



CEED Expansion in the West Balkans

Feasibility Study and Business Plan
October, 2006



Center for Entrepreneurship
and Executive Development

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Executive Summary

CEED represents a unique opportunity to strengthen the capacity of SMEs in the West Balkans.

This is to summarize the findings of a feasibility study conducted to determine if the Center for Entrepreneurship and Executive Development (CEED) institution should be expanded to the West Balkans, and if so, how and at what cost. The study scope included Serbia, Montenegro, Kosovo, Macedonia, and Croatia.

The study concludes that CEED represents a unique opportunity to strengthen the capacity of SMEs in the West Balkans, and recommends that the CEED program be expanded in the region through 2009 at a pace in line with available funding. The study also concludes that CEED should focus on 'high expectation' entrepreneurs and their faster growing SMEs, the sub-segment of SMEs that most contribute to job and economic growth and have the greatest need for more sophisticated support. This target group is consistent with the SEAF South Balkan Fund's investment target, enabling CEED to efficiently promote the Fund and to help it identify its high caliber deal flow.

Operational costs for one local center in each country/region will range between €125,000 and €200,000 annually depending on geography and the program scope. Our business plan calls for each center to achieve 40% of its operational financial needs within three years of establishment and targets 70% of needs by the end of year five. We expect based on our Bulgarian experience that these goals can not only be met, but will be exceeded as new opportunities to benefit the SME community in each locale emerge.

As background, the Small Enterprise Assistance Funds (SEAF) (www.SEAF.com) with the support of the United States Agency for International Development (USAID) successfully launched CEED in Bulgaria (www.CEED.bg) in September, 2005. Given its success, CEED has just opened the Slovenian Center, and will launch the program in Romania in the late October, 2006. These operations are fully funded through 2010 with a combination of USAID contributions, internally generated revenues, and reflows from grant-sourced investments in SEAF Trans-Balkan funds. Separately and with the limited financial support of USAID, CEED has recently concluded a Memorandum of Agreement with the Center of Entrepreneurship and Economic Development (also 'CEED') in Montenegro (www.visit-ceed.org), expanding CEED's reach into this new market.

Available training programs are too lengthy, insufficiently practical, and not designed for today's busy executive.

CEED leverages SEAF's more than 16 years of private equity investing experience working with SMEs in the region, as well as its offices and operational knowledge. This effort is consistent with SEAF's vision to help accelerate the growth and profitability of local enterprises, recognizing that capital alone is not enough. More specifically, SEAF recognizes that adequate management, at both the entrepreneur and department management levels, is a scarce resource that is holding back the successful development of SMEs throughout the region. SEAF research in Bulgaria and Romania validated Organization for Economic Co-Operation and Development (OECD) reports that training is available and that, almost unanimously, entrepreneurs want it not only for themselves but for their key managers as well. The actual awareness of available training however at the SME level is low. Furthermore, the research confirmed that the available training is too lengthy, insufficiently practical, and not designed for today's busy executive. This severely undermines the value of skill development and training, and fuels skepticism that training can ever be relevant. Finally, these studies further suggest that the incentives for participation in training activities are low, with few linkages drawn between the more capable company training helps to create, and the tangible business benefits such as an SME's better ability to attract financing that it helps to deliver.

Given this research and by building on success models that included those deployed by the Russian Center for Entrepreneurship (RCE), CEED has created a networking, knowledge, and market access model designed to meet the needs of Southeast Europe's entrepreneurs. Its Mission is to 'create success stories' by accelerating the growth of SMEs throughout Southeast Europe and fostering the development of a true entrepreneurial culture. CEED's Vision is to become a strong regional networking and learning institution that fosters business growth among SMEs throughout the region and internationally. Finally, CEED's Objectives are to

1. **Empower Entrepreneurs** - CEED provides an opportunity for entrepreneurs to meet, interact, and network with fellow business people facing similar challenges and successes.
2. **Strengthen the Skills of Entrepreneurs and their Teams** - CEED entrepreneur-

The needs of this entrepreneur community are different from that of the broader marketplace, requiring a unique line of products and services designed to meet those needs.

targeted and highly interactive training is designed to maximize peer-to-peer learning. Programs are fast paced consistent with the style and time-bound realities of today's entrepreneurs. Training targeted to leadership teams is necessarily longer, but equally provides the peer-to-peer experience. A CEED principle is to be practical, and provide information our clients/members 'can use tomorrow.'

3. **Enhance Regional and Global Integration** - Via regional networking and training activities with large regional and multinational corporations, the Center serves as a conduit for its members to grow their businesses within the region and around the globe.
4. **Improve the Entrepreneurial Climate** - CEED provides an interactive forum for entrepreneurs, investors, corporate leaders, service professionals, academicians, and public policy makers to combine their energies toward creating an environment in which entrepreneurship can flourish and grow in a wide range of industries.

CEED is uniquely positioned to address these issues with its credible sponsorship by a global private equity investment group such as SEAF.

This West Balkan feasibility study funded by FMO was invaluable to the CEED program in ways that went beyond its original intent. Not surprisingly, it concludes that the networking, knowledge, and market access needs of entrepreneurs and their key executives in West Balkan SMEs are consistent with those in Bulgaria, Romania, and Slovenia, validating the program scope. More importantly, this study has sharpened our approach and narrowed our target to those 'high expectation' entrepreneurs who either are, or are planning to be, the economic drivers within their communities. The needs of this entrepreneur community are different from that of the broader marketplace, requiring a unique line of products and services designed to meet those needs.

Key conclusions from the study are:

- The need for local networking is high, particularly given published reports suggest-

Establishing CEED centers in each of the South Balkan Fund's major markets would be invaluable to investees, & to the fund itself

ing that peer networking is a critical ingredient that not only encourages the establishment of SMEs, but can foster greater growth. This is particularly relevant in the West Balkans where SME development is only 20% of that of Western Europe.

- More training is wanted, and the CEED concept of training of, by, and for entrepreneurs was found to be highly appealing.
- There is high interest in regional networking and regional business-building market access events. We found in several geographies (Montenegro and Macedonia in particular) that local networks were beginning to form. Existing local networking associations are not, however, regionally linked. The regional trade connections will be increasingly important when the April 6, 2006 Bucharest Regional Trade Agreement is enacted, and when the ensuing velocity of regional trade accelerates.
- For greatest impact, CEED should be targeting 'high expectation' entrepreneurs operating somewhat larger SMEs. The Global Entrepreneurship Monitor published by Babson College and the London School of Economics affirms that 80% of the jobs generated by SMEs are created by the 20% of entrepreneurs who are 'high expectation entrepreneurs' (people who either currently have, or expect to have, at least 20 people in their employ within the next five years.) Ironically, these high expectation entrepreneurs whose companies represent the future engines of economic growth are among those most underserved. While existing business support centers target all potential entrepreneurs with basic services, owners of faster growing companies indicate their growth driven issues are more complicated, and that they require more sophisticated solutions, peer-to-peer networking, and higher skill learning opportunities that existing support centers do not provide.

