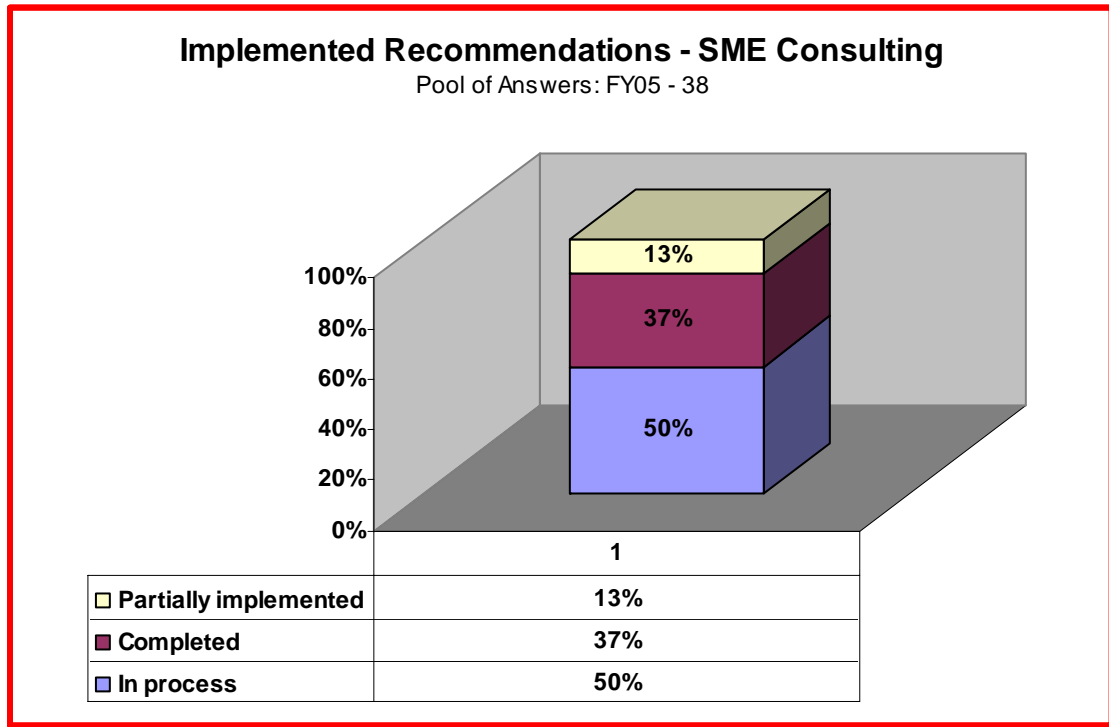
The vast majority of SEED’s clients (92%), felt that the overall objective of their work with SEED had been accomplished.

Figure 18: Meeting Objectives



Of the majority of SEED’s clients (82%) that are making changes in their companies as a result of working with SEED, 37% had completely implemented the changes at the time of the evaluation, 13% had partially implemented them, and 50% are in the process of implementing SEED’s recommendations.

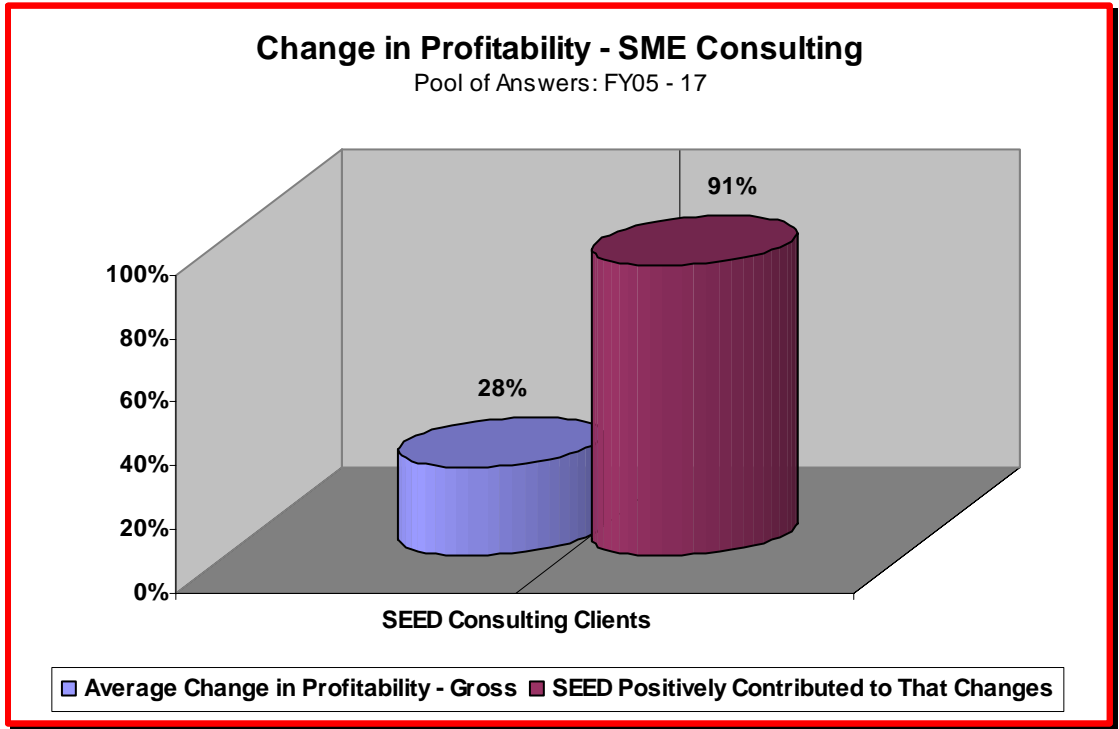
Figure 19: SME Consulting- Recommendations Implemented



Of course two of the major indicators of the success of SEED’s work is changes in SME profitability and employment levels. Unfortunately, these are two of the most difficult indicators about which to get valid responses from SMEs. As was mentioned in the *Limitations* section of the methodology annex, SMEs are reluctant to share this information, even anonymously, for fear that this information will be reported to the authorities. However, in FY 05, the M&E Team managed to get responses from a far greater number of clients (17) than in any previous year.

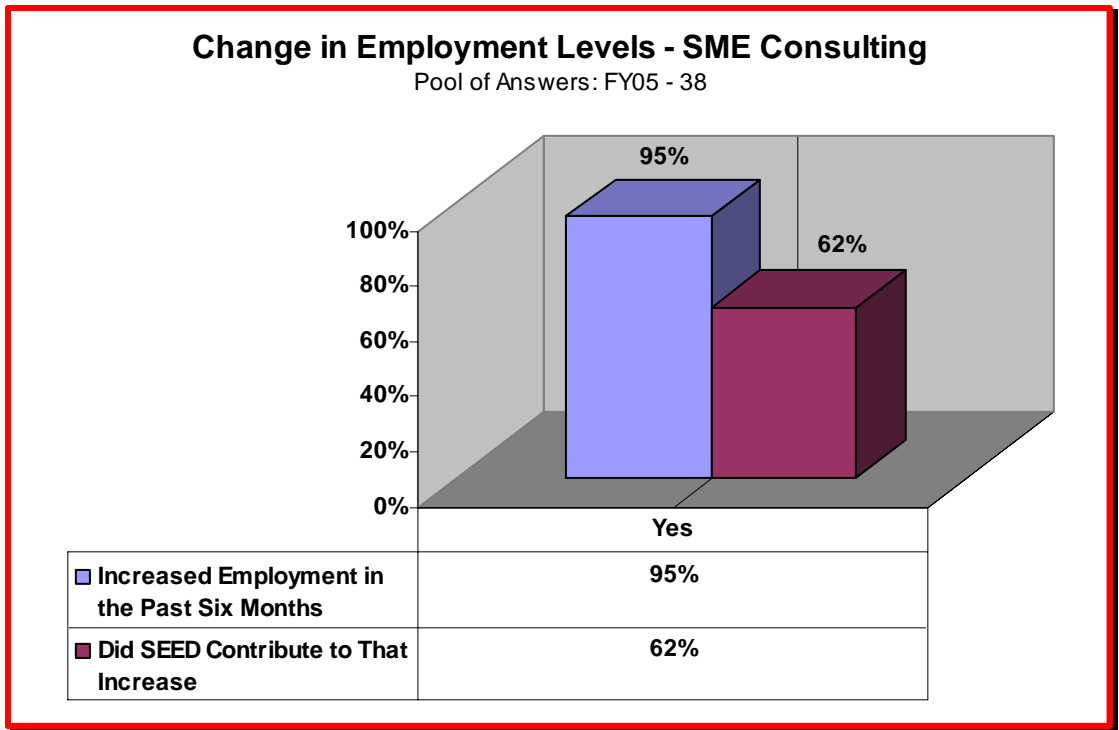
The chart below, while far from conclusive, indicates that some of SEED’s clients are improving their overall profitability and that they credit SEED with contributing to that change. The average change in gross profitability is skewed somewhat by the presence of one company which experiences explosive growth over the six months after SEED’s intervention. The median growth for all the companies that responded was 9%.

Figure 20: SME Consulting- Change in Profitability



A similar story can be told about employment. Of the 38 companies that responded to the survey, 36 reported increased employment levels after SEED’s intervention. Of those 23 reported that SEED had contributed to the increase in employment.

Figure 21: Employment levels



Conclusions

The majority of SEED's consulting clients indicate that SEED's intervention had a **positive impact** and led to **at least one improvement** in the company. The **vast majority** indicated that the **main objective** of their work with SEED **was met**. **Seventy-five percent** indicated that they had either **fully, partially**, or were **in the process** of **implementing SEED's recommendations**. Most clients indicated a **positive impact** on **company profitability** and **employment levels**.

Recommendations

SEED ended cooperation with companies with recommendations delivered. But interaction should be extended during implementation of recommendation. For these kinds of services it will be very important part which might end with coaching how to implement recommendations.

8. Assessing the Impact of SEED's Business Membership Organization Work

8.1. Introduction

In many developed economies, voluntary Business Membership Organizations (BMOs) are an essential element in providing targeted services to their members, creating a pro-business legal and regulatory environment, and creating networking and market development opportunities. Over the course of the last four years the SEED, in collaboration with other IFC facilities, has created a methodology for increasing the capacities of BMOs in all of these areas while developing a sustainable funding model, which will enable BMOs to survive after SEED's subsidies end.

This report combines results from SEED's in-house Monitoring and Evaluation (M&E) system with inputs from project managers, SEED management, focus groups, and external sources. The report seeks to assess the success of this SEED's BMO development model, record lessons learned, and evaluate the impact of SEED's BMO work impact on businesses and on the BMOs themselves. This report will evaluate the methodology and impact of BMOs' a) Services to Members, b) Business Enabling Environment, c) Market Development and Networking, and d) Capacities and Financial Sustainability.

8.2. Services to Members

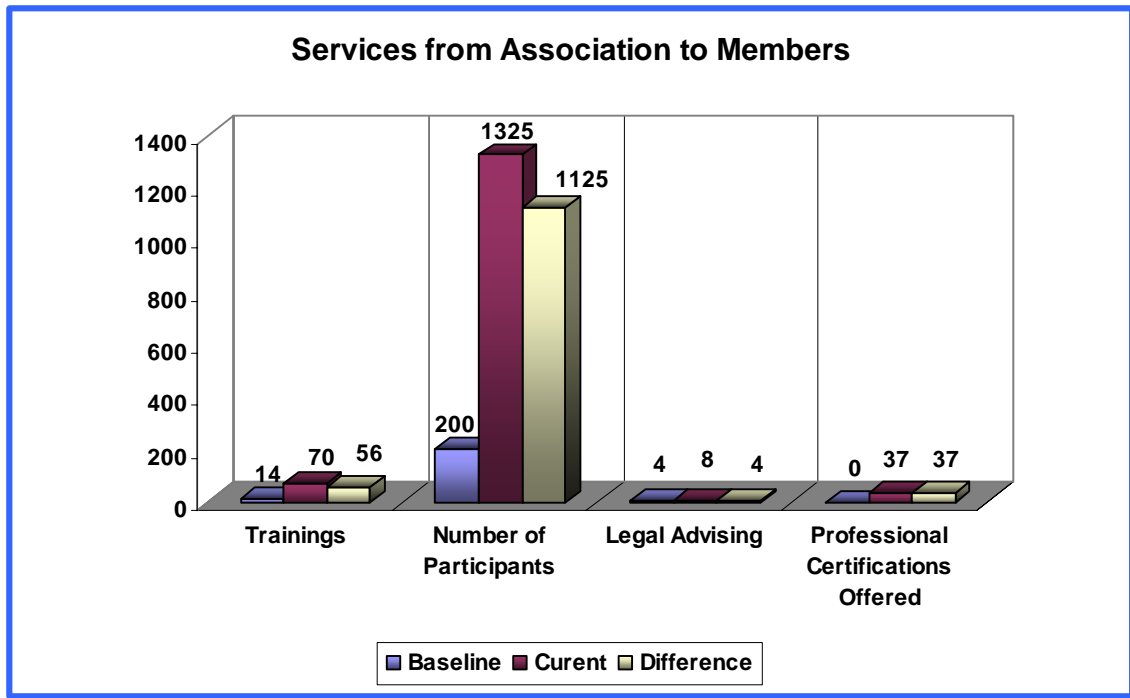
One of the major obstacles to the expansion of businesses in southeastern Europe is the absence of a developed market for business services. Often businesses do not know their own needs or obstacles for growth, and when they do understand those obstacles, they do not know how to address them. Further, as businesses in the region have relatively little

experience with consulting or training, they do not know how to value these services or what to expect for their money.

Business Membership Organizations can help address these issues by serving as a conduit for high-quality business services. BMOs have a good sense of the specific needs of their members and can identify specific barriers to be addressed. Additionally, BMOs lend their credibility to consultants and trainers they recommend, increasing the perceived value of their work.

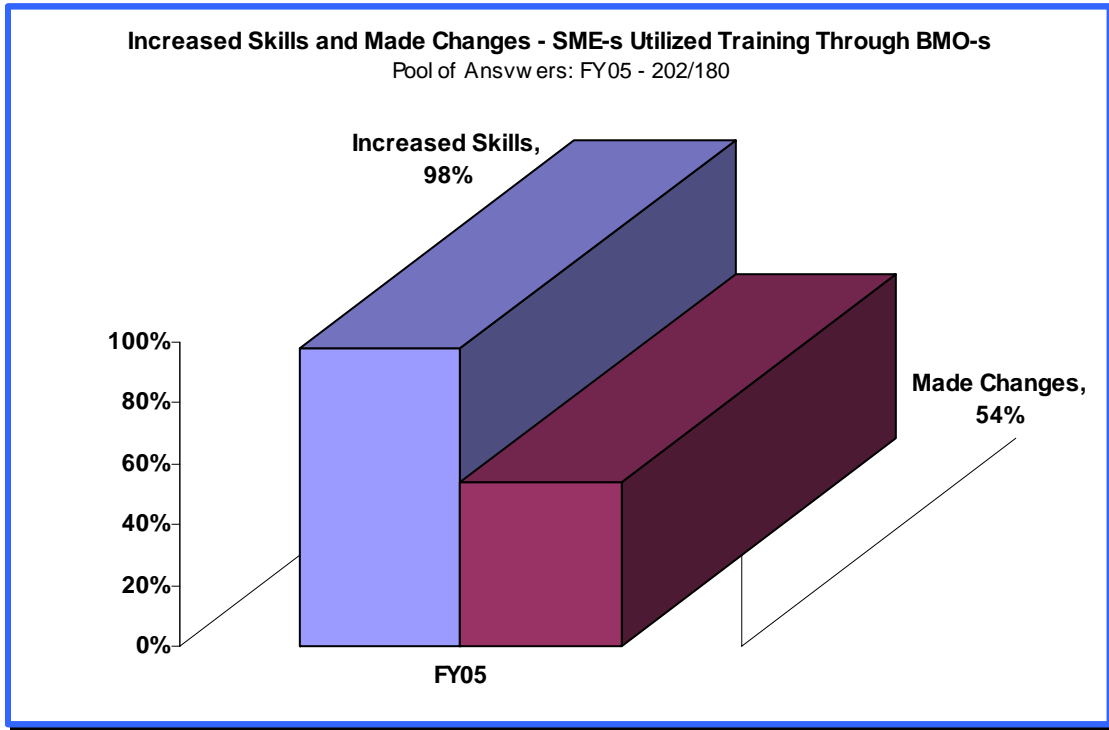
As a means of bringing targeted business services to the membership of BMOs, SEED’s interventions have been highly successful. Since the beginning of SEED’s work, the selected BMOs have delivered more than 70 trainings and 29 consulting interventions to over 1,000 SME participants. In addition, some SEED BMO clients have become authorized to issue professional certifications on behalf of the government, such as commercial vehicle or export licenses.

Figure 22: Services from Association to its Members



According to participant surveys administered three to six months after the intervention, in the 2004 and 2005 fiscal years SEED’s trainings led to increased business skills (92%) and led directly to changes in the participants’ companies (63%). Many participants (45%) felt that these changes led to an overall improvement in the company’s performance.

Figure 23: SMEs utilized Training through BMOs and Increased Skills and Made Changes



There is also significant anecdotal evidence that utilizing BMOs to provide or facilitate these services has led to the overall development for the market for business services by stimulating demand for needed services on the part of their members. In fiscal year 2004, 95% of SEED’s clients said that they were more likely to seek out training in the future, and 87% said that they were more likely to seek out consulting.

SEED’s BMO methodology calls for the facilitation of trainings and consulting services to become a profit center for the BMO over time. This has happened in a few instances, but is not yet normalized. As a whole, SEED’s trainings currently recover around 82% of local costs, and that number has been increasing over time as the market develops. The profitability model for BMO-facilitated training is below.

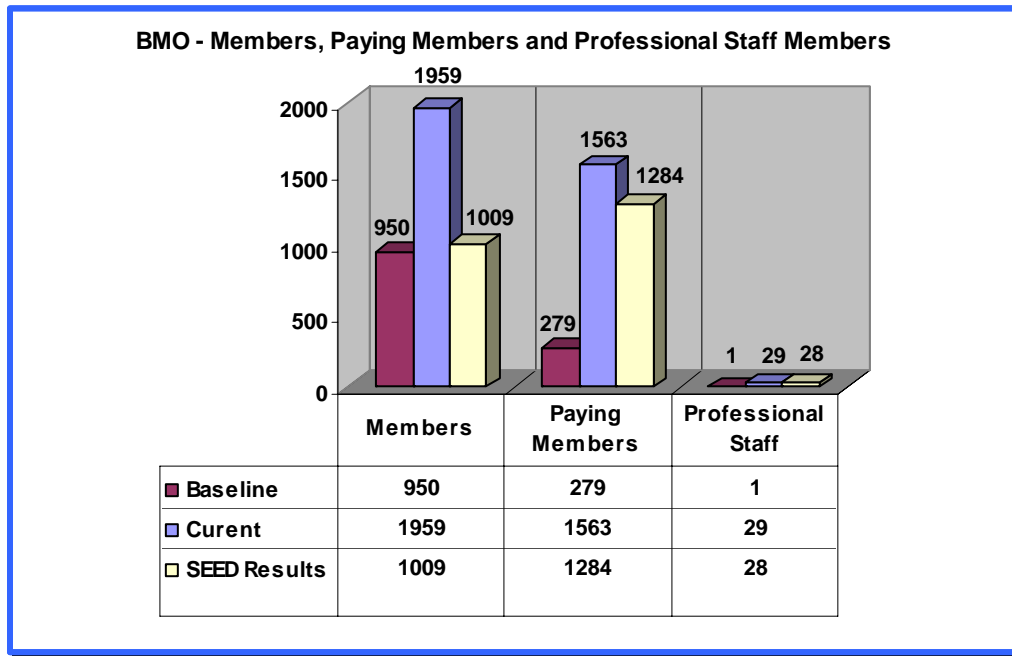
As a means for delivering appropriate business services, SEED’s BMOs methodology has been a resounding success. There is significant evidence that the services provided have had strong impact on the target businesses.

8.3. Business Enabling Environment

SEED’s BMO methodology calls for the development of the associations’ capacities to advocate with the government on behalf of their members’ interests, to serve as a representative of their members within the media, and to disseminate relevant information about market opportunities or changes in the business environment to members. In this area, the results of SEED’s efforts have varied widely depending on the association.