Establishing CEED centers in each of the South Balkan Fund's major markets would be invaluable not only to its investees, but to the Fund itself. CEED will provide the Fund unequalled access to the local marketplace and enhance its effectiveness. CEED will provide the Fund unique insights and knowledge, and these insights will lead to better deals. Better deals will on balance lead to better returns for the Fund.

CEED provides the SEAF South Balkan Fund unique synergies for enhanced effectiveness in the South Balkans.

In net, CEED can help the Fund:

- Build a strong pipeline
- screen candidates faster
- access high potential SMEs
- assess the character of SMEs and their leadership teams
- access large regional and multinational corporations (key to more exports and trade sales), and
- better promote/advertise itself

CEED thus provides the SEAF South Balkan Fund unique and unequalled synergies that will enhance its competitiveness and effectiveness in the South Balkans.

Total program cost for a three-year initiative in Montenegro, Kosovo, Serbia, and Macedonia is estimated at \$2,500,000 (€2,000,000). USAID has recently obligated \$100,000 for Montenegro, and is considering obligating an additional \$1,000,000 for programs in these geographies. With as much as \$600,000 (€470,000) anticipated as income from fees and sponsorships, an additional \$900,000 (€700,000) must be raised to deploy the program. Including Croatia, the cost for the three-year program is estimated to be \$3,200,000 (€2,500,000). From a timing standpoint CEED could be further expanded into Kosovo as early as 2007, and Serbia and Macedonia in 2008. Fund raising efforts will begin immediately. ■

T.J.Drum

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I. Introduction and Overview

The Center for Entrepreneurship and Executive Development (CEED) was established by SEAF and the United States Agency for International Development (USAID). CEED’s mission is to accelerate the growth of SMEs and foster the development of a true entrepreneurial culture throughout Southeast Europe. CEED provides networking opportunities and essential business skills training to entrepreneurs and mid-level executives of high-growth SMEs. CEED centers are currently operational in Bulgaria, Romania, and Slovenia. Funding of approximately \$2,920,000 has been obligated by donors or is available from existing SEAF investment reflows. These funds will support these centers through to at least 2010.

CEED’s short term vision is to become a Trans-Balkan networking, learning, and business building institution that strengthens regional integration and collaboration among SMEs, investors, regional/multi-national companies, and local NGOs, thus promoting economic growth and development throughout Southeast Europe (SEE). CEED foundations have been established in Bulgaria and Romania. CEED has recently concluded an agreement with the Center for Entrepreneurship and Economic Development in Montenegro (www.visit-ceed.org), with the plan to expand its model there in 2007.



The Balkans : A Land of Opportunity

FMO has funded a study to assess the feasibility of, and approach for, regionally expanding the CEED program into West Balkan countries and territories. The scope of this study specifically targeted Croatia, Serbia/Kosovo, Montenegro, and Macedonia, consistent with the geographic scope of the SEAF South Balkan (Investment) Fund. This report will

- provide a summary of the findings,
- report on the progress of the CEED program overall within the region, and
- propose a plan that not only establishes CEED programs in the West Balkans, but integrates them into our emerging and single regional program.

The programs' geographic expansion into the West Balkans is expected to provide greater business opportunities for the entrepreneurs in Southeast Europe, as well as provide internal organizational efficiencies for CEED. CEED leverages SEAF's experience in working with SMEs in the region, as well as its offices and staff knowledge. The programs' expansion would equally however offer significant opportunities for the new SEAF South Balkan Fund, helping provide sources of qualified and high growing SME investee candidates.

With its unique perspective and positioning, we want CEED to be known as the organization that 'creates success stories' by providing entrepreneurs the tools they need to build their companies. CEED will, at least initially, focus on the entrepreneur given the disproportionate influence this person has on the SMEs strategic as well as training and development choices. We recognize however that the leadership team is critical to the entrepreneur achieving his/her business objectives. The CEED umbrella will thus be sufficiently wide to provide not only networking and training support for the entrepreneur, but provide and/or resource the skill development tools needed by the SMEs' key leadership. Finally, CEED aims to intervene and 'lubricate' so to speak business transactions by providing regional market access and business building opportunities to our SME audience. We want to help SMEs grow, and we believe we can do that via CEED's increasing regional scale that will leverage the local networks we either already own via our SEAF pedigree, or the broader networks that will develop over time. With a bias towards action, the CEED brand promise is to provide information and training you can use tomorrow.

This effort is consistent with SEAF's mission to help accelerate the growth and profitability of local enterprises, acknowledging that the provision of capital alone is not enough.

A. Background and Program Rationale

With more than 16 years of experience in SME investing, 150 SME investments and 300 technical assistance interventions in Central and Eastern European SMEs, SEAF is acutely aware of the challenges faced daily by entrepreneurs in the management of their businesses. SEAF also recognizes that these challenges will markedly increase with greater regional trade resulting from new free trade agreements and advancing EU accession. Based on our experience, SME entrepreneurs are generally ill-equipped to deal with these new challenges. They frequently lack the knowledge and tools to assess the markets or develop/implement the strategies that can expand their business and make them more competitive. SEAF experience further suggests that SMEs lack 'bench-strength' in their more functionally focused executive ranks, significantly hampering company growth. MBA and Executive MBA programs do exist within the region, but their relatively high time commitment and cost as well as their more academic rather than practical focus tend to better serve larger companies and those students seeking longer term degree programs.

Though a number of programs have already been helping to address this need, our data and research indicate a lack of experienced SME management continues to deter financiers and large multinational corporations from partnering with local SMEs. SEAF believes there is thus an important need for - and opportunity to develop - a distinctive networking, education, and market-access program for emerging businesses.

To validate SEAF's hypothesis, USAID funded in 2004 a feasibility study where we learned that

- There is high interest on the part of entrepreneurs and their executive staff for training.
- Little training is 'getting through.' Generally, entrepreneurs and their management

are either unaware of what is available, or doubt its value.

- There are few training programs focused specifically on smaller growth companies. That which is available is not practical or needs driven.
- There is an opportunity to develop training programs that reflect the modus operandi of entrepreneurs and SMEs, and that emphasize efficient learning and knowledge transfer.

The data further suggested that we needed to go beyond just 'developing a better training program.' We needed to find a venue to build awareness of the training and to promote it. This led to the Network Model discussed in subsequent pages. We also concluded that training must be rewarded. This led to the third leg of the CEED model: facilitating business-building market access.

B. Status of CEED Programs in the Region

With the support of USAID, SEAF officially launched CEED-Bulgaria in September, 2005. Shortly thereafter, the CEED-Bulgaria Foundation was legally established. The center has since its inception conducted twelve training and/or networking events. The



Quarterly Report for the Center's second quarter 2006 can be found in Attachment 1. CEED-Bulgaria's calendar of upcoming events through the end of 2006 can be found in Attachment 2. Separately, a Memorandum of Agreement was signed between CEED and the Center for Entrepreneurship and Economic Development in Montenegro in late September 2006

by which CEED Montenegro agreed to join in with our regional effort. Meanwhile, CEED-Slovenia was officially launched on October 2, 2006. News Releases associated with the Bulgarian and Slovenian Centers, together with press releases associated with the recent

signing of the Memorandum of Agreement with CEED-Montenegro, are provided in Attachment 3.

CEED Romania will formally commence operations in October 2006. The CEED-Romania Foundation was formally established in August 2006.

C. The CEED Program

1. CEED's Mission

To accelerate the growth of SMEs and foster the development of a true entrepreneurial culture throughout Southeast Europe.

2. CEED's Vision

To become a strong regional learning and networking institution that fosters business growth among SME's throughout Southeast Europe and internationally.

3. CEED's Brand Promise

To provide actionable information and training you can use tomorrow.

4. CEED's Objectives

To Empower Entrepreneurs

CEED will provide an opportunity for entrepreneurs to meet, interact, and network with fellow business people facing similar challenges and successes. We believe in the power of peer-to-peer influence. We want to encourage more people to start their own businesses, and we want to influence those who already have businesses to take their business to the next (growth) level.

To Strengthen the Skills of Entrepreneurs and their Teams

CEED organizes entrepreneur-targeted and highly interactive training designed to maximize the peer-to-peer learning experience. Programs are fast paced, half-day sessions



CEED-Bulgaria Director Niki Yarmov awards certificate of completion to Bistra Sharankova, VEGA Accountant

consistent with the style and time-bound realities of today's entrepreneurs. Training targeted to leadership teams is necessarily longer, but it equally provides the peer-to-peer experience. A CEED principle is to be practical, and provide information our clients/customers 'can use tomorrow.' The programs will cover a broad array of business subjects as

a function of feedback from our audience. They could include strategy, cash flow management, and marketing. Equally we expect to conduct targeted sessions particularly designed to meet the needs of our SME community -- sessions dedicated to tapping into multinational corporations for example. Completion of programs such as these could poise an SME for significant contract work with multinationals and/or help position the SME for advanced financing.

To Enhance Regional and Global Integration

Via regional networking and training activities, the Center will serve as a conduit for its members to grow their businesses within the region or around the globe. These meetings, conducted once or twice a year within the region, will address broader regional issues. Furthermore they will reach out to the communities that an SME and its entrepreneur would not otherwise be able to reach, such as large regional and multinational corporations, equity and debt financing sources, EU officials, etc.

To Improve the Entrepreneurial Climate

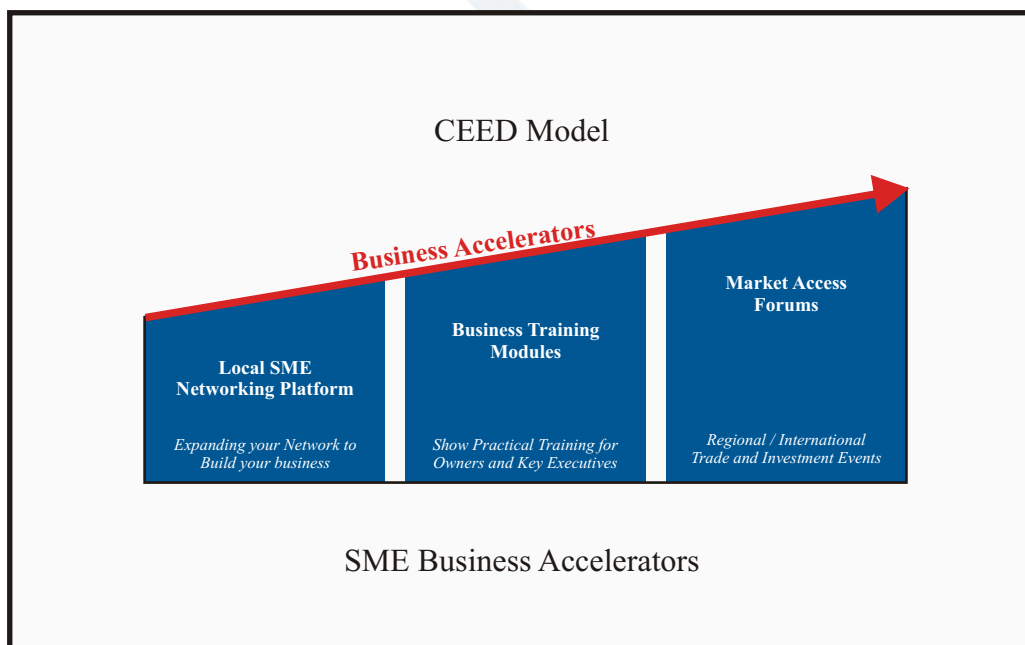
CEED will provide an interactive forum for entrepreneurs, investors, corporate leaders, service professionals, academicians, and public policy makers to combine their energies toward creating an environment positively biased towards entrepreneurship, and where entrepreneurship can thus flourish.



Ms. Nina Bosic, CEED-Slovenia Program Manager at Kick-off event with Microsoft's Mr. Matej Potokar

5. The CEED Model

The CEED model consists of a) a local entrepreneur-enabling networking platform on which b) an education and c) a business support/market access program is built. The FMO funded research in the West Balkans affirms that this model will be as applicable there as it is in Romania, Bulgaria, and Slovenia.



The business-building network

CEED is positioned as a networking center that helps SME entrepreneurs make the connections they need for peer-to-peer learning and to find the leads they need to grow their businesses. Most importantly, the networking center is a branded platform on which



effective training can be promoted and distributed. CEED, per the findings of this report, will specifically target 'high expectation' entrepreneurs who either have, or are expected to create, sizable (20 people minimum) companies and who want to grow.