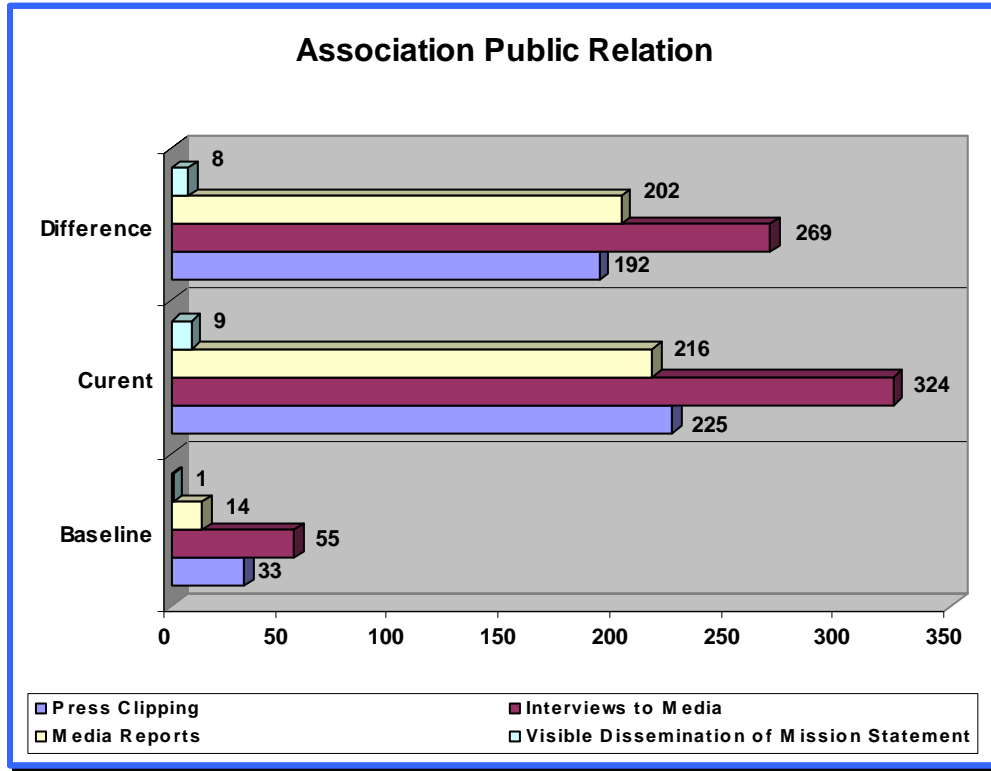
In general, during the life of SEED’s intervention the partner BMOs have significantly improved their ability to act as a representative for their members with the public and the government. This can be measured by the number of active members and the amount and quality of media coverage of the association. The number of active association members has more than doubled during the course of SEED’s interventions, from 950 members at the beginning of SEED’s work with BMOs to close to 2,000 as of April 2005.

Figure 24: BMO Members, Paying Members and Professional Staff



There has also been a significant upswing in the number of time associations are featured in the local and international media. From the beginning of SEED’s work with them through April of 2004, the leadership of BMOs working with SEED gave 269 interviews to the media, and the BMOs were mentioned more than 100 times annually. Anecdotal evidence and focus group responses indicate that on several issues BMOs are clearly shaping the public dialogue about issues important to them.

Figure 25: Public Relation of the Associations

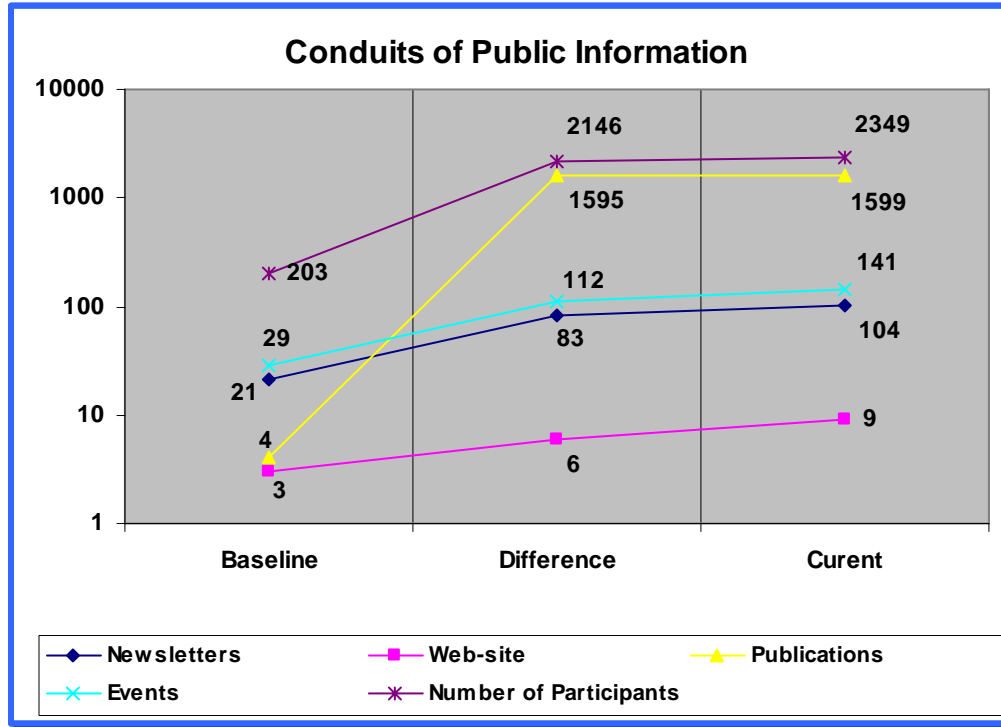


Additionally, BMOs have been a highly successful channel for distributing information that is important to businesses such as the implications of new laws, taxes, or market opportunities. SEED’s partner BMOs held 51 public-private dialogue round tables, in addition to regular annual meetings, and other events at which various issues were raised and discussed. They developed and distributed 112 newsletters, which have become a regular part of their activities. Most (9) have developed websites with information about events and issues impacting their members.

However, as a means for achieving specific policy objectives, SEED’s BMO work has had uneven results. There have been a large number (78) of obstacles to growth identified by BMOs as important and targeted for change by their leadership, which is important. In response to these obstacles, several BMOs developed position papers on issues, held round tables, and discussed issues with the government.

But only some BMOs have succeeded in bringing these issues before the government and having them addressed. Areas in which BMOs seem to have been successful range from the very broad, such as delaying the implementation of a Value-Added Tax or changing the role of inspections, to the highly specific, such as changes to tariffs on yeast or the passage of a law on mediation. A number of issues advocated by BMOs are various stages of government review, and it is possible that they will ultimately be successful.

Figure 26: Conduits Public Information



What is clear is that many of SEED’s partner BMOs either did not target legislative and regulatory reform as a major priority or were not successful in bringing these issues before the government. As the role of BMOs as an advocate for their members is a major justification for SEED’s BMO work, the advocacy component of SEED’s methodology must be examined more closely. One evaluator commented that just when BMOs are becoming most useful as a policy tool, SEED’s methodology calls for them to be “graduated,” reducing the interaction SEED has with them in order to encourage independence. This is an issue that should be addressed in future work with BMOs. SEED’s BMO methodology has been successful in helping BMOs to become representative of their members to government and the media, as well as a useful tool for disseminating information to businesses. However, as a means of achieving specific policy objectives, SEED’s partner BMOs have had highly uneven impact. Some BMOs have been highly successful, while others have either not made advocacy a priority or have not been successful. This issue should be specifically addressed in future BMO projects.

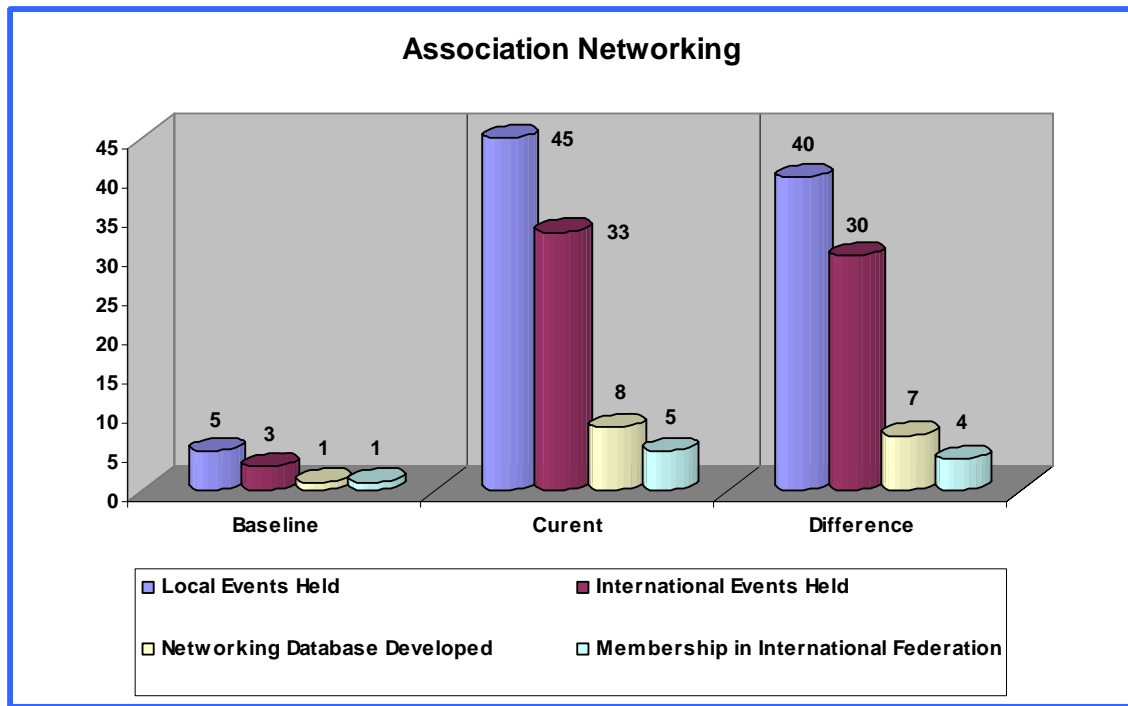
8.4. Market Development and Networking

One of the major roles of Business Membership Organizations is creating business networks among their members and forging links with external businesses and markets. In terms of creating networks among their members, the best measurement for this is the number of events held by BMOs. During the course of SEED’s intervention, the total number of networking events has gone from 4 to 55, in addition to regular annual

meetings. In addition, approximately and in average 30% of BMO members utilized the offered training or consulting services while in some instances this number reaches 65%.

Also during SEED’s intervention, partner BMOs held 33 events, which included international market development components. This type of event often includes international buyers, prospective investors, or similar companies looking to increase trans-border contacts. These types of events are key elements of domestic and international market development and bring real utility to member businesses.

Figure 27 Association Networking



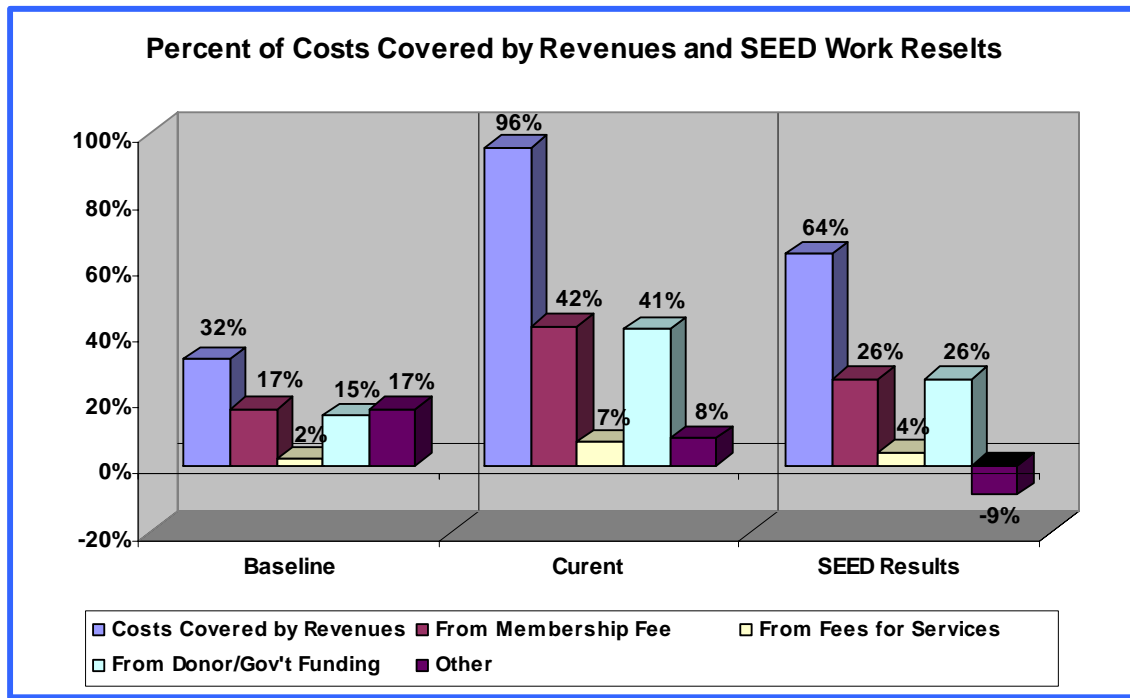
SEED’s BMO methodology has successfully helped BMOs to create domestic and international networking opportunities.

8.5. Capacity and Financial Sustainability

One of SEED’s stated goals is the financial sustainability of business associations at the end of SEED’s intervention. There are a number of different models for this among BMOs in more developed countries, but they usually involve a combination of membership fees, fees for services, and government subsidies.

To date, SEED’s work with BMOs has had mixed results. It is clear that there has been a significant increase in the costs covered by revenues as a whole from 32% to 96%. Much of that increase is attributable to the increase in the number of paying BMO members, which increased from 279 to 1284 during the length of SEED’s interaction. This willingness to pay also says a great deal about the value placed by businesses on BMOs. However, most of SEED’s partner BMOs remain substantially subsidized by donors, including SEED. While this is certainly good progress, the case that BMOs in the region can be made fully self-sustainable is not yet clear.

Figure 28: Percentage of Costs Covered by Revenues



BMOs working with SEED have made substantial progress towards financial sustainability, however most are not yet sustainable and it is unclear that they will be in the near future.

Conclusions

Taken as a whole, SEED’s BMO development methodology has been highly successful in some areas and moderately successful at others.

- In terms of providing targeted services to businesses, creating networking and market development opportunities for their members, and serving as a vehicle for information dissemination, SEED’s BMO partners have had a high level of impact on their members.
- As a vehicle for driving policy changes, some of SEED’s partner BMOs have been very successful, others much less so.
- SEED’s partner BMOs have increased the revenues provided by membership fees and services to members, but still remain dependent on donors for a substantial amount of their operating expenses.

As a whole, SEED’s BMO development methodology has delivered strong results to date and with some refinement, particularly in the area of advocacy, could continue to deliver good impact. Whether BMOs will become a financially sustainable method for delivering these services to businesses over the long term remains an unanswered question.

9. Assessing the Impact of SEED's Linkages Work

9.1. Introduction

The Linkages projects refer to the development of connections between large companies and the smaller enterprises that make up the larger company's supply and distribution chain. Linkages interventions include work within both large companies and with smaller companies. With large companies, Linkages interventions focus on helping them to understand their own businesses and how those businesses are interconnected with their supply and distribution chains. With smaller companies, Linkages interventions focus on helping SMEs to improve their operations, better communicate with the large companies they work for, and streamline their operations.

Box 2: Traditional IFC Linkages Work and SEED

As IFC has traditionally done linkages work, an investment is made in a large company and then IFC provides technical assistance to Small and Medium Enterprises (SMEs) to enable them to work with the large company effectively. Utilizing the small companies is made a condition of IFC financing.

As there are very few large companies in Southeast Europe that have attracted the attention of IFC, SEED's linkages work has proceeded, for the most part, without the accompanying IFC investment. This has meant a more limited project scope as SEED first had to sell to the large company the idea of improving their supply or distribution chain, without the leverage provided by financing. Then, SEED had to convince the company to pay for SEED's services. This process is time-consuming and prone to stoppages if company management became resistant to change.

Over the course of the last four years the SEED, in collaboration with other IFC facilities and Accenture Consulting, has created a methodology for developing linkages between large and small companies in a variety of disparate industries. SEED has utilized that methodology to work with companies in Albania, Bosnia and Hercegovina, Macedonia, and Serbia and Montenegro.

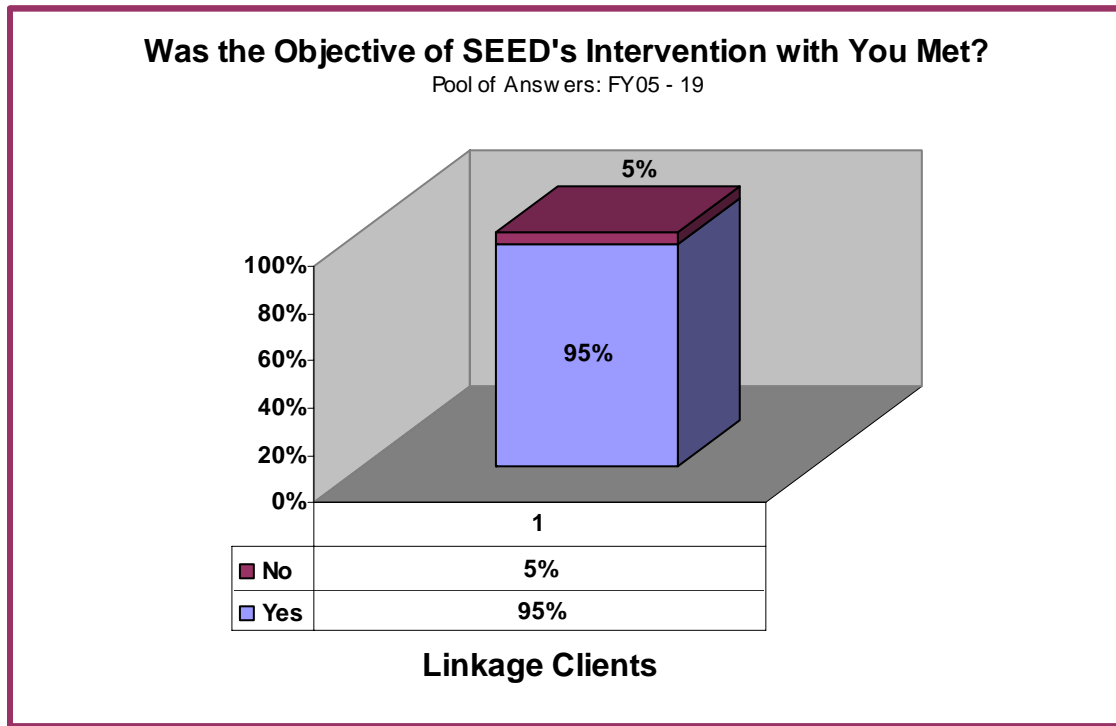
The report seeks to assess the success of this SEED's Linkages model, record lessons learned, and evaluate the impact of SEED's linkages work on businesses and on the BMOs themselves. This report combines results from SEED's in-house Monitoring and Evaluation (M&E) system with inputs from project managers, SEED management, focus groups, and external sources. This report will evaluate SEED's Linkage training and consulting products on the business operations of the targeted companies and on the impact of the changes companies made.

9.2. Business Operations

Linkages projects vary widely as they are tailored both to a specific industry and to the needs of the large company within that industry and country. The initial goals of SEED's Linkages interventions ranged from developing an employee incentive system, to implementing new Management Information Systems, to rolling out a franchising model, to improving distribution systems, to developing a brand management strategy. Working together, SEED and the management of the client company would develop an action plan. SEED often facilitated bringing international experts and helped the company to connect with its suppliers.

In this section, percentages refer to respondents rather than companies. Where possible, SEED sought out more than one member of management who could comment on SEED's activities.

Figure 29: Was the objective of SEED's intervention with you met?