Business-expanding training

CEED is focused on providing SME entrepreneurs and their senior executives practical information and skills that are readily implementable. Entrepreneurs tell us they want training for themselves and their people. But the low relative attendance, continued skepticism in the quality/scope of training given poor prior experience, and pressing schedules suggest that a different model is necessary to address the knowledge gaps. A success model exists in the Russian Center for Entrepreneurship whereby they have created, in effect, a new distribution channel for training. Courses for entrepreneurs are short and taught by seasoned entrepreneurs who are both skilled in their area of expertise and are able to vividly provide real world perspective and examples. Practical functional training for the entrepreneurs' executive teams will by necessity be longer. The training will be designed to be highly practical and interactive consistent with CEED's core operating principles.

Regional market access

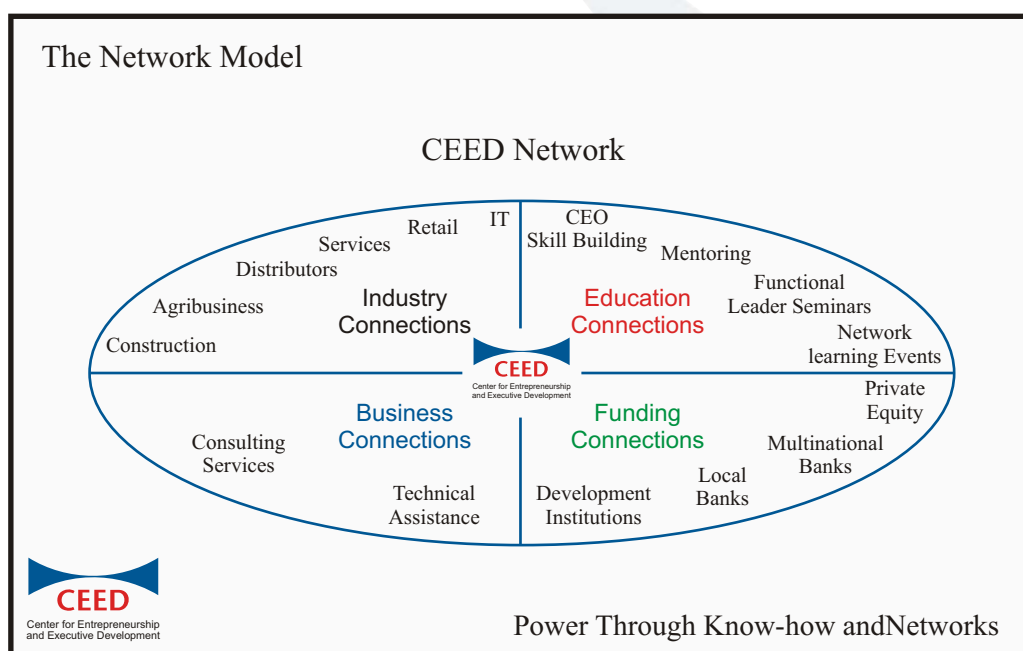
On the basis of SEAF experience as well as input from multinational corporations, intra-regional business within the Central and Eastern European community is highly underdeveloped. CEED wants to address this issue proactively by providing a medium by which SMEs throughout the region can be better informed and connected. CEED will combine the strength of its on-the-ground presence and understanding of the local markets with its unique regional perspective to create regional training and networking activities that translate to intra-regional business growth. A strategic objective for CEED is integrating larger regional and multinationals into our programs, and inviting their serious participation in both training and business development activities.

In this regional work, CEED will strategically partner with organizations that share its goal of providing entrepreneurs "Power through Know-How and Networks".

The Local Network as the 'Platform'

As the model below illustrates, we see the networking center as the hub of local CEED activities, providing the underlying organizational fabric on which more specific programs, such as intra-sectoral activities, training programs, financing seminars, etc., are built. CEED's local management will not only be able to provide education and skill training, they will know the entrepreneurs and have an intimate understanding of their needs. Local management as well will have developed trustworthy relationships with local industry, local funders, and local providers of business development services.

We have established in Bulgaria a branded entrepreneur center anchored by a strong network of SMEs, large regional companies, multinationals, academics, and government. It is the critical platform on which all training and business development activities are built. This network is brought alive via Network Learning Events (NLEs) conducted at least quarterly. For illustration purposes, the planned Year 1 Operational Plan for our Slovenian program, with monthly NLEs, is shown in Attachment 4.



Training, and Building Intellectual Capacity in SMEs

Our experience and research indicate that entrepreneurs are more likely to take heed of knowledge imparted by other entrepreneurs versus that provided by academics. CEED specifically aims therefore to populate seminars with like-minded entrepreneurs and to promote interactive discussion that encourages peer-to-peer knowledge sharing. Case studies will be utilized often to minimize the academics and to highlight what's real. CEED will also plan to sponsor the development of local case studies as funding permits to further heighten local relevance. SEAF's experience and strong relationships with numerous SMEs provide CEED a rich source of case study raw material across multiple functions including marketing, finance, operations, and human resources.

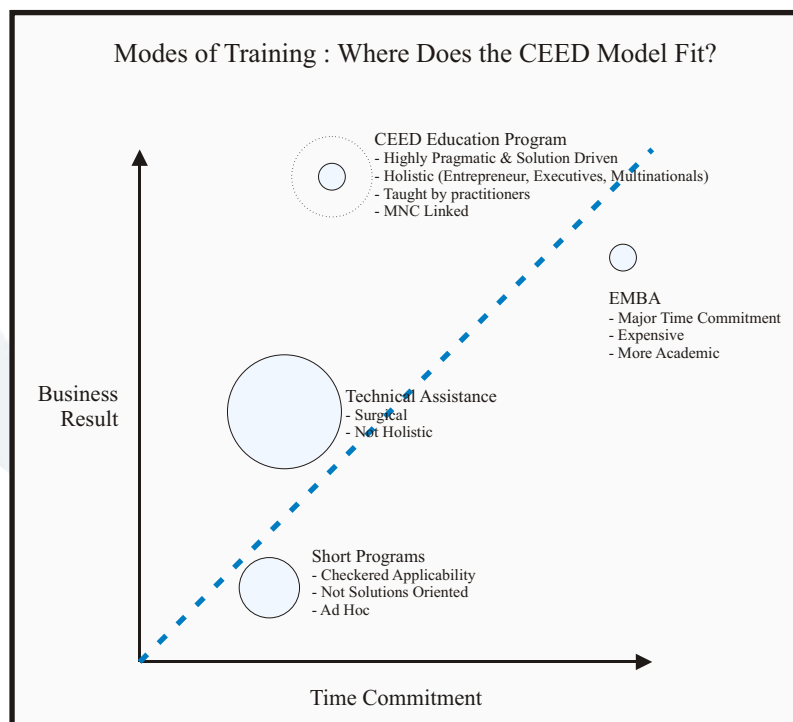
To summarize, our aim is to

- Target entrepreneurs' specific growth needs, concentrating on local case studies
- Feature entrepreneurs as trainers, leveraging their real world business experience
- Foster discussion of common issues, providing the opportunity for interaction, networking, and peer learning
- Deliver content in short, practical courses to effectively reach busy executives.

In Bulgaria we have pre-screened instructors not only for their functional knowledge, but also for their ability to be flexible in teaching students with a relatively broad range of prior knowledge.

CEED will initially leverage a series of entrepreneur focused half-day training blocks offered by the Russian Center for Entrepreneurship (www.rce.ru). Discussions are separately underway with Management Center Europe (MCE), the European subsidiary of the American Management Association, other academic resources including the Rotterdam School of Management and IMD, and multinational corporations to provide materials with greater functional depth and targeted to the SMEs' senior management. Our model may eventually call for the development of joint top and middle-management programs that align relevant courses with the business need, and include the development of action plans to which both top and middle management subscribe.

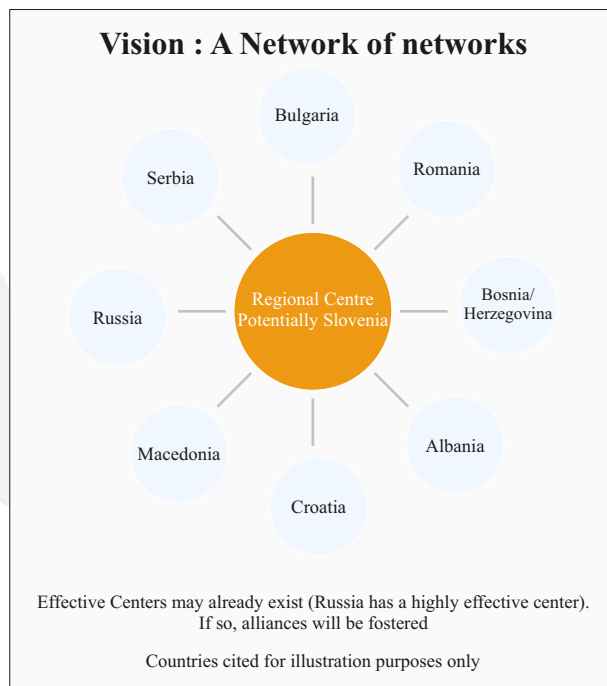
Eventually we can expect CEED to have compiled an array of certified, relatively short, and highly pragmatic programs targeted to entrepreneurs or their teams that would



translate to real business results. CEED's schematic positioning in the skill building marketplace is illustrated above.

Regional Market Access

Given corporations' increased interest in consolidating their supply base, and the established bureaucratic challenges incurred by small businesses in operating internationally within the region, there is a clear opportunity for the better capitalized and institutionally knowledgeable SMEs to build business within the region. We believe that a network of Entrepreneurship Centers throughout the Balkans, linked with centers beyond the region (such as the Russian Center for Entrepreneurship), can provide new opportunities for clustering businesses and developing business-to-business relationships that will result in business growth. Regularly scheduled regional meetings are thus being planned and directed towards helping SMEs in the region recognize the regional opportunities, and helping them respond to the challenges. These events will be further used to incentivize participation in the training programs. Training participants for



example could be given special privileges and/or awards at these events. Eventually and with a growing SME and sponsorship database, CEED could increasingly become a resource able to direct local companies and multinational corporations to reliable regional partners, customers, or suppliers.

6. The CEED OGSM (Objectives, Goals, Strategies, Measures)

Strategies, Measures)

Please reference Attachment 5 for a one page review of CEED's OGSM. It outlines regional CEED objectives, numerical goals, strategies for the next 3-5 years, and numerical measures. Highlights include:

- CEED will aim to be sustainable via a combination of income generating services. Goals include achieving 40% of cash flow needs by the conclusion of Year 3, and 70% by the end of Year 5. We intend to explore additional customized revenue generating services to bridge the gap.
- CEED will expand regionally. We believe that a competitive advantage for CEED will be its regional breadth and depth. It is uniquely positioned not only to support entrepreneurs and their SMEs with networking and knowledge, but to help them build real businesses
- CEED will target 'high expectation' entrepreneurs who are intent on growing their businesses. We want to create a cachet, or feeling of exclusivity, that will both heighten CEED's image but also allow it to command premium fees for services and training.
- Innovation and quick technology adoption will be part of CEED's "DNA." CEED will have to have a strong web presence, providing its membership base a unique source of contacts as well as (web-based) knowledge and business building tools. ■

III. Objectives of the West Balkan Study

The purpose of this FMO funded study was to

- Understand the business skill and training needs of West Balkan SMEs and their management teams,
- Determine the extent to which SME management participates in local and regional networks, and if these networks provide skill or business development programs,
- Determine if the CEED model that includes networking, business skill development, and market access advantages could be relevant and effective in these geographies,
- Determine the expansion costs and define a preliminary sustainability model
- Determine how CEED could effectively integrate the West Balkan territories into its existing program and its approximate timing and
- Catalog potential synergies with the SEAF South Balkan Fund.

The West Balkan geographies of immediate interest include Serbia and Kosovo, Montenegro, Macedonia, and Croatia. These geographic choices largely trace to SEAF's on the ground capabilities in these locales and synergistic benefits with the SEAF South Balkan Fund. We would expect that the program will be expanded to Albania, Bosnia-Herzegovina, and Moldova as CEED's internal capabilities grow and as the funding base is broadened. ■

III. Conclusions

1. The CEED program should urgently be expanded into the West Balkan region. The networking, training, and market access needs of West Balkan SME entrepreneurs and their executive leaders unsurprisingly mirror that of their regional neighbors. Pending legislative changes regarding intra-regional trade and increased regulatory and competitive pressures brought on by EU accession significantly heighten the urgency to strengthen SMEs in the region now and expand into the West Balkans as soon as possible.
2. CEED, however, should focus on the needs of the more sophisticated 'high expectation' entrepreneurs and their growing SMEs. The 'high expectation' entrepreneur is defined by the Babson College/London Business School produced Global Entrepreneurship Monitor as those who either employ 20 people, or who plan to employ 20 people in the next five years. The data suggest that larger SMEs run by these sophisticated entrepreneurs and their managers are seeking more sophisticated training and peer-to-peer support that is not being provided by the government-funded institutions that focus on business support and training for nascent entrepreneurs.
3. The networking center as a concept is already developed in several geographies, validating the approach. We found in several countries, Macedonia and Montenegro in particular, a higher development of non sector-specific business networking associations that informally foster peer learning and business development. CEED can leverage these organizations where they exist and, by partnering with them, more quickly scale CEED activities and reduce operational costs.
4. Consistent with Bulgarian and Romanian findings, the need for and interest in practical, top-level, SME training is high. Entrepreneurs in the West Balkans are interested in knowledge for both themselves and their staff, citing consistently that a highly talented and trained organization is the key ingredient needed to meet their company's long-term growth objectives. Echoing previous research, they also want highly targeted practical training that can be readily applied, inline with CEED' knowledge transfer objectives.