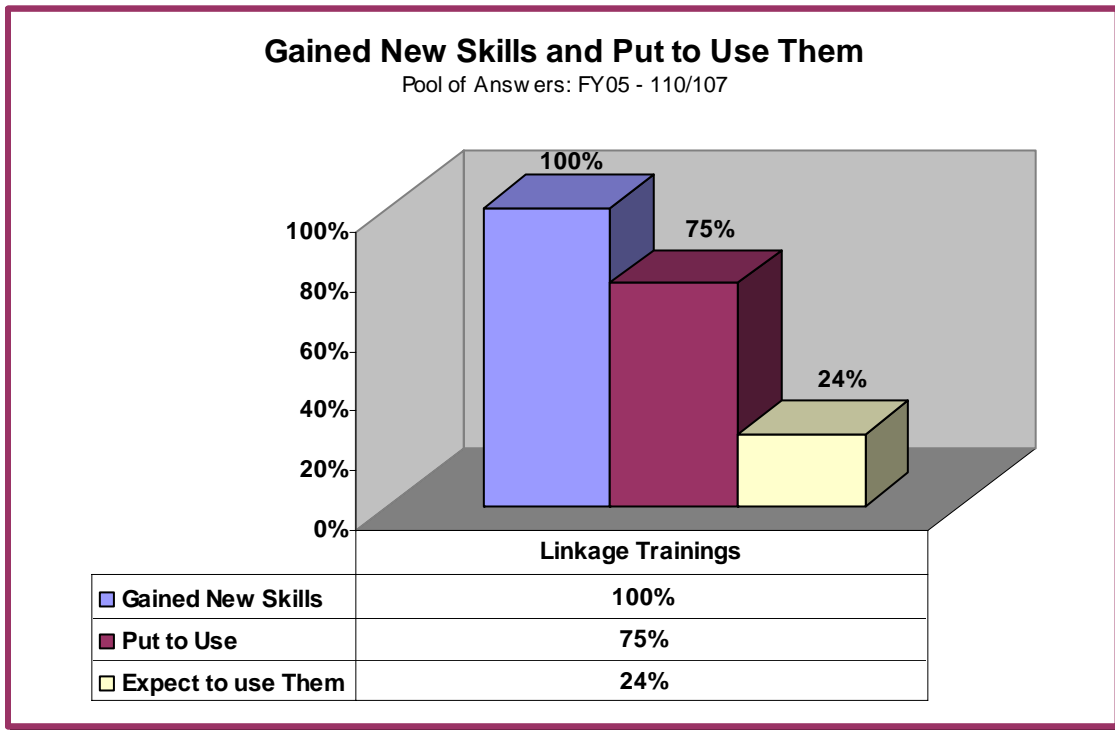


Follow-up interviews with SEED’s linkages clients conducted approximately six months after the end of the intervention indicated that the vast majority of clients felt like they accomplished their goals.

Every linkages client surveyed felt that SEED’s intervention with their company had a positive impact on their business. The type of impact varied widely depending on the kind of intervention, the duration, and the industry. However, a few general responses carried across industries.

One cross-cutting area has to do with developing the skill sets of employees. SEED’s linkages projects were often a combination of training and consulting aimed at increasing the capacities of employees. As such clients’ and management’s assessment of the impact of SEED’s intervention on their skill levels is an important intermediate indicator.

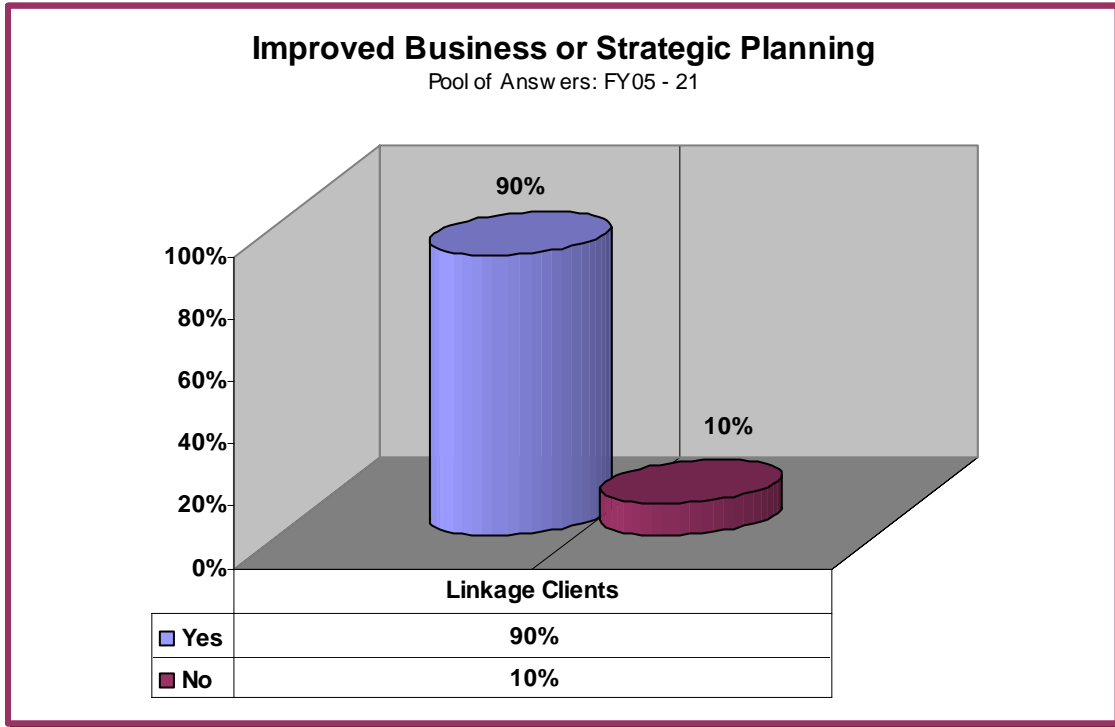
Figure 30: Has SEED’s intervention improved the skills of your employees and have those skills been put to use in your company?



The recipients of training were also asked whether the skills they gained were applicable to their business needs.

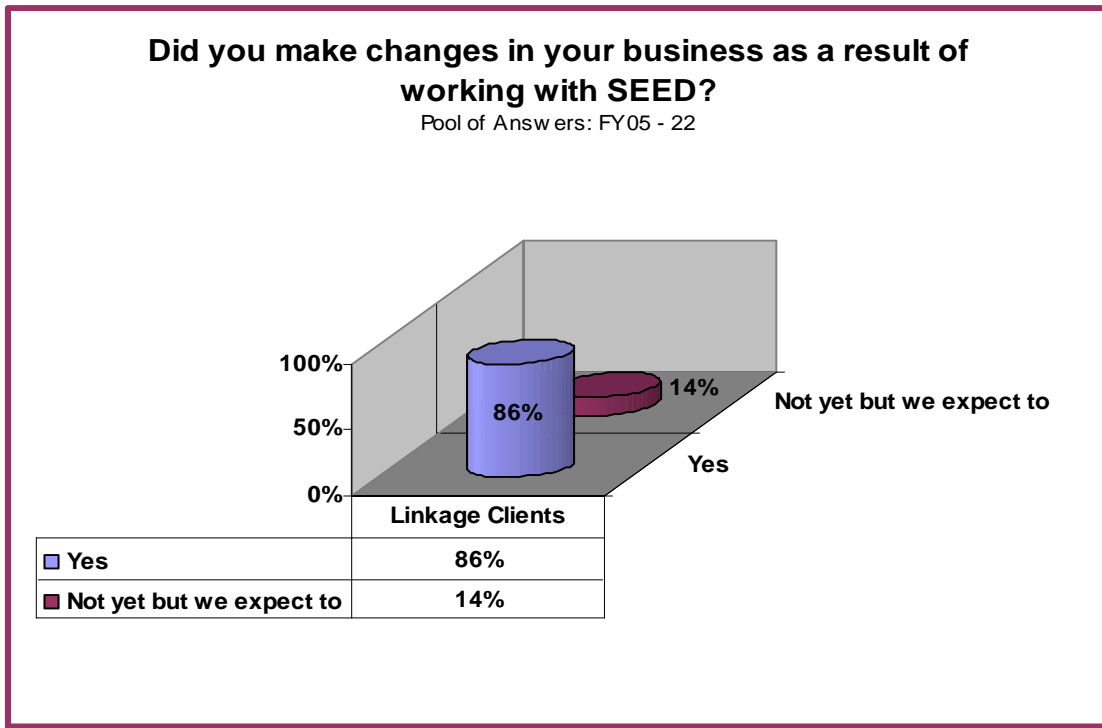
The most common area identified by businesses that SEED helped them was in their strategic planning. Linkages clients identified this as a weakness SEED helped them address.

Figure 31: Did you improve your business or strategic planning?



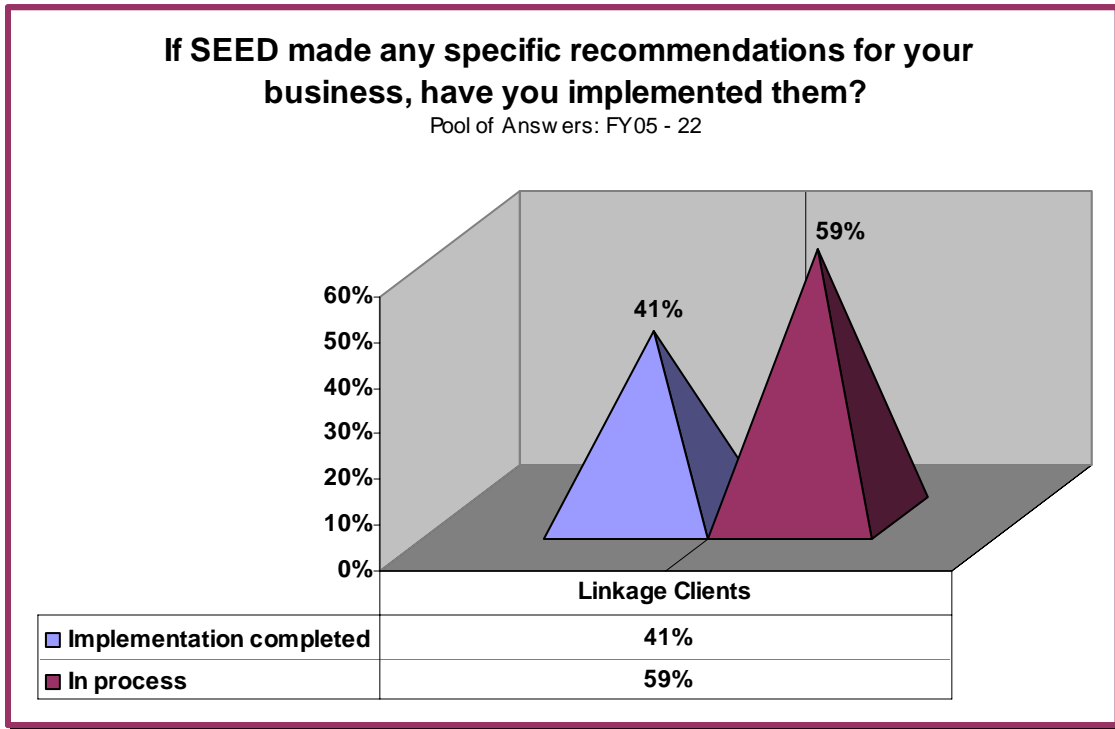
When asked whether they had made changes in their business as a result of working with SEED, the vast majority said yes.

Figure 32: Did you make changes in your business as a result of working with SEED?



An important intermediate outcome of any type of consulting work is the implementation of the recommendations made by the consultants. It is very easy to look at a business and offer suggestions for improvement, but whether or not management takes ownership of those suggestions and works to implement them has more significance for their impact. In this arena, SEED’s linkages work is impressive.

Figure 33: If SEED made any specific recommendations for your business, have you implemented them?



These numbers significantly outstrip the implementation levels of SEED’s other consulting work.

In general, SEED’s linkages work appears to have had strong impact on the business operations of their client companies. The clients felt like they gained new skills, that they achieved their objectives, and that they implemented changes/recommendations, which had a positive impact on their businesses.

9.3. Impact

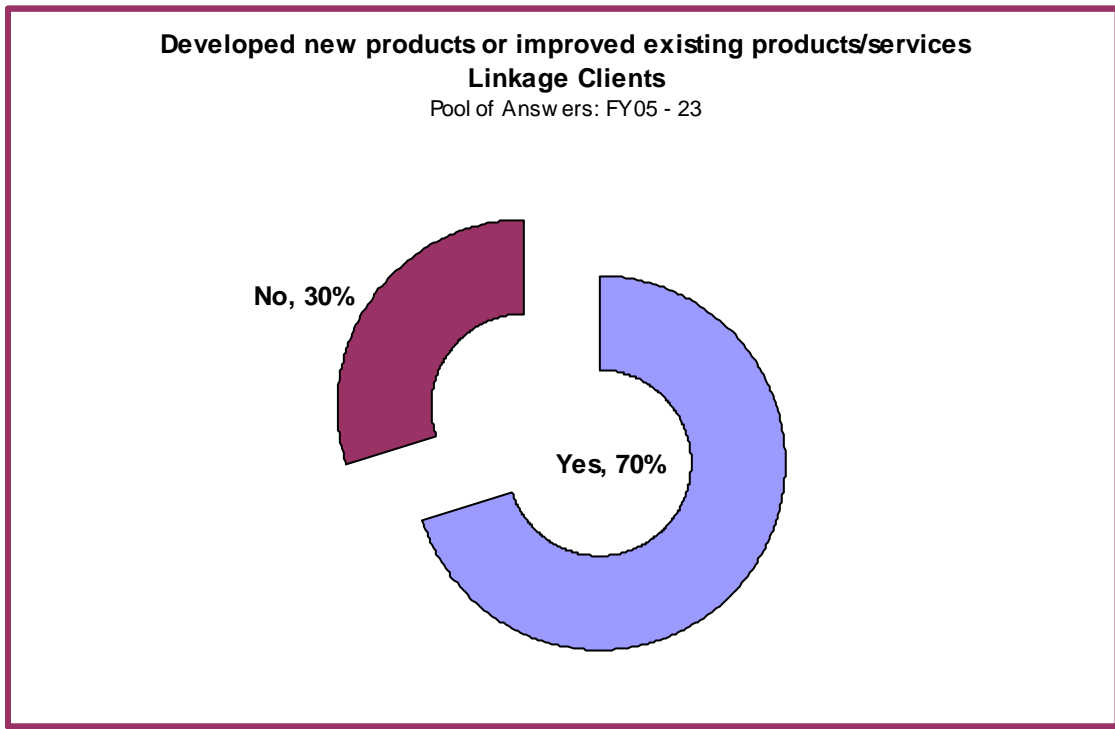
It is often more difficult to determine a link between changes in business operations and impact in terms of profitability or employment, the ultimate goals of SME development work. However, in these linkages projects are unusual because the companies generally are larger and have access to that information. In addition, because of the long and multifaceted interaction between SEED and the company, there is a level of trust uncommon even with other consulting clients. Thus, client companies feel like they can

share information without fear it will be reported to the government or to their competitors.

In this section, percentages refer strictly to companies themselves as this section focuses on hard data.

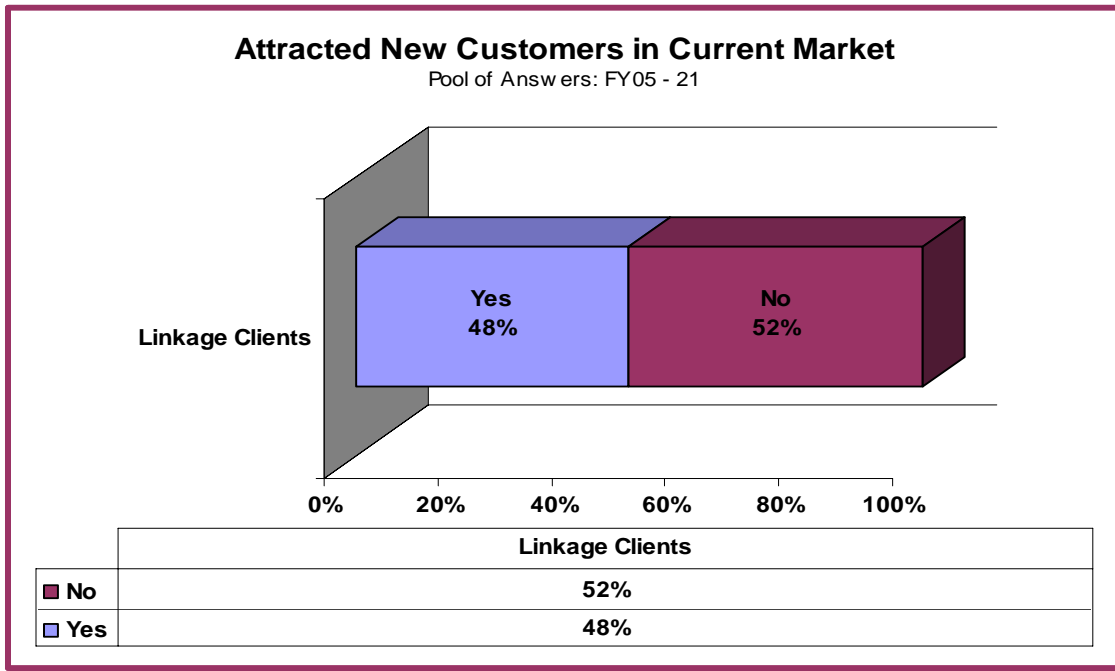
When asked whether they had introduced new products or improved their existing products/services because of their work with SEED, a majority of linkages clients indicated that they had.

Figure 34: Developed new products or improved existing products/services?



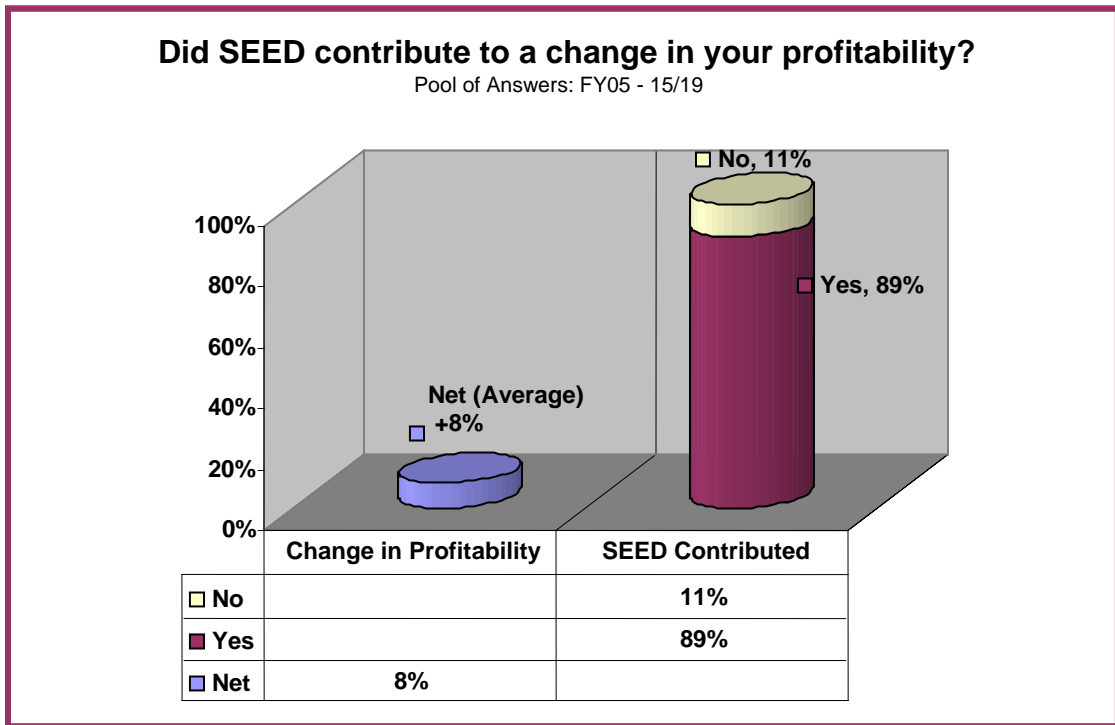
However, when asked whether they had been able to attract new customers because of their interaction with SEED, only two of seven companies said yes. This number is slightly misleading because each of the several divisions of Tigar with which SEED worked indicated that they had attracted new customers.

Figure 35: Attracted new customers in your current market?



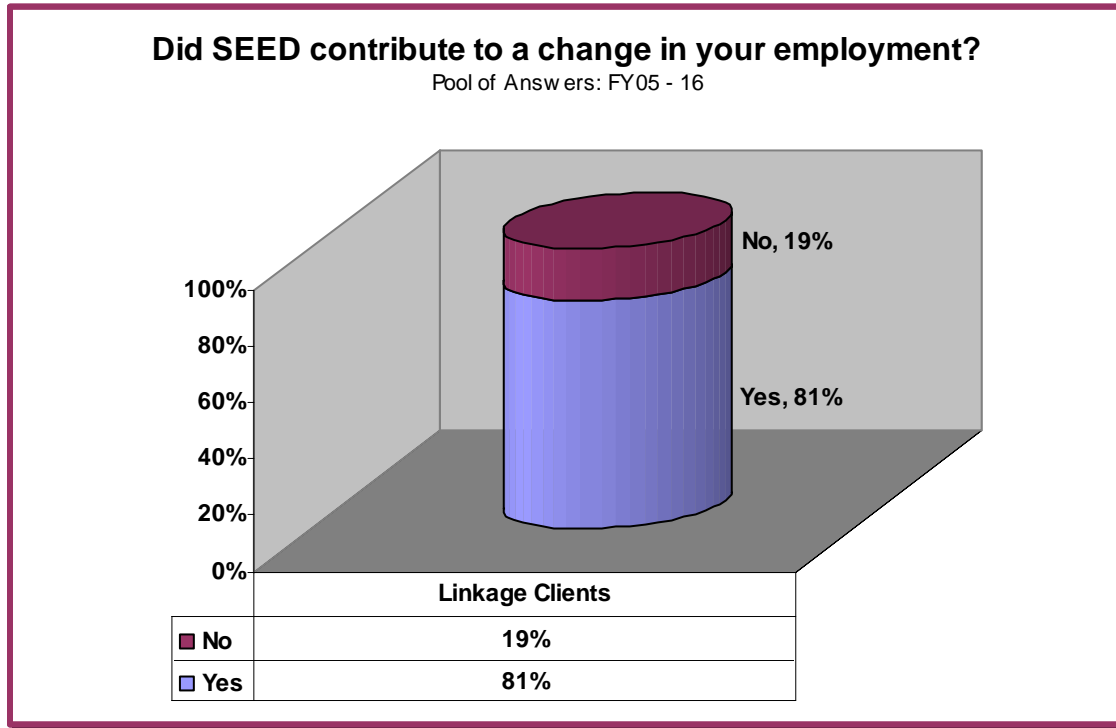
Six companies were willing to comment on their profitability, and of those five indicated that SEED had helped them to improve their profitability. Two were willing to give figures, and they indicated that SEED had helped them to increase their net profitability by four and twelve percent respectively.

Figure 36: Did SEED contribute to a change in your profitability?



In terms of employment, all of SEED’s linkages clients indicated that they had increased their employment levels in the time since SEED’s intervention. When asked whether SEED contributed to that change, four companies believed that SEED did contribute, one said no, and one that they did not know whether SEED’s intervention contributed.

Figure 37: Did SEED contribute to a change in your employment?



It is clear from this data that SEED’s linkages work had an overall positive impact on the companies with which SEED worked. While SEED by no means is responsible for improvements in business performance, there was improvement in business performance in the time after SEED worked with their clients, and the clients felt that SEED made a significant contribution.

SEED’s linkages work helped companies to make improvements in their business processes, and those improvements correlate strongly with increased profitability and employment levels. Though somewhat different from IFC’s traditional linkages model, SEED’s linkages program did have good impact on the small number of companies with which they have worked.

Recommendation

Each Linkages project should be preceded by in depth client analyze which will show weather it is right client for linkages project.

10. Assessing the Impact of SEED's Corporate Governance Work

10.1. Introduction

The transition to a market economy with the accompanying transfer of corporate ownership into private and semi-private hands had made the issue of how corporations are governed a burning issue for the future of Southeast Europe. Privatization programs have created millions of new shareholders, many if not most of who do not have any experience with the rights and responsibilities of owning company shares. Moreover, new legal and institutional frameworks have created a complicated set of interconnecting regulations that can be daunting even for experts.

As the fragile capital markets in the region develop, it is essential that companies and shareholders in the region understand how to separate ownership from company management, what it means for a company to be accountable to its shareholders, what are good transparency and disclosure policies, and other issues related to corporate governance.

In fiscal years 2004 and 2005, SEED conducted a very small-scale corporate governance pilot project in Bosnia and Herzegovina. This project had three components, first was a set of day-long open trainings about general issues in corporate governance. The second component was a more in-depth training for potential consultants who could be used for implementing future corporate governance activities. Finally, SEED did some corporate governance training for one company focusing on their specific issues.

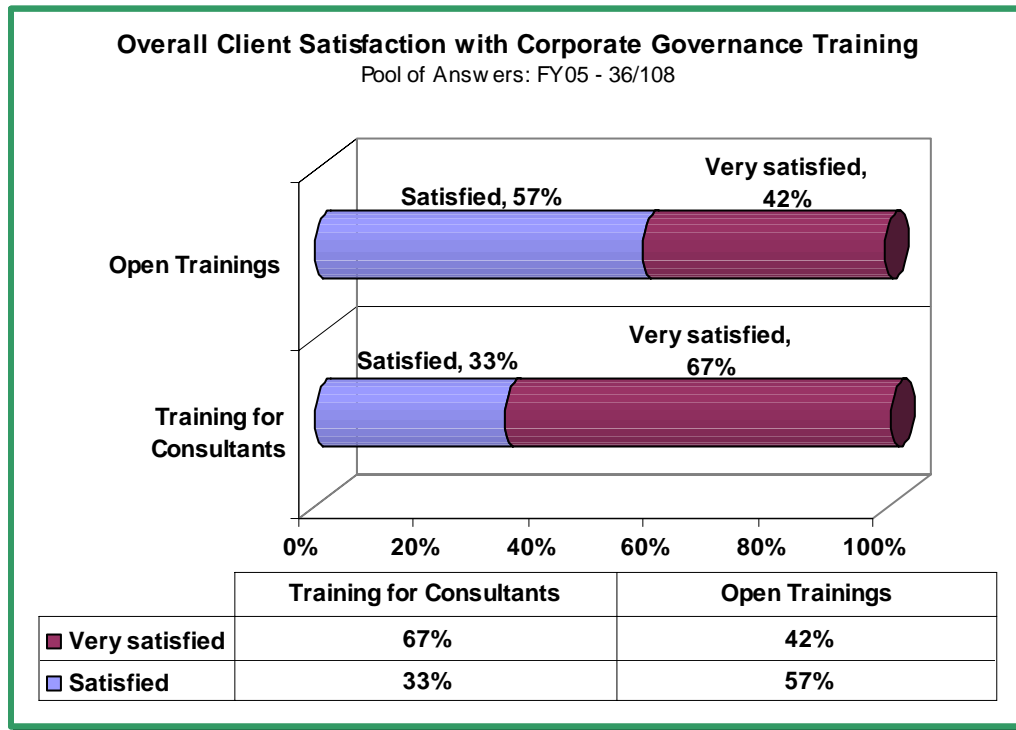
In assessing the effectiveness of this work, the SEED M&E Team made use of client surveys and focus groups.

10.2. Knowledge Transfer

In general, SEED's corporate governance clients felt that they gained new knowledge about corporate governance, and they were very interested in learning more.

On a scale of 1 to 5, with 5 being very satisfied and 1 being very dissatisfied, SEED's CG clients ranked the trainings well.

Figure 38: Overall Client Satisfaction with Corporate Governance Training



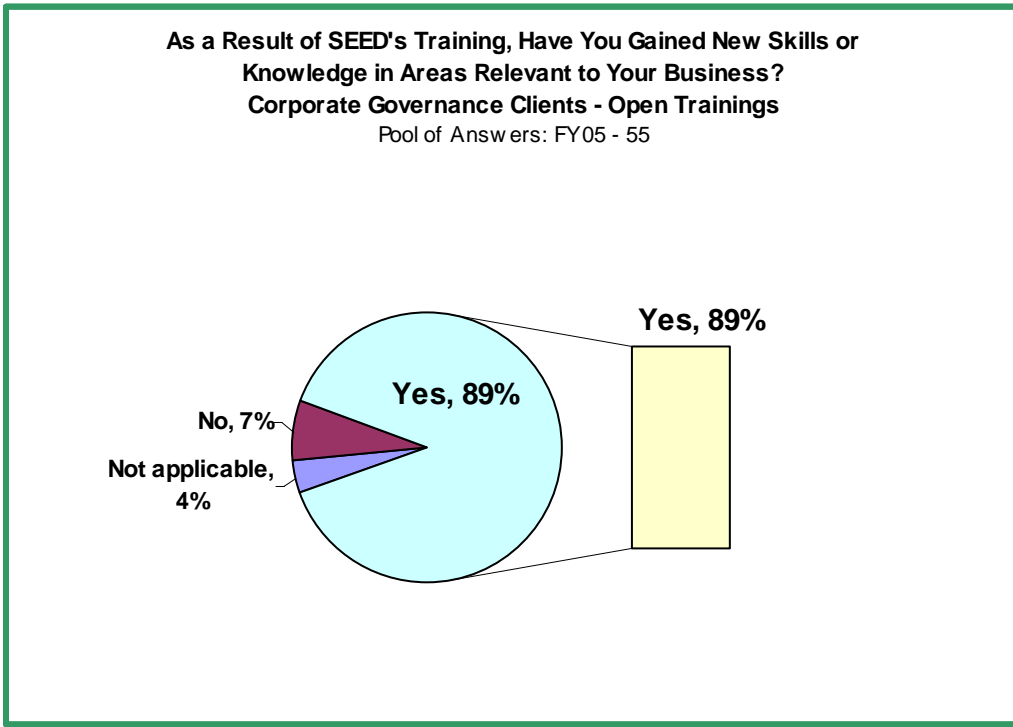
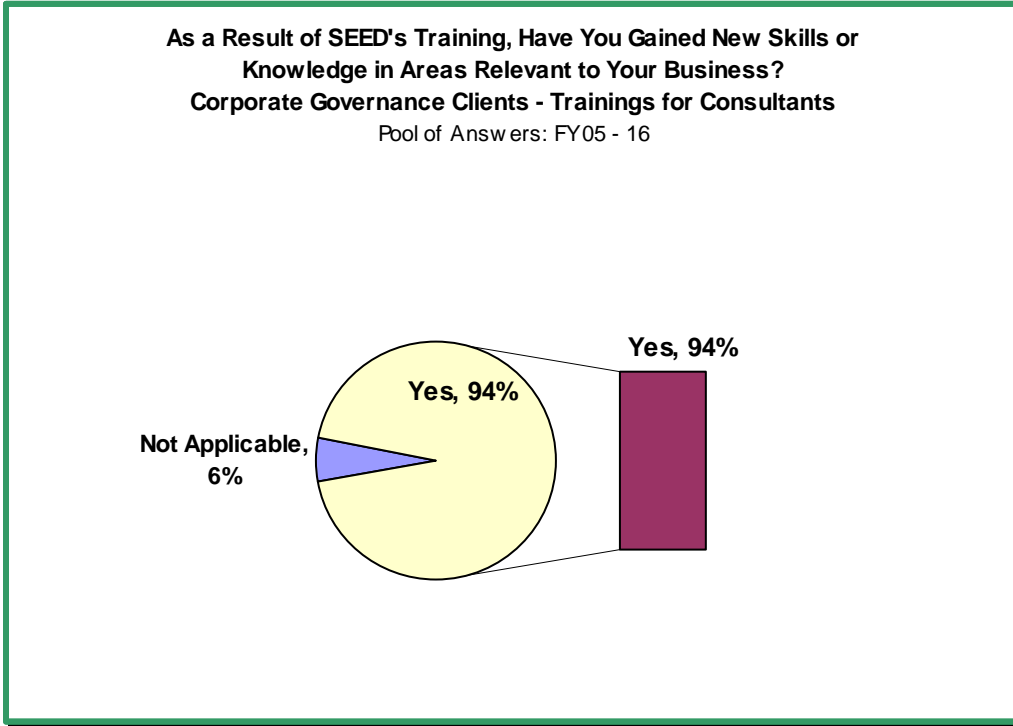
1) General open trainings:

Overall satisfaction with training	4.39
Timeliness and responsiveness of services	4.43
Evaluation of services delivered by trainer / consultant	4.48

2) In-company trainings

Overall satisfaction with training	4.71
Timeliness and responsiveness of services	4.93
Evaluation of services delivered by trainer / consultant	4.95

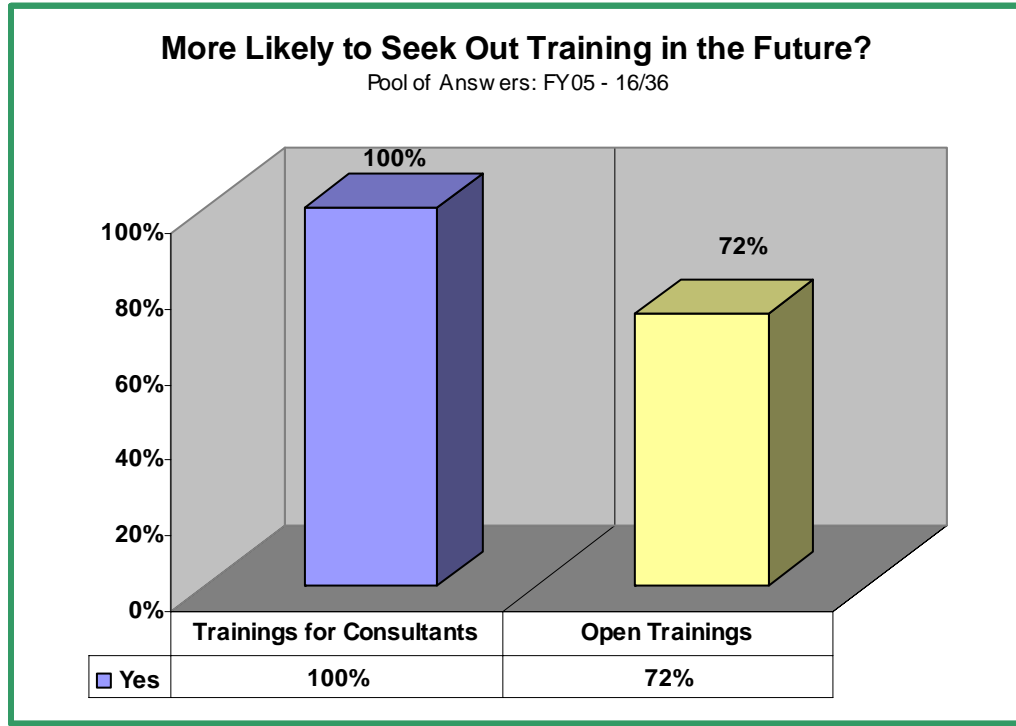
Figure 39: Gained New Skills



One of the major objectives of this pilot was to assess the market for Corporate Governance training in the future. The fact that more than 60 participants were willing to

pay \$100 each for this basic training is a strong indicator in and of itself. On top of that, one of the most consistent comments made by participants is that greater training is necessary, both for themselves and for the market in general.

Figure 40: More likely to seek out training and consulting in the future



Focus Groups with participants in SEED’s Corporate Governance trainings revealed that one of the major challenges is the widely divergent knowledge base of the participants. As one trainer explained, *“There were people in attendance that I do not believe I have anything new to tell on the subject, while for others everything said was new. ... Then the question arises of what level to go to with fundamental concepts on the one hand, and on the other how far to go with some narrow professional specialist situations?”*

In general, knowledge about appropriate Corporate Governance practices in the region is low, and any information put into the public sphere is welcomed.

Another repeated comment from the survey forms and the focus groups was that there was too much information conveyed in a very short period of time. As one participant put it, *“I think that two days is about right for one rounded topic...Perhaps there were somewhat too many questions, too many topics in the morning, two in the afternoon – a total of eight topics in two days.”*

But in general, participants felt that they gained new knowledge through SEED’s trainings.

10. 3. Impact

The immediate utility of the knowledge gained by SEED's clients is more questionable. Surveys three to six months after the training indicated that few clients had been able to put their knowledge to use in their companies.

Figure 41: Have the skills you gained been put to use?

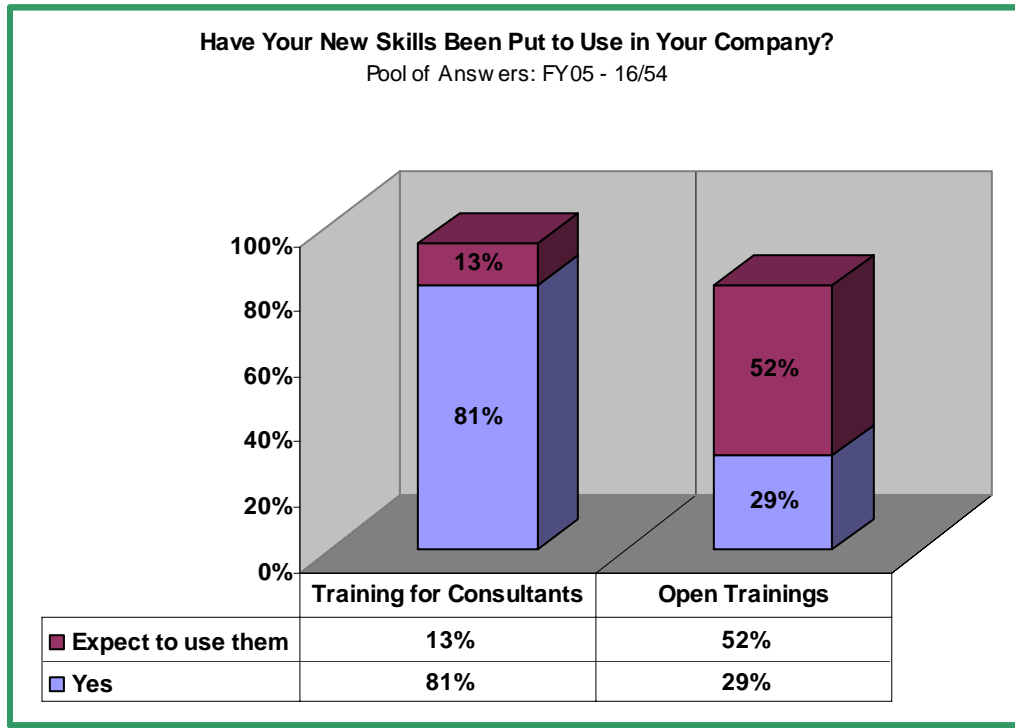
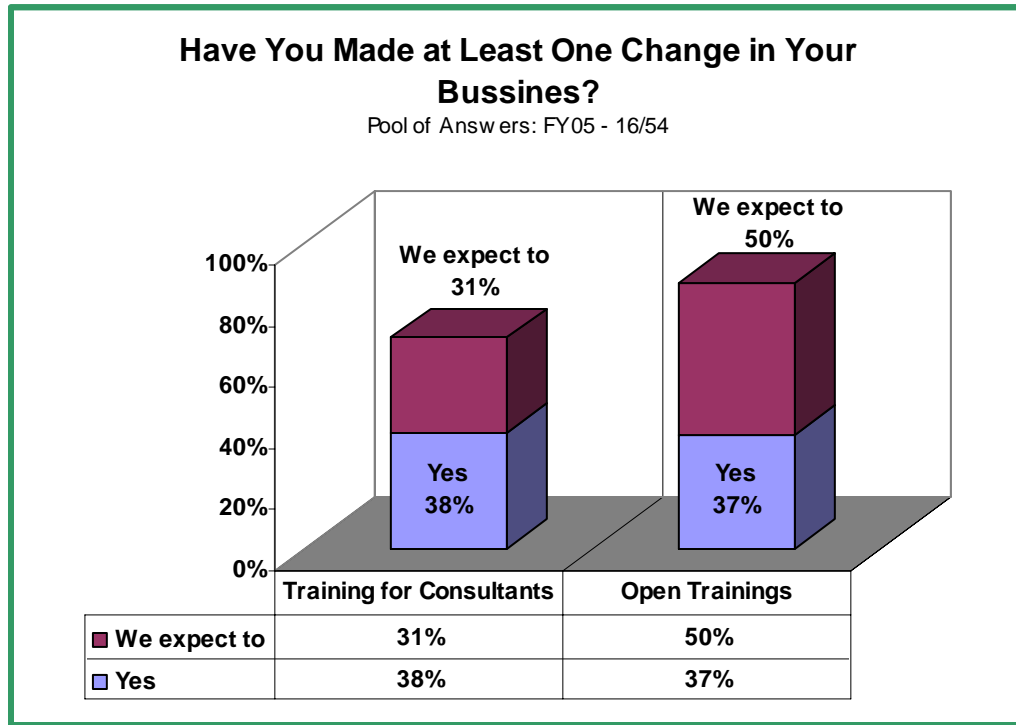


Figure 42: As a result of SEED’s training, have you made at least one change to your company?