5. Market access, and particularly regional market access, via the CEED institution and its programs, was judged highly appealing. Entrepreneurs want to proactively cultivate their businesses regionally and globally, and their interest in an organization that can help them do this is high. Existing networking organizations are not regionally linked.
6. Expansion of the program and three years of operation in Serbia/Kosovo, Montenegro, Macedonia, and Croatia is expected to cost approximately U.S.\$3.2 million (€2.5 million). Ongoing annual costs of approximately €200,000 are anticipated in the larger markets of Croatia and Serbia. Kosovo is expected to cost the same given the more difficult economic conditions there. We expect an annual budget of €125,000 in smaller regions such as Macedonia or Montenegro where we will leverage the presence of CEED management in adjacent geographies. The basis for these costs is further outlined later in this document. We will not recommend the establishment of a program in any one country or territory unless three years of funding is visible.
7. Sustainability will require a combination of fee generating activities. Critically CEED must deliver commercial value for its audience, and we anticipate that CEED's benefits will be sufficiently strong to warrant fees and /or sponsorships. Our limited experience in Bulgaria suggests that specific programs can be individually profitable. However, organizational and overhead costs will not be supportable until CEED's credibility is secured and premium priced membership fees justified, and/or the product line is expanded to include other business building/consulting services. Our present goal in Bulgaria, Romania, and Slovenia is to be 70% sustainable within five years of inception.■

IV. Recommendations , Organizational Priorities

1. Expand the program in each country/territory in line with our ability to raise at least three years of funding. Given USAID support and interest, leverage the partnership with the Center for Entrepreneurship and Economic Development to expand CEED's network in Montenegro. With the support of the personnel in SEAF's South Balkan Fund, establish as funding permits CEED centers in Kosovo, Serbia, and/or Macedonia in the 2007-2008 time period.
2. Solicit support from USAID, others Development Financial Institutions, and Foundations to secure the required funding for regional expansion.
3. Continue to build, via our Bulgarian, Romanian, and Slovenian programs, the product portfolio and SME organizational benefits that will further support the establishment of fees and attract sponsors. Increasingly target high-expectation entrepreneurs in these countries, and further position CEED accordingly. ■

V. Key Findings

A systematic approach was taken to assess the opportunity:

- **Current Climate Analyses** - A thorough review of secondary research was conducted to leverage recently developed regional data. In particular, large scale and relevant UN and EU research in the Eastern Europe SME space are cited.
- **Entrepreneur Needs Analyses** - Primary research was conducted in Croatia, Serbia, Montenegro, and Macedonia to validate prior Bulgarian and Romanian research. Both SEAF investees and non-SEAF investees were interviewed as part of this process.
- **Regional activities** - CEED conducted a regional meeting in Slovenia in May, 2006 with representatives from USAID missions in Macedonia, Kosovo, and Serbia, as well as representatives from CEED, SEAF, and Slovenian SME owners. The meeting accomplished its purpose of building awareness of CEED's objectives and activities. Furthermore, we obtained insights as to how CEED would be best positioned in each specific territory.

A. Current Climate Analysis

1. There is a huge entrepreneurial gap between Southeast Europe and Western Europe. SME density in Southeast Europe is one quarter that of Western Europe, averaging 13.7

	Croatia	Macedonia	Serbia/ Montenegro	Albania	Bosnia- Herzegovina	Bulgaria	Romania	EU Plus
	2002	2000	2001	2002	2001	2000	2000	2000
Population (M)	4	2	8	3	4	8	22	
Number of SMEs (K)	63	32	71	56	30	224	306	20,415
SMEs per 1000 population	14	16	9	18	8	28	10	52
GDP per capita (Euro)	5634	1981 ('02)	1995 ('02)	1661	1461 ('02)	2106 ('02)	2220('02)	
Unemployment rate	15	32 ('02)	28 ('02)	16	41('02)	17 ('02)	8 ('02)	

Source: EPPA South Eastern Europe Region, October, 2003.

per 1000 inhabitants versus 52.8 in EU countries. SME development in the West Balkans is similarly low at 11.7. New job-creating enterprises are urgently needed.

2. Despite their low development, SMEs

Country/Region	SMEs > 10 employees % of total businesses	SME % of total number of businesses	SME % of GDP	SME % of Employment
Croatia	n/a	n/a	50	67
Macedonia	n/a	n/a	42	64
Serbia/Montenegro	13	97	47	32
Albania	5	87	75	75
Bulgaria	n/a	n/a	30	65
Bosnia/Herzegovina	15	99	36	53
Romania	4	50	55	20
Slovenia	10	99	57	64

Source: *Small and Medium-Sized Enterprises in Countries in Transition*, UN Economic Commission for Europe, 2003.

are significant economic and employment drivers within the region.

As the data to the left show, most businesses throughout the region are small and medium sized. Though the degree to which SMEs contribute to their respective national wealth (as measured via GDP) varies from country to country, in all cases it is substantial and important.

Interestingly, Serbian SMEs over-contribute to the national wealth relative to their national employment.

3. The region, and particularly the West Balkans, is uncompetitive. As reported by the World Economic Forum, the Balkan region in general and the West Balkan region in particular are not strong with respect to either the Growth Competitive Index or the

Growth Competitiveness		Business Competitiveness		
Finland	1	USA	1	Leaders
USA	2	Finland	2	
Sweden	3	Germany	3	
Estonia	20	Estonia	20	New EU Members
Slovenia	32	Czech Rep	27	
Czech Rep	38	Slovenia	32	
Hungary	39	Hungary	34	
Slovakia	41	Slovakia	39	
Poland	51	Poland	42	
Croatia	62	Croatia	63	Target West Balkan Countries
Serbia/Mont	80	Serbia/Mont	86	
Macedonia	85	Macedonia	83	
Bulgaria	58	Bulgaria	78	Other SEE Countries
Romania	67	Romania	67	
Bosnia/Herz	95	Bosnia/Herz	94	
Albania	100	Albania	112	

Source: *Global Competitiveness Report, 2005-2006*, World Economic Forum

Business Competitiveness Index. Growth Competitiveness Index factors (macroeconomic environment, technological prowess, state of public institutions) are beyond the scope of what CEED will address. Business Competitiveness Index factors (company operations and strategy, the national business environment) will be addressed by CEED.