It needs to be acknowledged that Corporate Governance issues are often complicated, and changing them is unlikely to be accomplished in three to six months. Also, there is little knowledge about good Corporate Governance practices in the region as a whole, so training recipients cannot expect to return from training to audiences receptive to the knowledge they have received.

The focus groups offered an insight into more effective interventions. One participant described SEED’s work with them this way, *“It was stock feed production where SEED brought in a foreign consultant that assisted in stock feed production methods. Other people from SEED together with us did an approximation of the financial effects of this – the market, etc. They received useful suggestions about where they may have problems, what are the risks in that business, where and for what reason they may encounter cash flow problems, how to forecast these things, etc.”*

Conclusion:

In general, it seems that SEED Corporate Governance training provided good knowledge to participants, and that there was a real understanding on their part about the need for greater education. Future Corporate Governance programming is planned within a more systematic framework and will proceed in greater depth, both of which should make it more effective.

11. Analyzing the Impact of SEED’s Alternative Dispute Resolution Work

11.1. Introduction

For Small and Medium Enterprises (SMEs) and entrepreneurship to flourish in southeast Europe, there needs to be a conducive business environment where rule of law is paramount. The current judicial process in the region is time-consuming, expensive, and often leads to less desirable outcomes. Mediation offers one route to mitigating these issues by offering an alternative to the court process. In mediation, the litigant parties are matched with a neutral mediator who has been trained to help them find or create a mutually satisfactory resolution to their dispute. To be enforced, a solution has to be agreeable to both parties, who then register their agreement with the court.

SEED has worked to develop two different mediation models based upon the legal framework and court administration processes in Bosnia and Herzegovina and in Serbia and Montenegro. In Bosnia and Herzegovina, SEED helped to create an independent mediation center allied with the courts, but separate from them. In Serbia and Montenegro, mediation takes place within the court itself. In both cases, when linked with the formal court process, mediation is often faster, cheaper, and provides better solutions. For often cash poor SMEs, mediation can be an important piece of Access to Finance.

In both countries, SEED’s work involved an extensive public information campaign about mediation and its benefits, legislative capacity building and advocacy work to establish the legal foundations for mediation, and extensive training of lawyers, mediators, and judges.

11.2. Banja Luka Pilot

In Banja Luka, Bosnia and Herzegovina, SEED worked with the 1st Instance Court. This is the largest court in the Republic Srpska with a large commercial department. There were several judges within the court who were interested in participating, including the President of the Court. In addition, a number of interested mediators who had been trained by SEED and the Canadian Institute for Conflict Resolution (CICR) lived in Banja Luka.

11.2.1. Mediation Law in Bosnia and Herzegovina

SEED worked with legislators, lawyers, international experts, and the CICR to create a draft law on mediation that would support the growth of mediation in the region. SEED conducted a national public-awareness campaign focusing on blend between media and targeted information sessions to build momentum for the law and for mediation in general. The Law on Mediation was approved by the BiH parliament at the end of June 2004, was publicized in the BiH “Gazette” August 12th and came into effect August 20th. The law encourages mediation as a first step in civil cases, and sets out a framework for

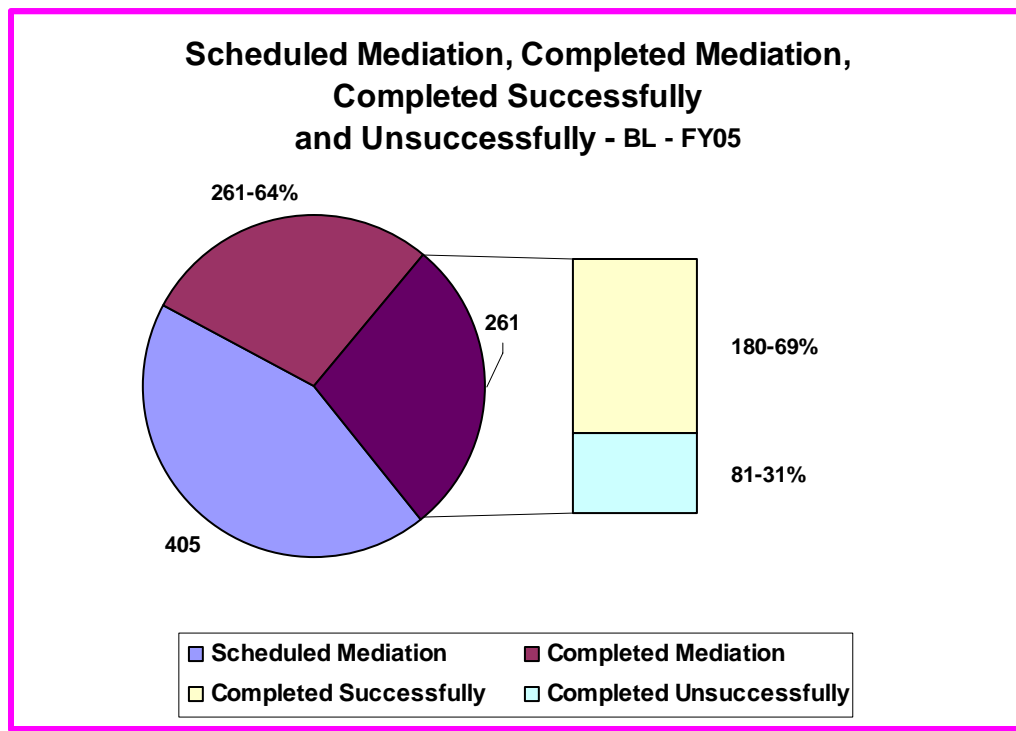
the conduct of mediation and subsequent implementation of mediated agreements. It also regulates the establishment and status of mediators. In order to implement the law, it was necessary to develop court procedures, hold information sessions for both the courts and the public, and test out the utility and public acceptance of mediation in a culture completely unfamiliar with it.

11.2.2. The Cases

Judges from the first instance court were trained in mediation and were then asked to select cases they thought would be appropriate for mediation. In the first round, there were 300 invitations sent. After that, judges could refer any case they chose to mediation. Through July of 2005, there were 405 total cases were scheduled to mediation. Sixty four percent were completed successfully while thirty one percent was not successfully completed, which means agreement was not reached within mediation process.

One of the real obstacles to mediation is a lack of understanding within the business and legal communities about mediation.

Figure 43: Acceptance of Mediation in 1st Instance Court of Banja Luka

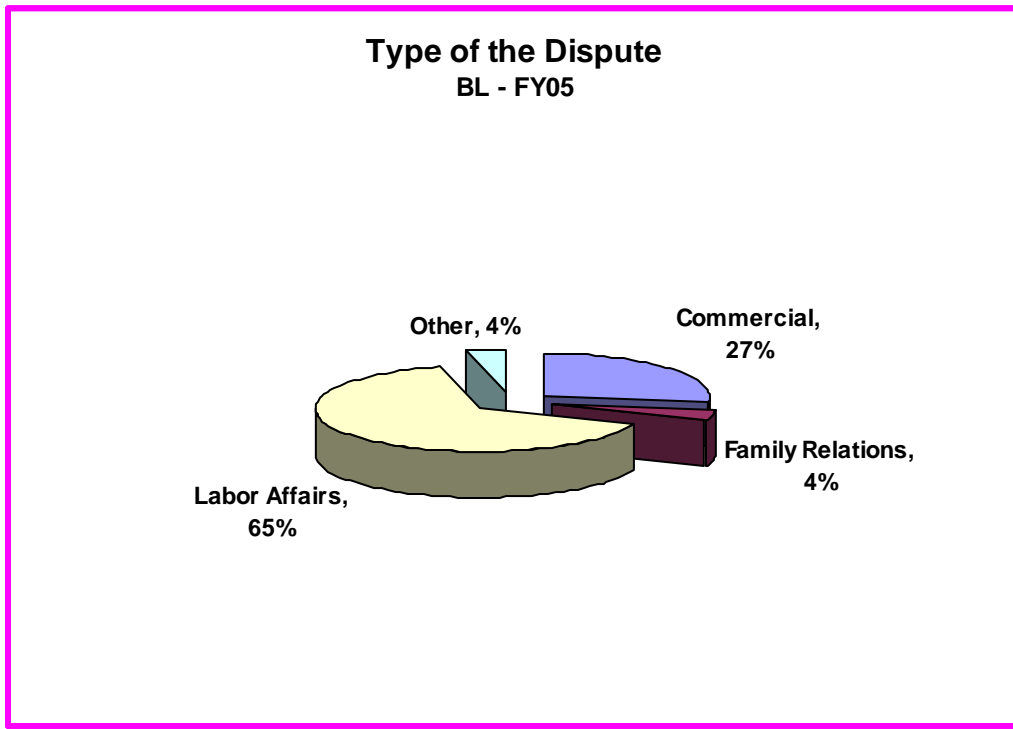


It is clear that a great deal of work remains to be done in terms of convincing the population that mediation is a viable alternative to formal court proceedings. Anecdotal evidence from interviews with parties who refused mediation indicated that a lack of belief in mediation was a major reason for not participating in mediation.

11.2.3. Litigants

Though SEED's emphasis is on commercial and labor cases, mediation is applicable to a wide variety of potential cases, and judges within the pilot project wanted to explore the full range of mediation's potential. In the 1st Instance Court, the division of cases can be seen in Figure 44.

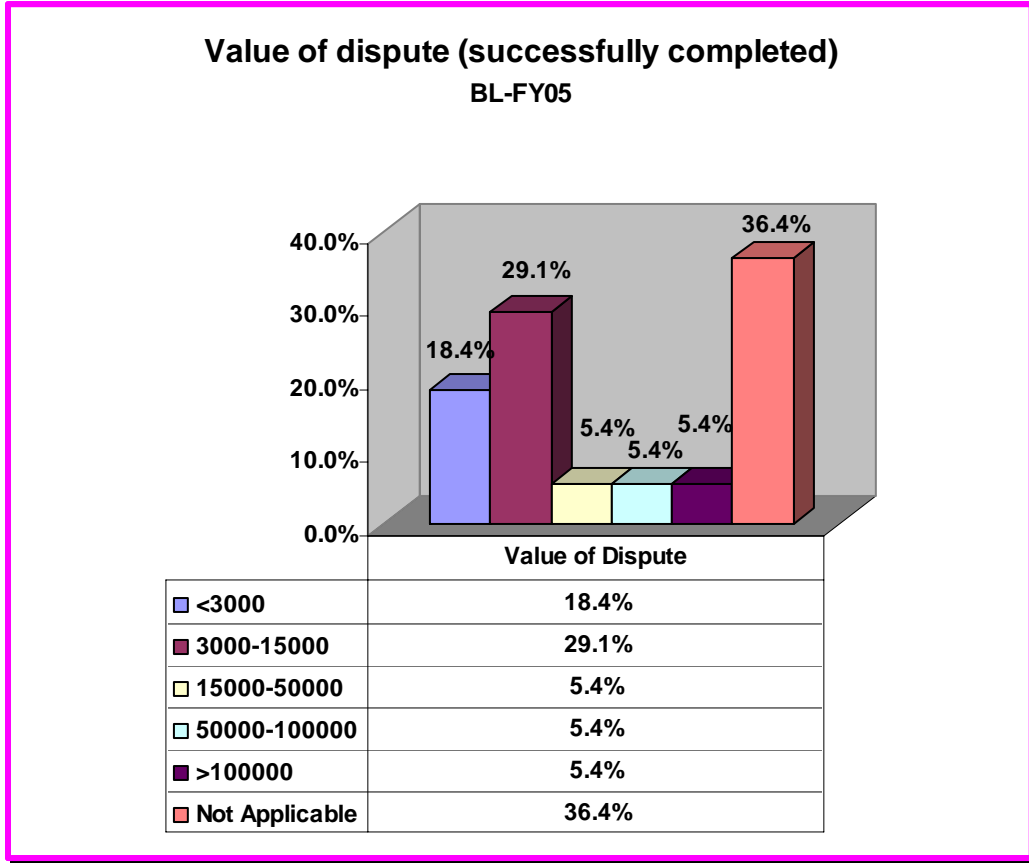
Figure 44: Types of cases in mediation in the Banja Luka Pilot



Most of the cases had been in the court system for between 1 and three years, although some had been there for longer. The average is 2.2 years for the whole population of cases.

The duration of mediation process has improved over time. In the first phase of the Pilot project, the average mediation was 92 minutes. During the second phase, it dropped to 44. As the profile of the cases has not changed significantly, this drop can be attributed to the increased skill of the mediators.

Figure 45: Value of Successfully Completed Disputes

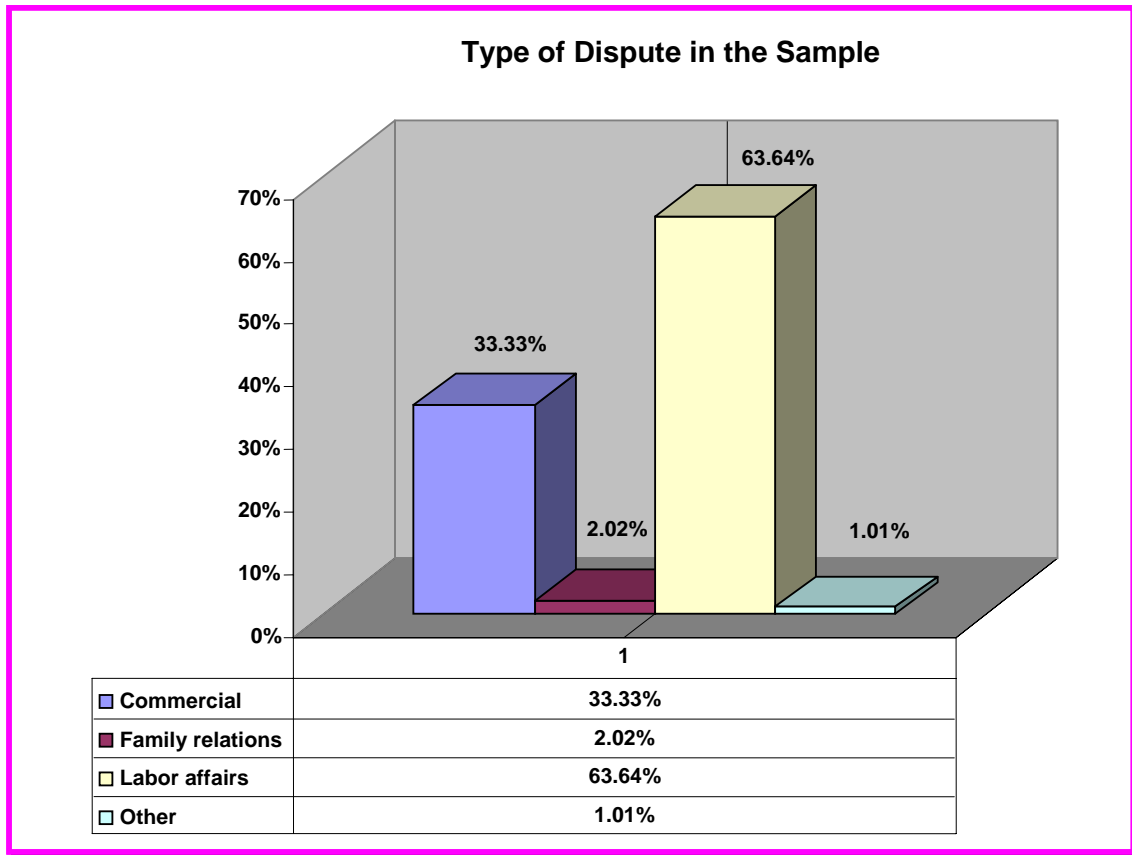


SEED M&E Team conducted an impact assessment survey on a sample of cases, which are representative of the whole population in terms of type and value of disputes distribution. There were some limitations on the sampling method:

- contact availability of client parties
- clients who were available for survey during the period when the survey was conducted in Banja Luka area.

Sample characteristics are provided in the figures 46 and 47.

Figure 46: Type of Dispute in the Sample



The surveyed sample had 33 percent of commercial cases and 64 percent of family cases which is similar ratio like in population.

Most of the cases were disputing over relatively small amounts of money, although there were a number of high value commercial cases that were resolved through mediation.

Figure 47: Value of the dispute

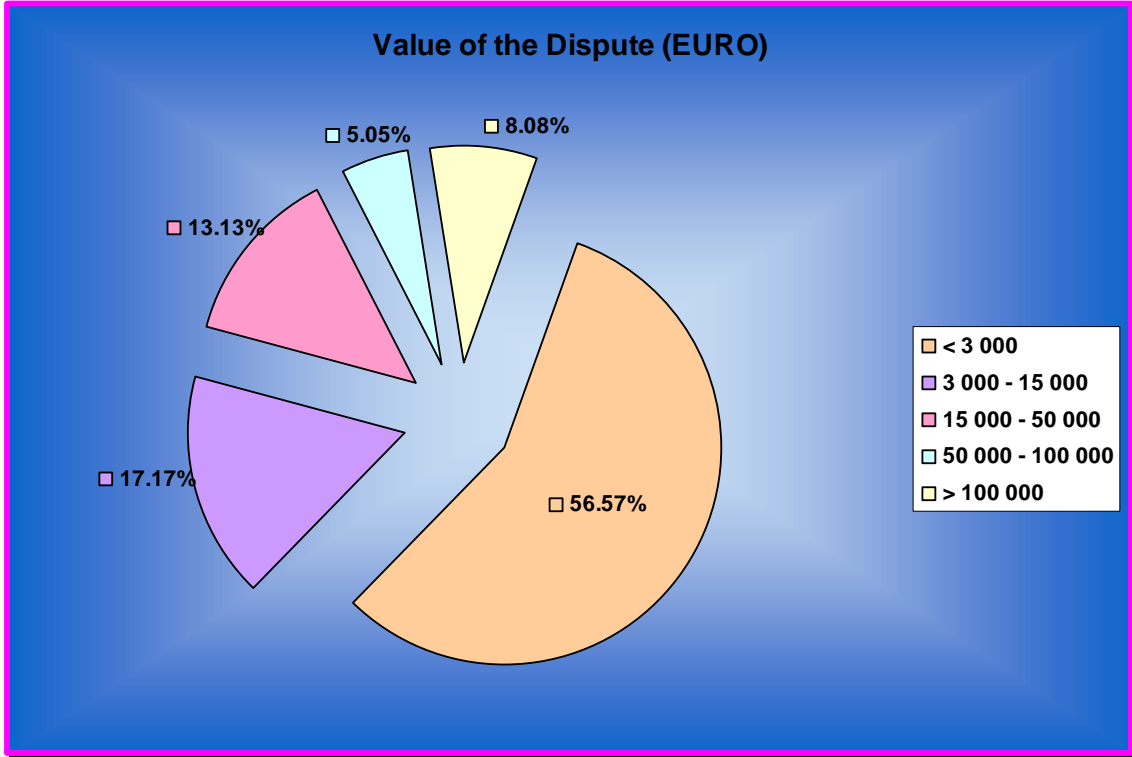
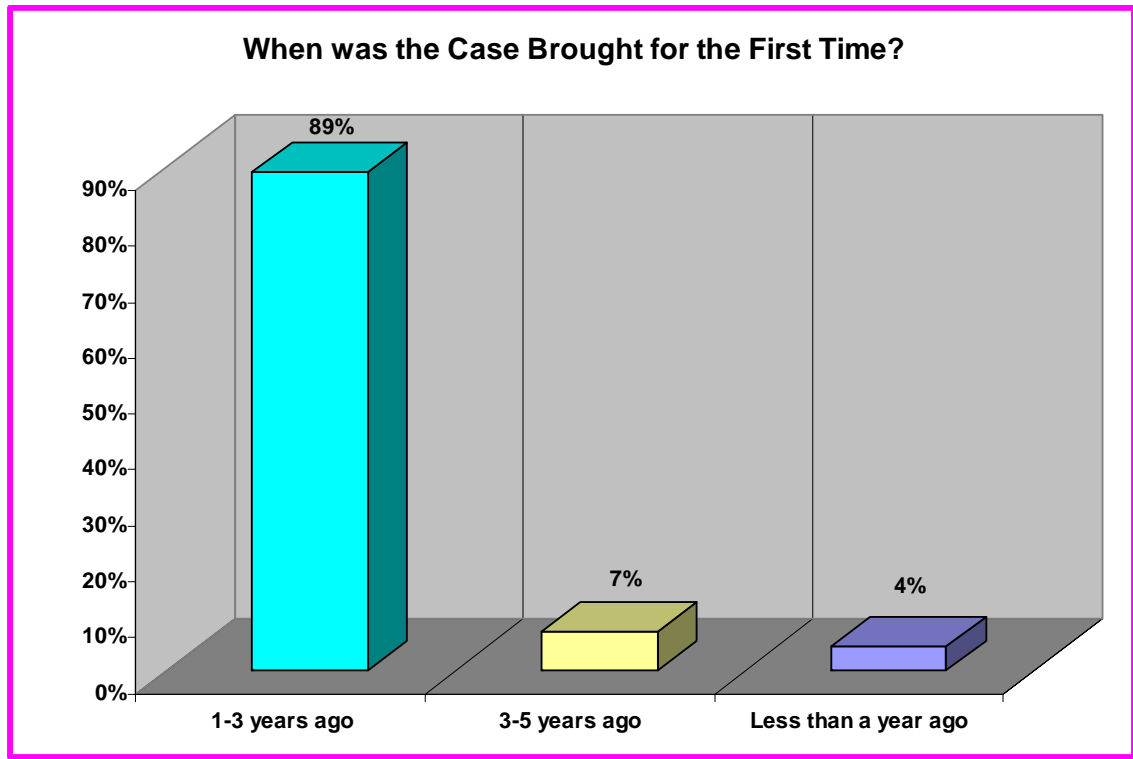
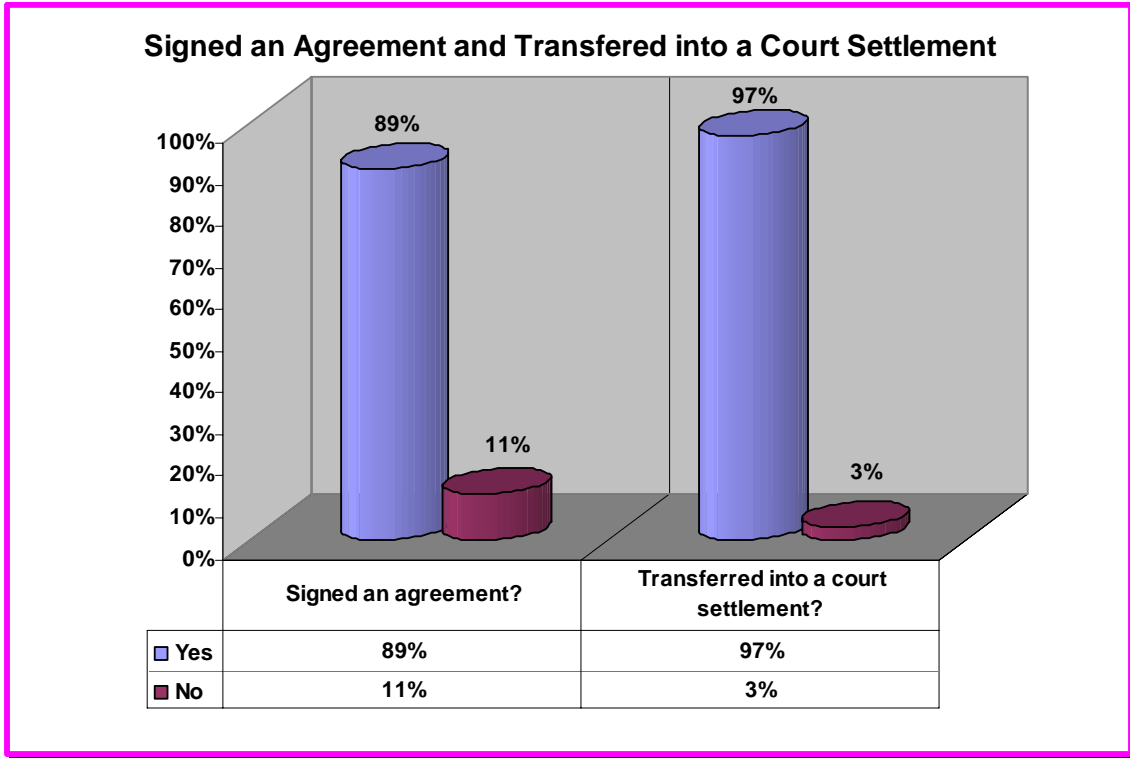


Figure 47: Length of time the case had been in dispute for sampled cases



Once in mediation, a high percentage of the cases were able to be successfully resolved. Litigants felt that they were well informed about what to expect and that the process worked well. They also were largely very impressed with the conduct of the mediators in terms of neutrality, level of understanding, and ability to explain the key issues and interests of the parties. Litigants were impressed with the mediators' ability to find creative solutions to problems at hand.

Figure 48: Did the mediation process result in signing an agreement?



The total value of cases resolved through mediation was 6,745,027 Euros.

One remaining issue is whether, once an agreement has been reached, the parties will stand behind that agreement. By the time the M&E Team or the mediation center followed up with clients in Banja Luka, most of the agreements had been fulfilled, although often with some delay.

By Bosnian law, once an agreement is reached it must be transferred back to the court system in order to be enforceable by the court. Most cases were successfully transferred, but focus groups and interviews indicated that this was a significant burden on the litigant parties, and there was a strong desire to eliminate this requirement.

Once funds are released they are used mostly to meet current liabilities e.g. salaries, loan repayment, procurement working capital etc. Only eight percent of sampled clients used released funds for development activities, investments, research etc, but having in mind that BH economy is in very difficult situation the results reflect the real situation.

Figure 49: Purpose of released funds earmark

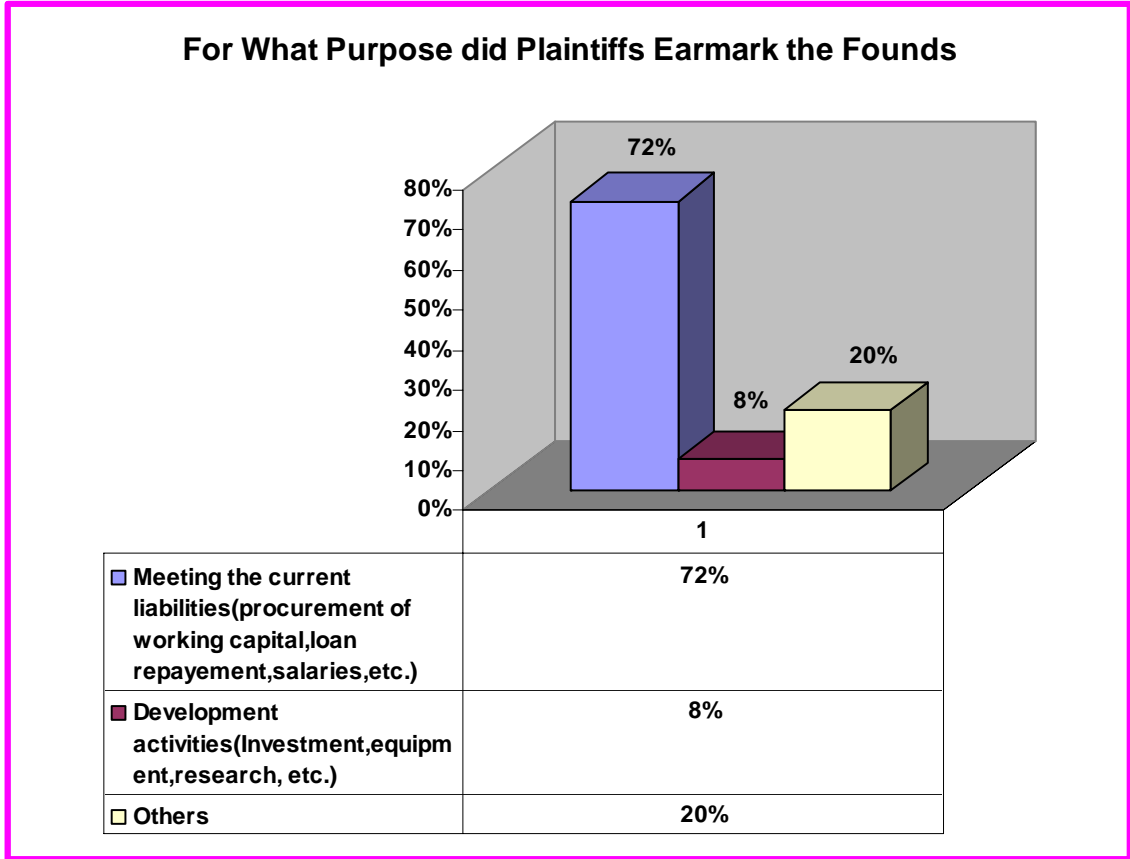
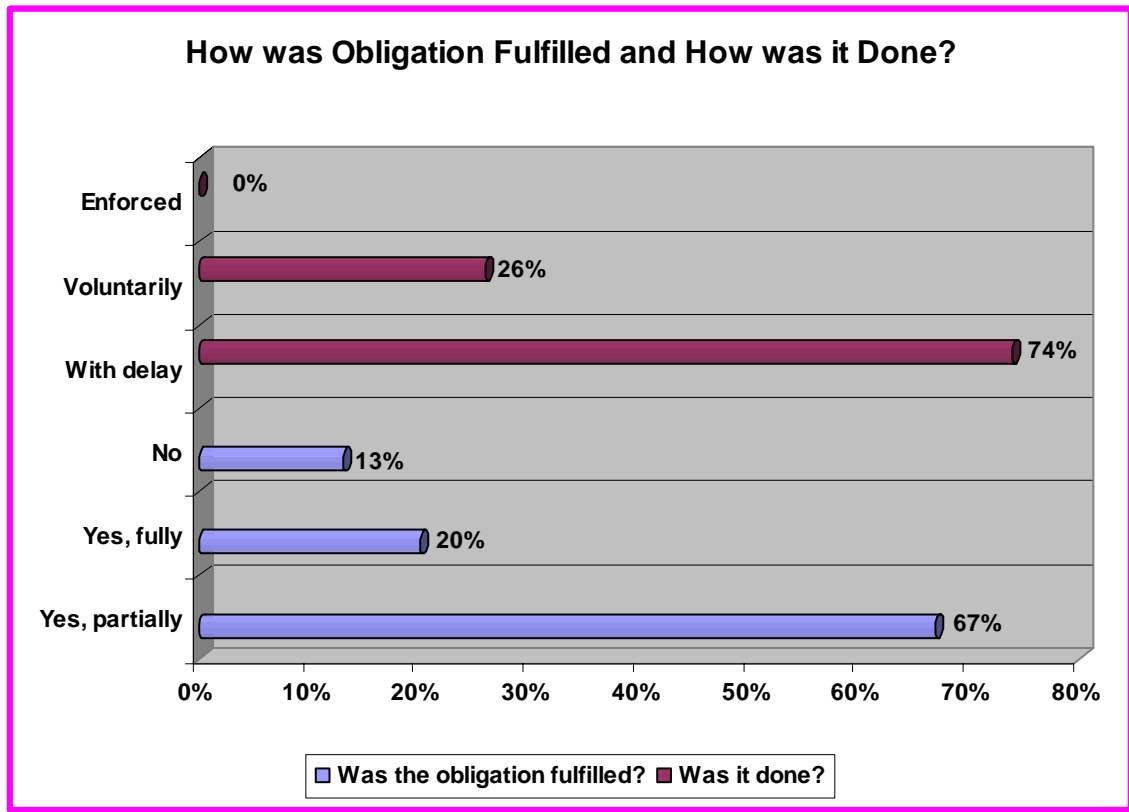
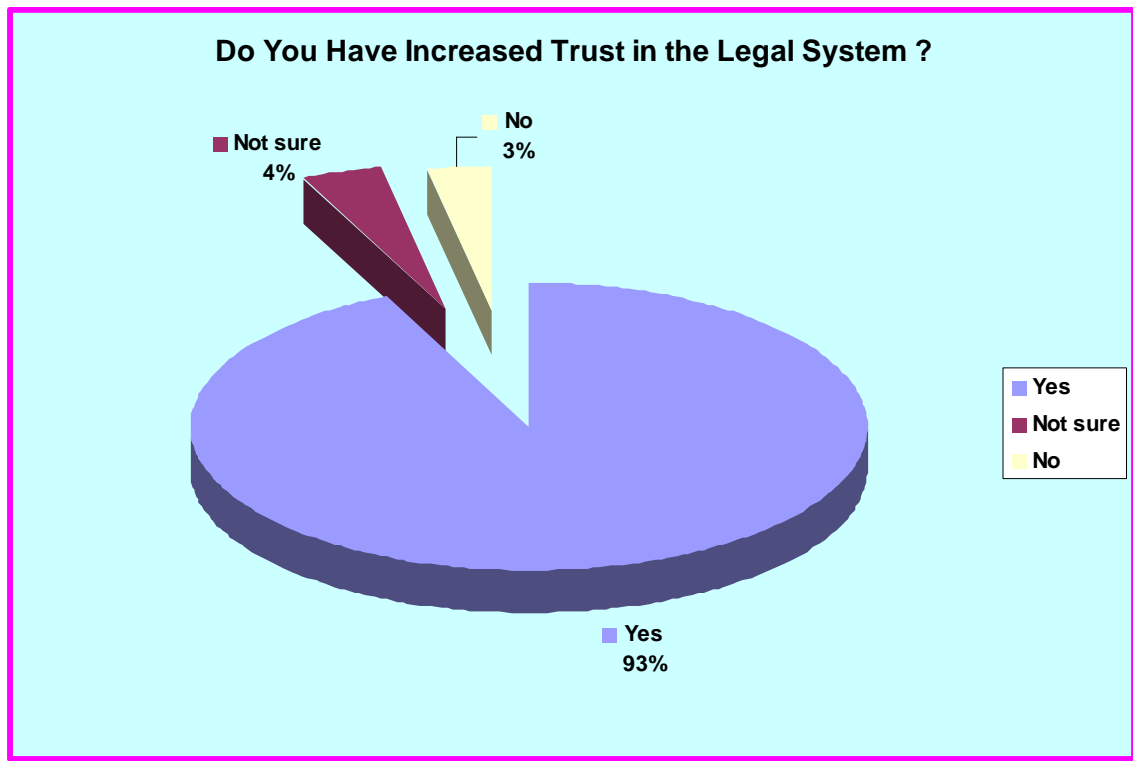


Figure 50: Has the obligation been fulfilled?



One of the stated objectives of SEED’s ADR work is to build confidence in the rule of law in the region, as an essential component of economic development. As such, increasing trust in the workings of the judicial system is a useful measure of success.

Figure 51: After mediation, do you have increased trust in the judicial system?



The focus group and client follow-up process identified a number of issues with the mediation process that have already changed procedures within the mediation center. But there remain a number of obstacles to the expansion of mediation in the region, the most significant of which is understanding of mediation itself.

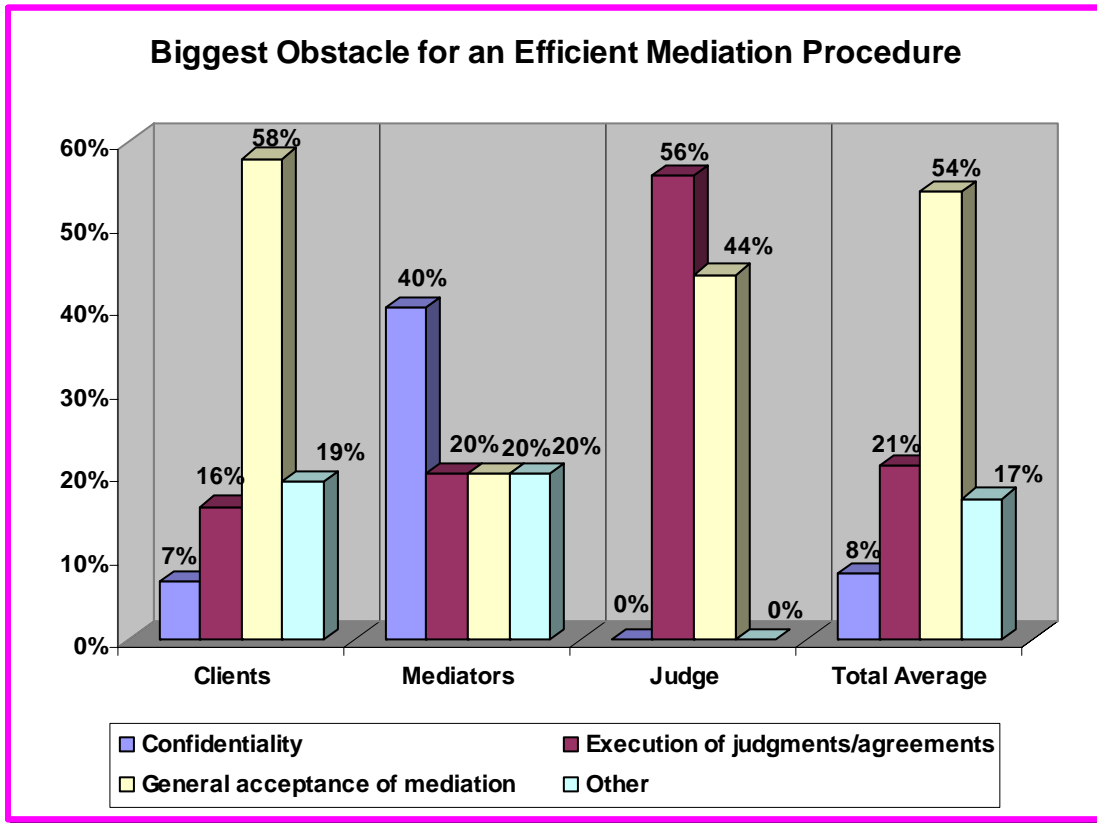
11.2.4. Mediators

This report is going to focus on mediators actually working in the mediation center in Banja Luka. In general the mediators were extremely positive about the mediation process and about the training they received. They universally felt that they had received enough training to be successful as mediators.

A key element to their success, however, was that each mediator watched other mediations and received mentoring and coaching from a senior mediator before being allowed to mediate on their own. In their own estimation and in that of the mentor, there was significant progress between their first and fifth mentored mediation, and that their success rates were likely to continue to increase as their skills and confidence increased.

From within the mediation center, mediators placed much more emphasis on the importance of confidentiality as an obstacle to growth than did the litigants. Granted the unique perspective of the mediators, this is an issue that should be addressed.

Figure 52: As you see it, what is the biggest obstacle to an efficient mediation procedure?



11.2.5. Judges

The role of judges in the mediation-center model is to select and refer cases to mediation, and then to certify any agreements reached by the participants. As such, mediation has the potential to drastically reduce the amount of work for judges and to make a dent in their case backlogs.

The judges who participated in the SEED pilot in the first instance court were supportive of the process and generally positive about mediation in general, but they also held some reservations. As one judge said in the focus group, *“We can’t say that everything will be solved by mediation, since it is not a magic stick. People will then think that you can do everything in mediation what the Court can’t do.”*

Judges were only somewhat satisfied with the process of selecting cases for mediation; with 44% indicating either satisfied or very satisfied. A larger percentage (56%) felt satisfied about the interaction between the court and the mediation center. However, in general, judges were eager for the pilot project to continue and enthusiastic about the mediation process.