4. Dramatic changes in trade legislation are pending. The ability to economically compete across national borders has never been more important for SMEs in the region. Their relative lack of business competitiveness comes at a time of significant macro-economic developments that will lead to dramatic new opportunities for SMEs within the region, and more competition. Increased competition will come from both within and outside the region. On April 6, 2006 the Prime Ministers of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Moldova, Romania, Serbia and Montenegro, and the Special Representative of the Secretary General representing Kosovo jointly declared their interest in consolidating the 31 bilateral free trade agreements in Southeast Europe into a single Regional Trade Agreement. This, in combination with existing and advancing EU accession (Slovenia in 2004, Bulgaria and Romania in 2007, and Croatia and Macedonia with candidate status), will force the regions' SMEs into highly challenging commercial crossroads. Indeed local SMEs will be better able to enter larger regional markets. These same SMEs will however increasingly have to defend their local markets and compete with numerous regional and global competitors.

5. The institutional climate encouraging entrepreneurial behavior is improving. In the past several years, each country in the West Balkans has established governmental departments focused on SMEs and entrepreneurship with missions to support SME development, provide training/technical assistance, and to some extent, promote business via trade fairs and similar business growth activities. Furthermore, each country is funding, sometimes in conjunction with donor groups, centers at the regional level to promote SME growth outside the capital cities. In most countries the Ministry of the Economy sponsors the activity while a second department is charged with execution.

	National Institution	Scope of Operations	Website
Croatia	Ministry of Economy, Labour, and Entrepreneurship (MELE), established in 2004	Oversees 7 regional development agencies; business support centers (40), and incubators	www.mingor.hr
	Croatian Agency for Small Business (HAMAG), established in 2004	Provides guarantees, loans, subsidies, consultancy, and trade stimulation	www.hamag.hr
Macedonia	Ministry of the Economy	Creates SME friendly institutional structures; Facilitates access to finance	
	Agency to Support Entrepreneurship (ASE)	Manage regional support centers; training; SME promotion	
Serbia and Montenegro	Ministry of Economy and Privatisation	Defines strategy	www.moriv.sr.gov.yu
	Agency for the Development of SMEs and Entrepreneurship (ASMEE)	Establishes and operates regional agencies (14)	

6. There are promising signals that increased support for entrepreneurial activity is translating into substantive behavioral changes. Though not regionally representative, the Total Entrepreneurial Activity (TEA) per the 2005 Global Entrepreneurship Monitor (GEM) for Croatia has recently improved to levels about consistent with West Europe. The TEA is a summation of both nascent entrepreneurs (people who have taken some action to form a business in the last year) and new business owners (people in business for between 3 and 42 months).

	Total Entrepreneurial Activity Index (TEA)	
	2002 (GEM)	2005 (GEM)
Croatia	3.36	6.1
Slovenia	4.6	4.4
Global Average	8.0	8.4
European Union + 4	6.0	6.4

(Source : Global Entrepreneurship Monitor, 2005)

7. However, the available training programs that support these entrepreneurs are not well designed for them. Research performed by the United Nations Economic Commission for Europe in 2003 indicates that the region lacks quality training programs that are truly needs driven and address the challenges of growing SMEs. The programs that are available are not sufficiently practical, nor do they take into consideration the modus operandi of SMEs and their entrepreneurial managers (lack of time, short attention spans, etc.). Furthermore, governments in the region have not made training for SMEs and their entrepreneurs a high priority, despite their relative importance in the economies.

SWOT Analysis of SME Training-Central & Eastern Europe

STRENGTHS	WEAKNESSES
<p>Some Strengthening of the institutional frame work for SME training via Small and Medium Enterprise Developments Agencies.</p> <p>SMEs have participated to a limited extent in broader programs.</p> <p>Donor agencies do focus on SME training in some instances (i.e.USAID)</p> <p>Considerable progress appears to have been made in strengthening some business schools and general management training.</p>	<p>At Policy level, training for entrepreneurs has low priority. (Behind deregulation, finance, institution building and advice).</p> <p>There have been few training programs focused specifically on small growth companies.</p> <p>Some programs are too ambitious for the local economic, social and institutional climate.</p> <p>Few programs are ‘needs driven’.</p> <p>Doubts over continuity and sustainability.</p> <p>There is little substantive evidence of effective working models of training for entrepreneurs.</p> <p>There is little evidence of impact</p>
OPPORTUNITIES	THREATS
<p>Develop programs which are tuned to entrepreneurs’ and SME business’ needs locally.</p> <p>Develop training interventions which reflect the modus operandi of entrepreneurs and SMEs and emphasize learning and knowledge transfer.</p> <p>Develop new training models, based on “actual” problems.</p> <p>Improve pre-project developments and promotion.</p> <p>Link training to other programs such as financing.</p>	<p>Low priority to enterprise and SME training in the early stages of restructuring has led to a poor foundation.</p> <p>Disproportionately low emphasis on SME training compared to their place in the economy.</p> <p>The informal economy is a challenge to the development of projects and programs.</p> <p>Potential inability to develop a market for training for SMEs.</p> <p>Inability of the institutional environments to tune in to entrepreneurs, micro business and SMEs.</p>

Source: United Nations Economics Commission for Europe: “Small And Midium Size Enterprises in Countries in Transition” - 2003

8. In particular, the established Business Development centers throughout the region are not meeting the needs of the somewhat larger, faster growing SMEs and their entrepreneurs with more sophisticated needs. Indeed the increasing number of (business) development agencies is welcomed. Data from the Enterprise Policy and

Performance Assessments (EPPA) published between 2003 and 2005 for each country in the region suggest that these organizations are doing a good job of both cultivating entrepreneurship and providing good basic support to nascent entrepreneurs. More however is expected by entrepreneurs with going enterprises. They want a higher level of networking, training, and advisory service that is not now offered. Further, the effectiveness of the existing agencies in communicating the availability of - then effectively providing - advisory services and training to SMEs is checked as documented in these reports, all of which present opportunities for CEED. In the box below is a summation of the comments derived from a variety of EPPA reports throughout the region suggesting this reality. Specific supporting quotes from these studies are provided on page 29.