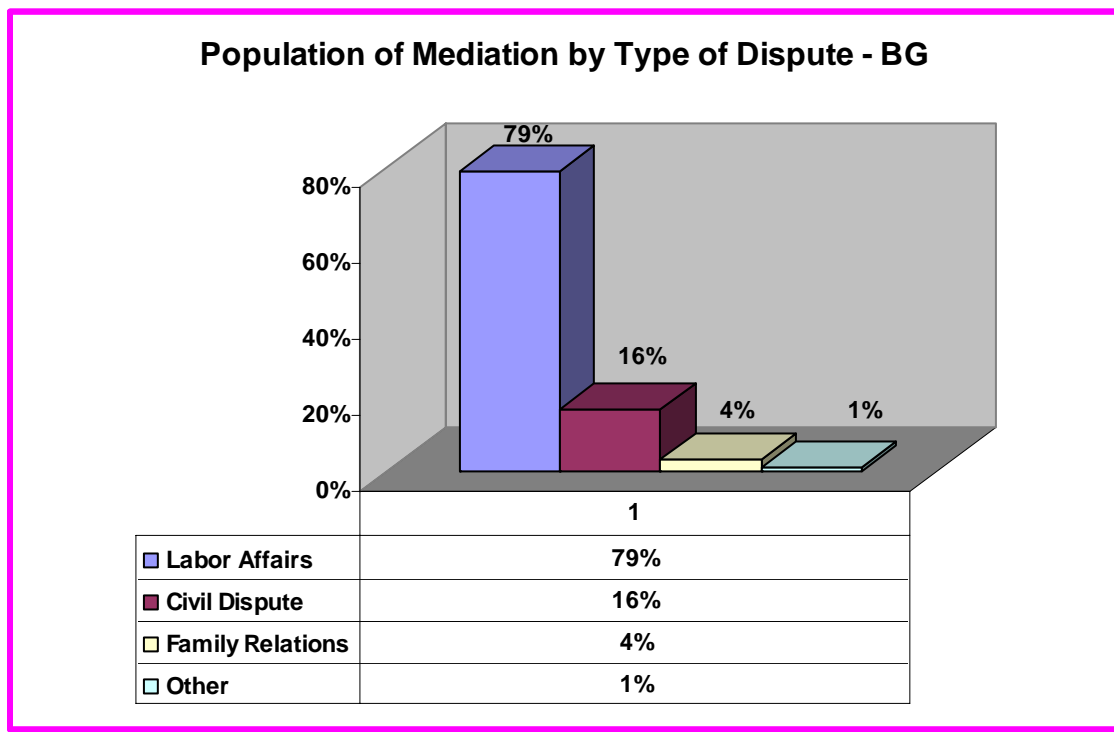
Conclusions

In general, there is strong support for mediation in general, and for the mediation center model in particular, by all of the relevant stakeholders. A major remaining obstacle identified by all stakeholders was the need for broader education about mediation targeting the general public. Additionally, the need to return to court after a successful mediation was identified as a problem. However, to date the pilot program in Banja Luka has proven highly successful and has validated the potential for mediation to greatly expand within Bosnia and Herzegovina.

11.3. Belgrade Pilot – Second Municipal Court

In Belgrade, SEED worked to develop a court-centered model that focuses on the use of active judges as mediators. Judges who worked in the courts mediated cases on which they were not presiding and the mediation takes place somewhere in the courthouse.

Figure 53: Types of cases in mediation in the Belgrade Pilot



This model makes the acceptance of mediation less of an issue, because the presiding judge can apply more pressure to the litigants encouraging them to seek mediation. This is reflected in the rate of cases referred to mediation that actually go to mediation.

Figure 54: Acceptance of mediation in the Belgrade Pilot

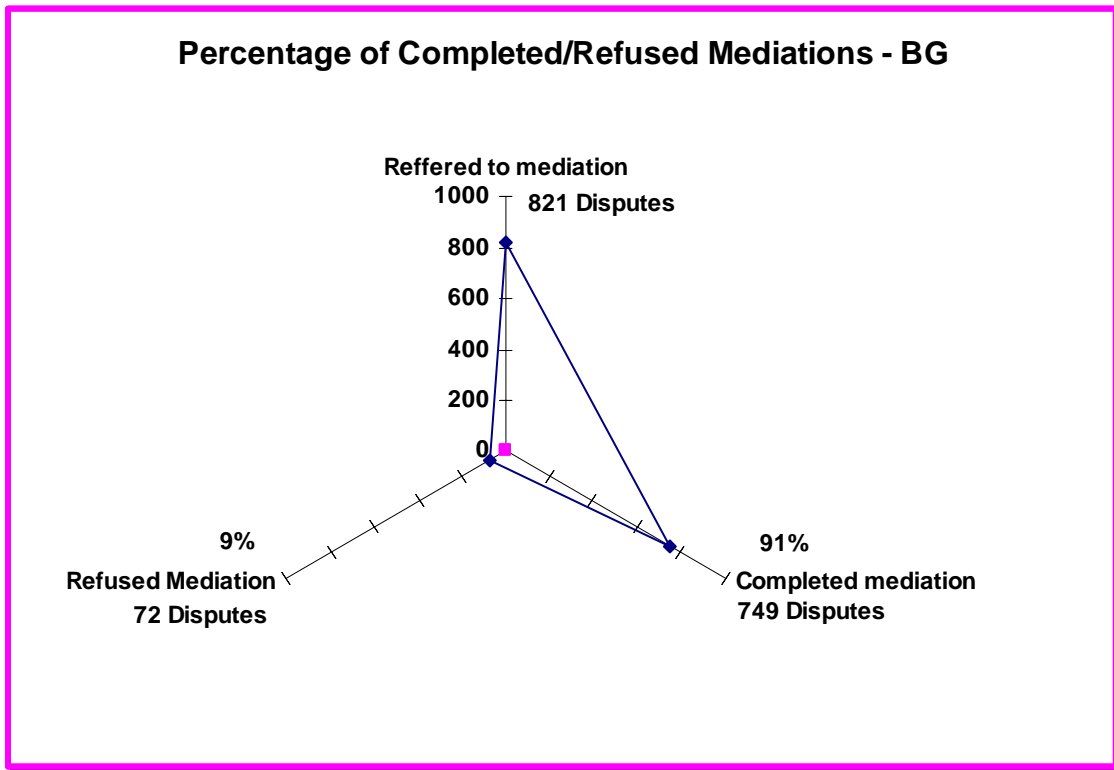
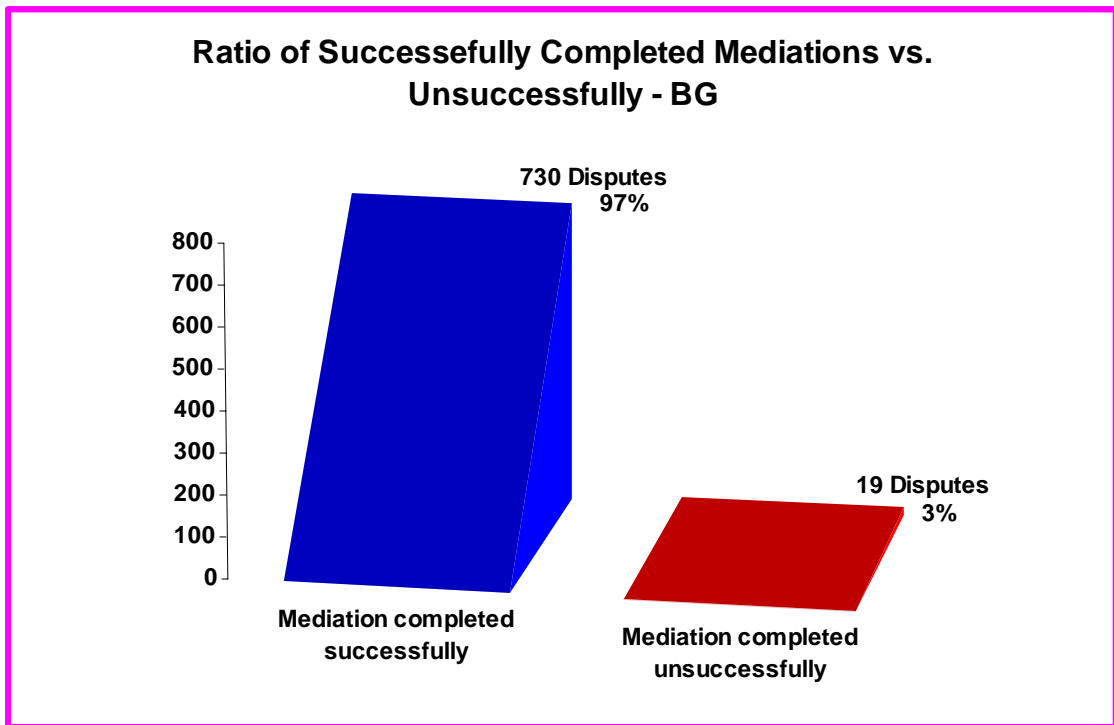


Figure 55: Ratio of successfully completed mediations



11.3.1. Litigants

The Second Municipal Court in Belgrade is focused on labor law, which has a big impact on the profile of cases. Most of the cases have been in the court system for less than a year.

M&E Team conducted client survey based on sample. Since commercial cases are not subject of the Second Municipal Court the labor cases are selected for survey.

The figure bellow shows length of time the case had been in dispute before accepting mediation.

Figure 56: Length of time the case had been in dispute

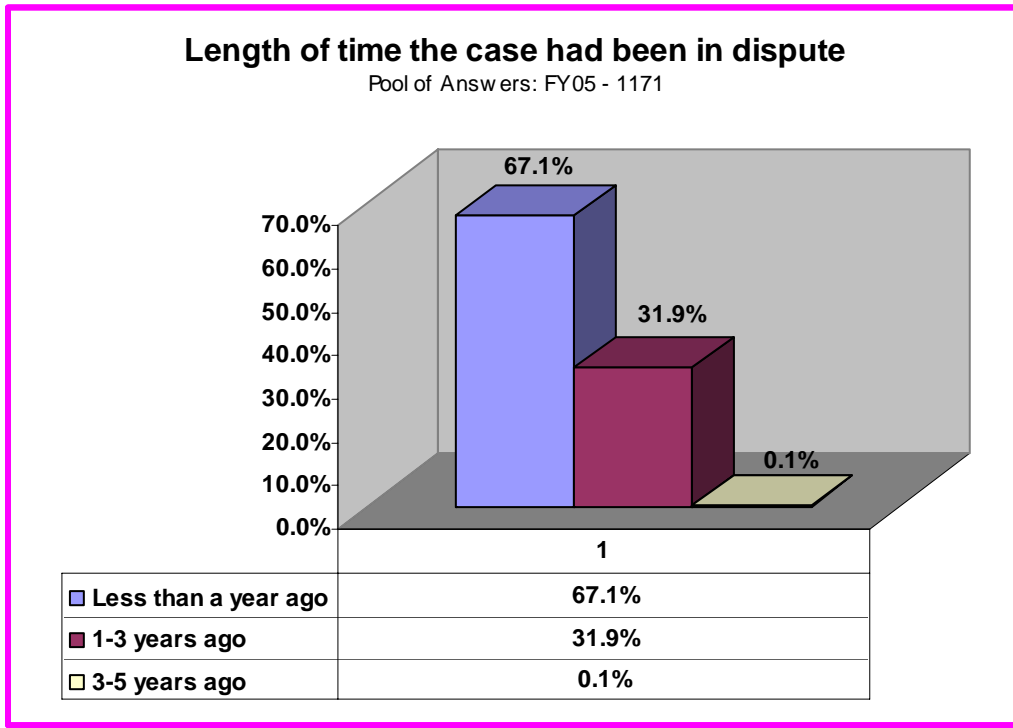
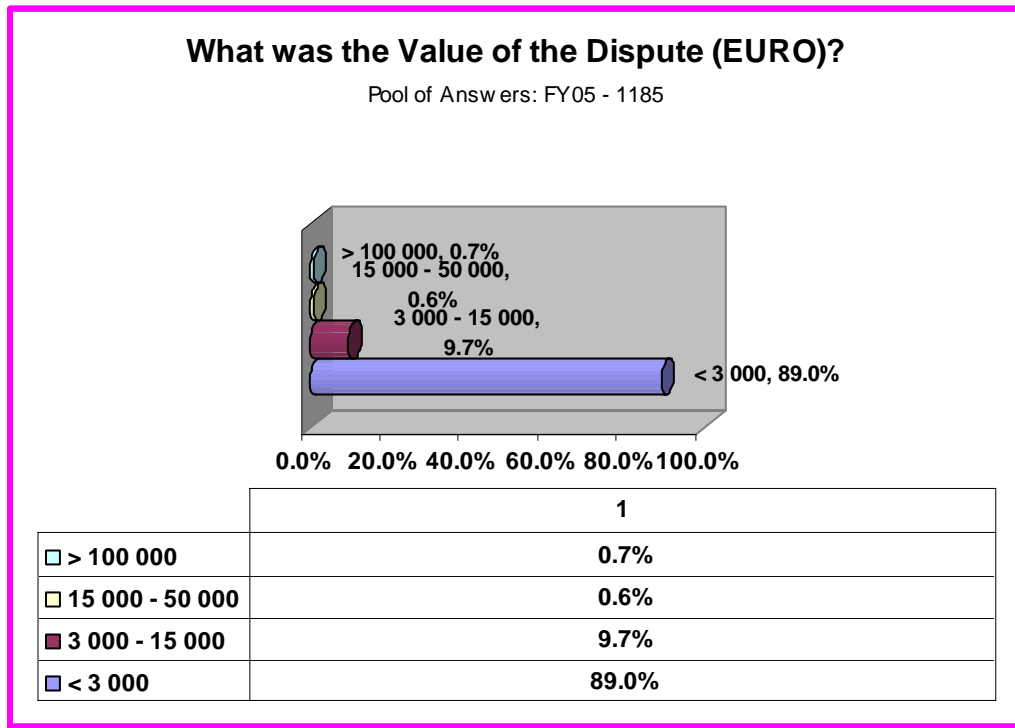


Figure 57: Value of the dispute



Most of the cases were disputing over relatively small amounts of money, although there were a number of higher value case that were resolved through mediation. In total, almost 2 Million Euros had been released by the project through FY 05.

In Belgrade, almost all (99%) of the cases referred to mediation ended in an agreement and that agreement was transferred into a court settlement. This situation is much easier than in Bosnia and Herzegovina because the mediation is done in the court itself. But only one small percentage of obligations were fulfilled (1%).

Figure 58: Did the mediation process result in signing an agreement? Was the obligation transferred into a court settlement?

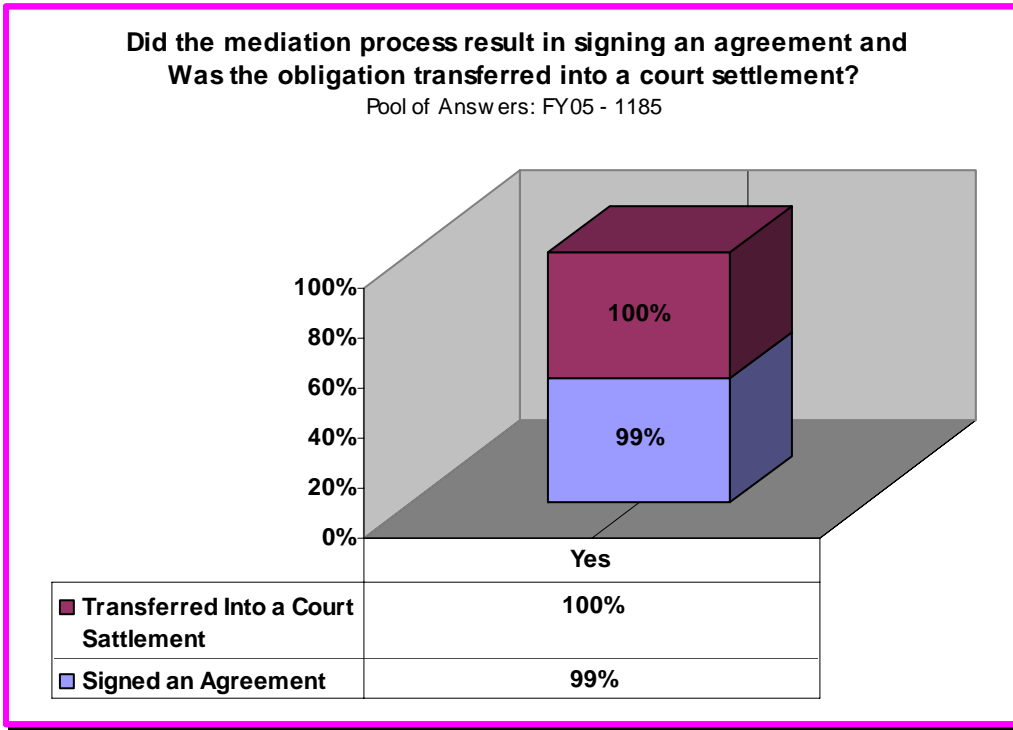
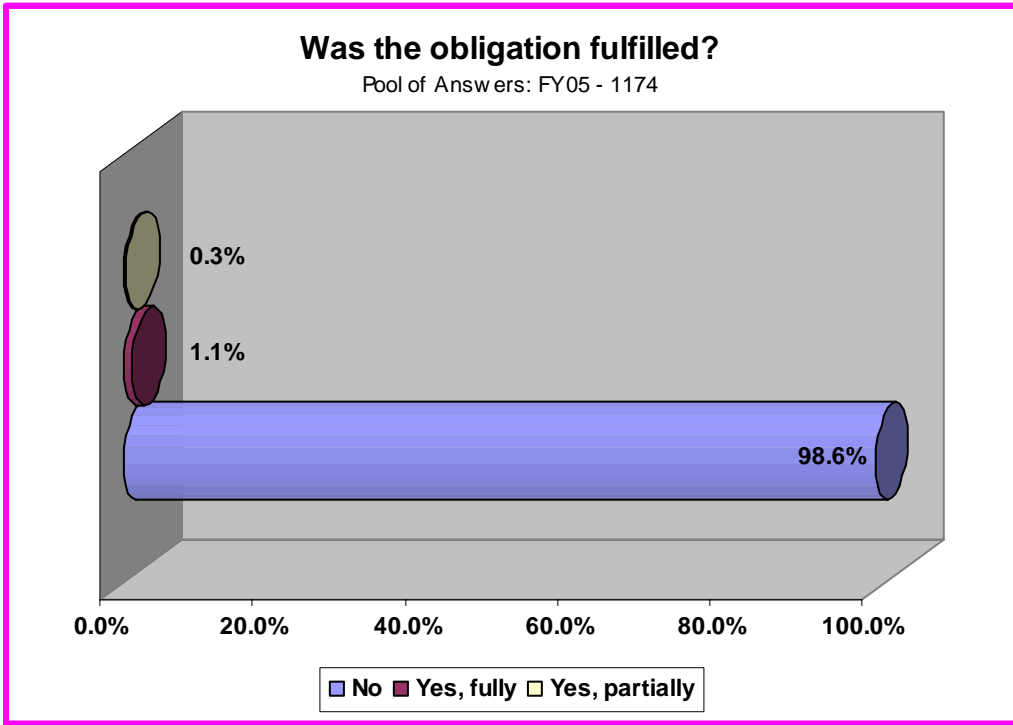


Figure 59: Percentage of fulfilled agreements



The most frequent reasons (cited by clients who utilized mediation) for not fulfilling the agreement which clients mentioned are the following:

- The company agreed to pay its debt to the employees but hasn't had funds yet.
- Defendant is not liquid and that is why can not pay the liabilities.
- We are waiting for privatization.
- On the end of privatization and restructuring procedures will be fulfilled.
- The liabilities will be fulfilled at the end of privatization and restructuring procedures.
- We are waiting for building the apartment which is compensation for debt according to agreement reached in mediation.

Figure 60: As you see it, what is the biggest obstacle to an efficient mediation procedure?

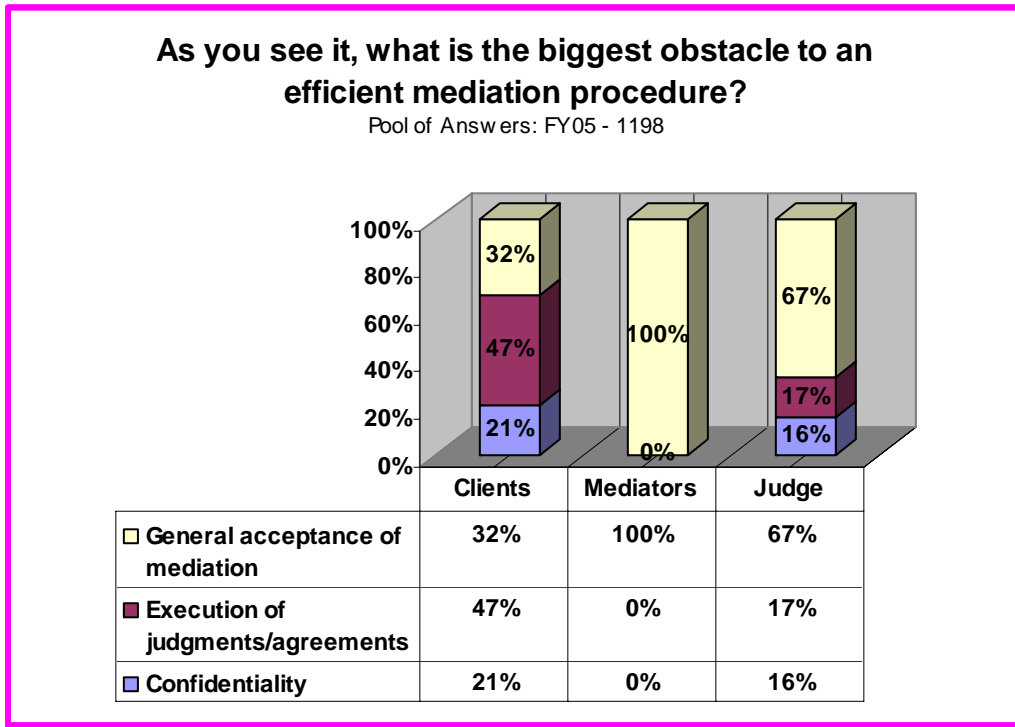
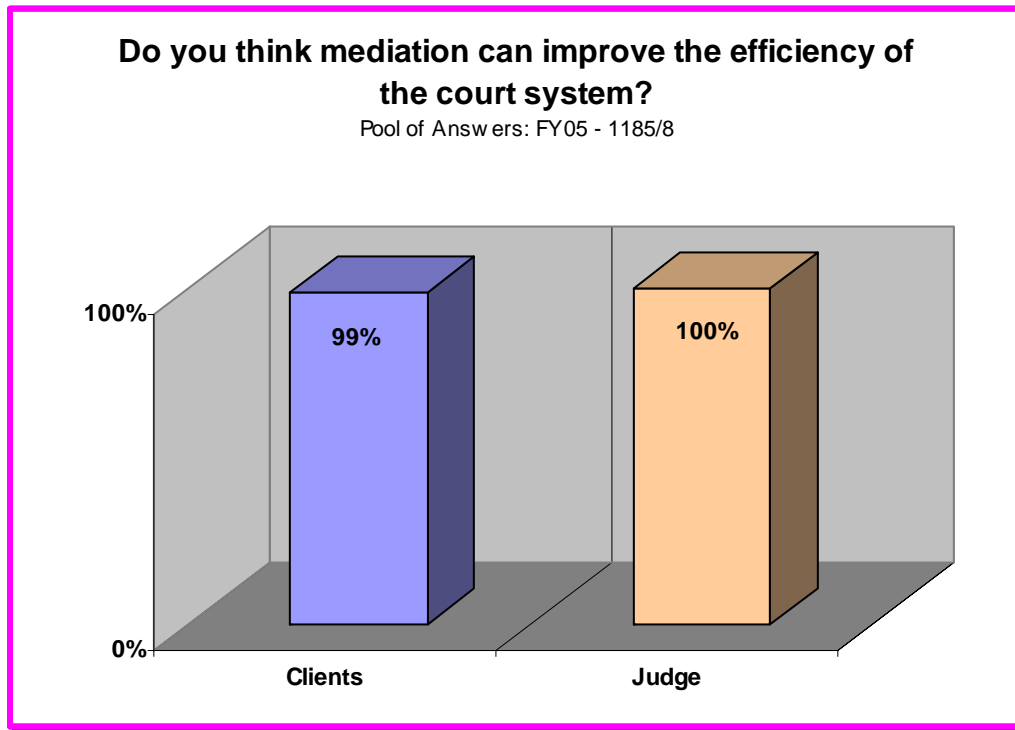
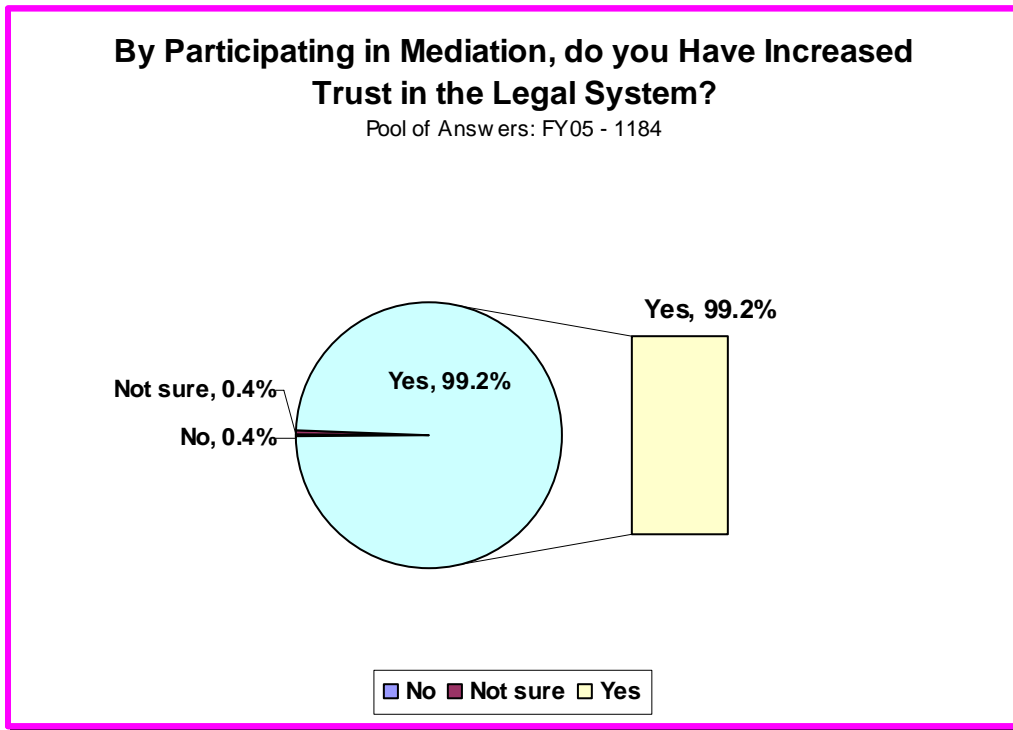


Figure 61: Can Mediation Improve Efficiency of the Court System?



Virtually all of the litigants (99.2%) felt that their trust in the legal system as a whole had increased after participating in mediation. Unlike their counterparts in Bosnia and Herzegovina, the major obstacle to the expansion of mediation in the minds of litigants at the Belgrade court was the execution of judgments. This will have to be examined in the future to determine if their fears are well founded.

Figure 62: Trust in Legal System



11.3.2. Judges / Mediators

As of yet, there has not been a comprehensive survey of the judges involved in the Belgrade Court, who also serve as mediators. Anecdotally, they are extremely pleased to be involved in the mediation pilot project and look forward to educating their colleagues about their progress. More work will need to be done about this in the future.

All mediators and 67% of surveyed judges are willing to continue participating in the pilot project.

Figure 63: Willing to participate in the pilot project in the future

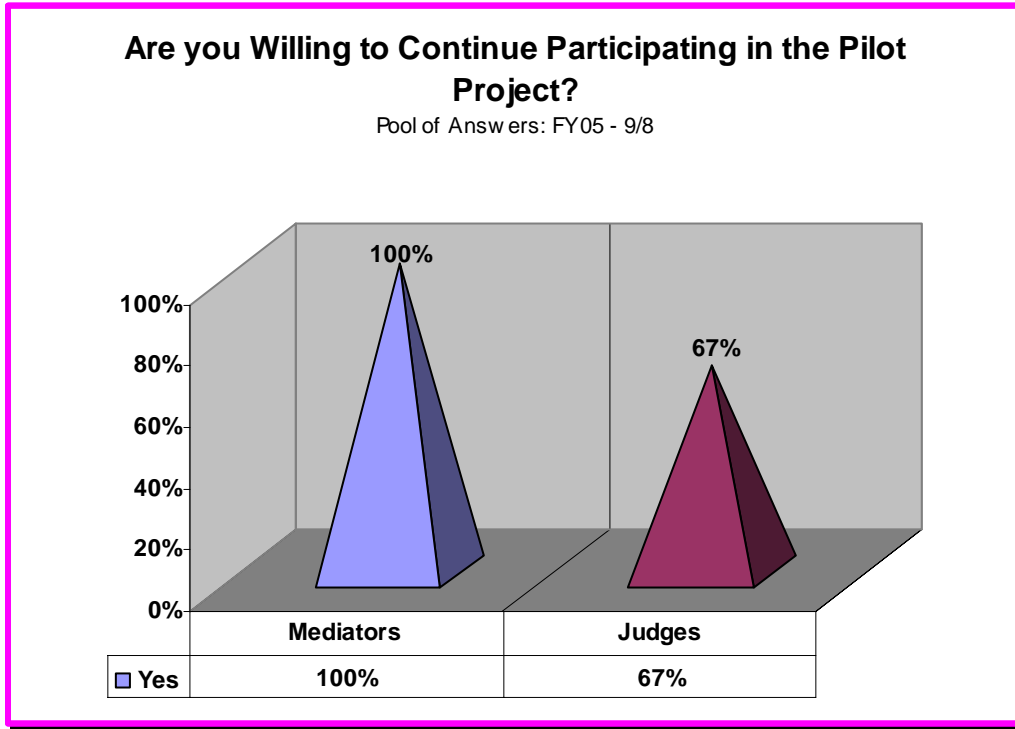
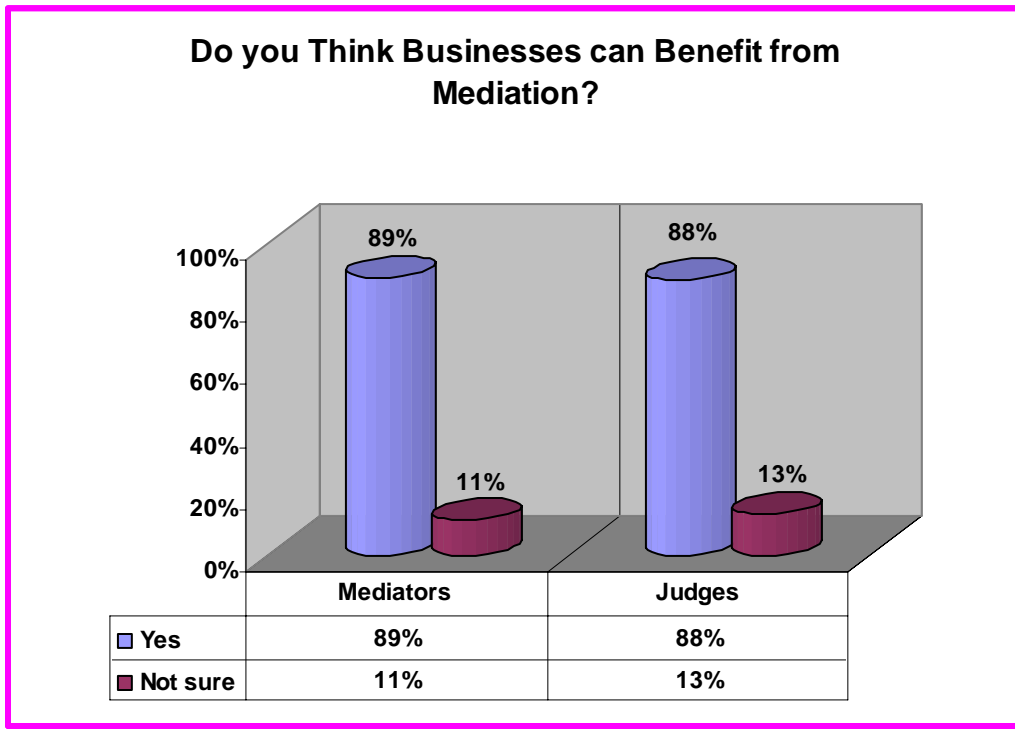


Figure 64: Can Business benefit from Mediation?



The vast majority of mediators and judges think that business can benefit from mediation.

Conclusions

In general, the Belgrade pilot of court-centered mediation has worked extremely well. Litigants are happy to be part of mediation and the success rate of the mediation is phenomenally high, compared to mediation success rates in Western Europe or North America. Enforcement of judgments remains an area of concern, and this concern must be addressed for this model of mediation to expand.

Recommendations

Both Banja Luka Pilot Project and Belgrade Second Municipal Court Pilot Project gained success although they were conceptually different. Belgrade Pilot project was strongly connected with Second Municipal Court, while Banja Luka pilot project was independent. From IFC PEP SE point of view commercial cases are more important since these cases release funds for companies in dispute.

12. Assessing the Impact of SEED's Business Enabling Environment Work

12.1. Introduction

Measuring the performance of Business Enabling Environment (BEE) projects is a complex and difficult endeavor. BEE projects by their nature are long-term, affect a wide pool of end-recipients, and seek broad impact not easily attributable to one cause. This makes it difficult to determine impact without broad surveys and/or detailed economic indicators unavailable from official sources in many target countries. The costs of acquiring that information, particularly in countries like Albania, Bosnia and Herzegovina, Macedonia, and Serbia and Montenegro, where economic data is often unreliable and difficult to obtain, are significant.

There has been a great deal of discussion about what exactly BEE is. For the purposes of this report, BEE refers to “projects designed to improve institutional legal and regulatory conditions under which businesses operate, including changes to government policies, laws, regulatory frameworks and administrative practices by public sector entities.” The range of issues encompassed in this definition is wide, and the issues that must be considered when attempting to measure the effectiveness of BEE interventions is correspondingly complex.

To date, SEED has worked in a number of key business enabling environment areas essential for the long-term development of the private sector in southeast Europe. For example, in the financial markets, SEED has worked to develop leasing laws and regulations, establish factoring as an official and regulated form of finance, and worked with credit bureaus and collateral registry systems. SEED has worked at the municipal and national levels to streamline administrative systems, reduce business registration costs, and introduce business-friendly legislation. IFC has made efforts to improve contract enforcement and introduce alternative dispute resolution into the judicial system.

To improve the general business market, IFC has helped countries reform their trade policies, customs administrations, inspection regimes, and procurement policies. Working directly with local, regional, and national governments, IFC has empowered them to improve their transparency, accountability, and overall effectiveness.

A large percentage of SEED's BEE work took place within the context of a broader programme, and as such has been addressed in other parts of this report. For example, SEED's work to reform the procurement process of the Albanian state was part of SEED's BMO work with the Albanian construction association. SEED's efforts to improve the legal framework for mediation is part of its larger mediation programme, and need to be assessed in that context. As such, these programmes will be addressed only cursorily here.

SEED's BEE work basically splits into several categories: government capacity-building, financial sector development, BMO advocacy work, and sectoral studies. More detailed project descriptions are available, by category and country in the annex to this report.

12.2. Government Capacity-Building

SEED's government capacity-building work was multi-faceted and multi-leveled. On the municipal level, SEED focused on improving the interface between government and businesses. Following on SEED's proven Business One-Stop Shop methodology, SEED worked with FIAS to assess the administrative barriers to businesses within the Gradiska municipality. As part of the follow-up to that report, SEED helped the municipality to implement a one-stop shop for businesses services, drastically reducing the time required for businesses to obtain needed licensure. SEED's FY04 report on Business One Stop Shops is available on its website (www.ifc.org/seed)

At the national level, SEED worked with several government agencies related to SMEs to help build their capacities. In Albania, SEED worked with the Export Promotion Agency and the Business Advisory Council to improve their knowledge of the sector, and increase the resources available to them in their advocacy mission on behalf of SMEs. In Bosnia and Herzegovina, SEED worked with the SME Strategic Working Group to develop a plan for the state-level SME development institutions. In Macedonia, SEED worked with the SME Agency to improve their capacities. SEED was also instrumental in the establishment of a HACCP accreditation body. In Serbia and Montenegro, SEED worked with the government to simplify the business registration process and reduce the number of steps a business would have to complete in order to be legally registered.

In general, it is impossible to do any sort of meaningful impact assessment of work at this level. SEED's M&E Team did follow-up with the major participants and found that SEED's work was generally well received. In many instances, government officials sought more involvement with SEED or asked for more follow-up. For a more detailed breakdown of SEED's FY05 government capacity building work, see the BEE annex.

11.3. Financial Sector Development

SEED's financial sector work focused on developing the leasing and factoring markets in all four countries. While a great deal of the groundwork for establishing a factoring market has been completed, no actual factoring operations have officially commenced in the region. SEED organized round-tables and information sessions, as well as meetings between factoring experts and government officials. SEED helped legislators to write draft factoring laws, but as of yet, none of them have been passed by the parliament. With the success of SEED's leasing work and the increased pressure of banks and consumers now informed about the potential benefits of factoring, it is likely that factoring will come to the region in the near future. However, as of yet, there has been no measurable impact of SEED's factoring work.

In terms of leasing, leasing laws have been passed in Serbia and Montenegro, Albania, Macedonia, and, after much hesitation, in Bosnia and Herzegovina. Leasing operations are the most developed in Serbia and Montenegro, where the law was passed the earliest, but there are leasing markets now operational in all four countries. In 2004, the last year for which data is available, Serbia and Montenegro had over 200 million Euro in leasing transactions have taken place, and the projections for the next several years are even higher. In Serbia, recent changes to the regulations related to leasing have dampened enthusiasm for leasing, but the market is still strong. In Albania and Bosnia and Herzegovina, no data is yet available, as the leasing laws have just been passed, however several companies have begun leasing operations and are optimistic about the market.

In all four countries, more work remains to be done in terms of refining legislation, improving public awareness, and market development, but for the most part the market players are in a much better position to accomplish these things on their own.

12.4. Business Membership Organization Advocacy

SEED's work with BMO advocacy has three components. First, SEED worked with BMOs to identify the issues of significance to their members and to help them articulate a plan for addressing those issues with the relevant government ministry. This work led directly to the tremendous surge in advocacy activity noted in the BMO section of this report. Second, SEED helped BMOs to develop the informational resources they need to advocate effectively. The ECRS and UPFBiH have both developed informational tools that give them great credibility in representing businesses to the media and the government. Finally, SEED helped BMOs to create specific tools/products for their industries. This includes licensing in heavy machinery for the Albanian Construction Association, market fairs for the Herbal industries in Serbia and Bosnia, and the translation of technical specifications for the Wood Industry in Bosnia.

In general, SEED's clients have indicated that these activities have been a very effective component of SEED's BMO work, although little has been done to measure their impact.

12.5. Sectoral Studies

Several different types of projects fall into this category and often have multiple purposes. Some of this BEE work is related to specific projects, such as an environmental study attached to the Makstil linkages programme or research about Roma needs also associated with Makstil. Other projects serve a more general informational purpose, such as the SME Mapping exercises, or the EU Accession Assessments. These projects serve both as benchmarks for measuring the overall progress of SMEs in the region, and as potential catalysts for new business development.

SEED does not attempt to assess the impact of these projects independently. The projects attached to other programmes are assessed as part of those programmes.

Conclusions

SEED's BEE portfolio generally reflects strong results where such results are available. Particularly in the financial sector where factoring and leasing work have begun to take hold, and in work focusing on improving the interaction between government and business such as business registration and inspections, SEED's projects have born fruit. In other areas, it is difficult to assess impact, and SEED does not make the attempt. In these cases, the best that can be offered is progress reports, attached as an annex to this report.