	Recent Progress	Key Issues (refer to yellow box on next page for supporting cites)	Sources
Croatia	Strengthening of SMEs and entrepreneurship is key development priority	<ul style="list-style-type: none"> - Strategy focuses on start ups vs. SMEs with growth potential - Need to certify advisory services, and provide more sophisticated advice (1, 2, 3) - Loss of linkages with world-class companies abroad (4) - Longer term sustainability of Business Advisory Services (BAS) not secure - Half of SMEs don't use advisory services (per focus groups), and 70% of those who did were dissatisfied. 	<p>Enterprise Policy Performance Assessment-Croatia, March 2005</p> <p>Global Entrepreneurship Monitor Croatia, 2002</p>
Macedonia	<p>Agency for Promotion of Entrepreneurship in place;</p> <p>10 centers in operation;</p> <p>Management Consulting Assn. establishing certification</p>	<ul style="list-style-type: none"> - Access to finance limited, and preparation of support docs from support organizations expensive - More sophisticated advice sought (5) - General unwillingness to pay 	Enterprise Policy Performance Assessment-Macedonia, September, 2003
Serbia	<p>Administratively, the environment for SMEs is improving (policies, regulatory, micro-finance).</p> <p>ASMEE (Agency for Small and Medium Size Enterprises and Entrepreneurship) at good operational level.</p> <p>14 regional development agencies open</p>	<ul style="list-style-type: none"> - ASMEE poorly funded - Available SME training not suited to entrepreneur/leadership needs, particularly going SMEs (6, 7,8) - Longer term sustainability of regional support centers (significant donor support) not secure - Publicly funded BAS judged poor - National goals unrealistic - BAS certifications required 	Enterprise Policy Performance Assessment, Serbia, March 2003 and January 2005
Montenegro	<p>'Stage is set for an environment friendly to business.'</p> <p>ASMED (Agency for SME Development) regional network in place</p>	<ul style="list-style-type: none"> - ASMED and its network relatively inexperienced in functional business processes. Need to strengthen capacity to provide SMEs resources to train staff and hire qualified expertise - Advisory services need to be qualified/certified (9) - Low awareness of programs supporting SMEs 	Enterprise Policy Performance Assessment, Montenegro, September 2003

Selected Quotes from South Eastern Europe Enterprise Policy and Performance Assessments (EPPA) and Global Entrepreneurship Monitor (GEM)

1. “In general our research shows that the (Advisory) services on offer only partially meet the needs of SMEs. In particular, the services offered remain fairly basic. Croatian SMEs are increasingly looking to obtain more sophisticated services that have the potential to add real value to their operations. There is a need for more diversified and specialized advisory services focusing on issues such as financial management, organization, governance, and technological development.” (EPPA, Croatia, March, 2005 page 79)
2. “Training programmes for SMEs have considerably increased in number in recent years, however, they are still inadequate to meet the needs of entrepreneurs especially when it comes to acquiring more specialized knowledge, such as the development of business plans, new product development, technology requirements, managements skills, marketing, financial management, etc.’ (EPPA, Croatia, March 2005 page 83)
3. “Professional infrastructure of support (training, consulting, networking...) is in its infancy and there is no standardized quality of service.” (Global Enterprise Monitor (GEM), Croatia, 2002 (published February, 2003), page 50)
4. “Seventeen percent of entrepreneurs expressed an intention to seek business abroad. This confirms that new and small enterprises have limited access to international markets, which indicates a need for them to develop international competitiveness.” (GEM, Croatia, page 32)
5. “The participants in the (EPPA) focus groups explain this by the fact that although local consultants tend to be active in such areas as business plans, financial audits, IT, technology, etc., few are familiar with issues of growing importance to local entrepreneurs, such as strategic management, globalization, enhancing competitiveness, industrial clusters, technology parks, etc. and the range of more sophisticated or specialist services.” (EPPA, Macedonia, September, 2003, page 29)
6. “Many entrepreneurs are not aware of the training programmes designed for entrepreneurs. The available training programmes are often not 'tailor made' for local entrepreneurs and they do not address the specific problems that entrepreneurs are encountering in their day-to-day work. Existing SMEs need stronger management and technical training support programmes.” (EPPA, Serbia, January 2005, page 11)
7. “It is accepted that SMEs do need help in identifying and articulating their own needs. Even if they realize they need advisory services, SMEs said that they find these services to be too expensive.” (EPPA, Serbia, January 2005, page 40)
8. “The services and programmes offered by (state sponsored) agencies are mainly focused on start-ups....consequently, there is no adequate system of advisory services, either in the private or public sectors, tailored to the needs of SMEs that have been operating for some time.” (EPPA, Serbia, January 2005, page 63)
9. “Good practice suggests that introducing standards with respect to advisory services (qualifications, membership in relevant international bodies, confidentiality principles, charging policies, and other general policy standards) could help generate greater confidence and willingness by the private sector to use and pay for advisory services.” (EPPA, Montenegro, September, 2003, page 42)

Source: The EPPA's are an output from the SEE Enterprise Forum, a regional policy initiative sponsored by the Investment Compact for Southeast Europe. The EPPA reports are jointly produced by the OECD and EBRD in consultation with the European Commission. The Global Entrepreneurship Monitor is produced by Babson College and The London Business School.

9. A disproportionately small number of entrepreneurs account for most of the job creation, and their concentration throughout Europe, including new EU countries, is relatively low. This is a classic 80 for 20 principle. Eighty percent of the total number of jobs created by all entrepreneurs will be created by 'High Expectation Entrepreneurs' that represent about 20% of the base. High Expectation Entrepreneurs either have hired, or expect to hire in the next five years, 20 or more employees (p 10, 2005 GEM; High Expectation Report).
10. The density of 'high expectation' entrepreneurs in Eastern Europe is low, suggesting good upside. The density of high expectation entrepreneurs in Europe- at-large (including the Eastern European countries in the survey, Croatia and Slovenia) is roughly half that of the U.S, Australia, Ireland, New Zealand, and the UK (0.5% vs. 1.0-1.6%). This suggests that, with the peer-to-peer network and training that CEED is promoting, there is a significant opportunity in the West Balkans to cultivate the development of those entrepreneurs who will create most of the new jobs in the 21st century.
11. The GEM global reports validate the findings from EPPA research. The needs of 'high expectation' entrepreneurs (and more sophisticated businesses) are significantly different from those of 'average' entrepreneurs. High expectation entrepreneurs require more sophisticated support, including entrepreneur networks and the peer-to-peer learning they can provide. To quote the GEM study, 'these people have distinctive, and often demanding, support needs. Their companies are growing faster, are organizationally more complex, and have pressing resource needs, including funding' (page 46, High Expectation GEM study, 2005). The study goes on to say that 'high-growth new ventures value information and experience-based advice received from their peers. This emphasizes the need to promote professional links between high-expectation entrepreneurs, perhaps by implementing networking initiatives targeted specifically to high-expectation ventures.' (GEM, High Expectation, page 47)

B. Primary Research with Entrepreneurs¹

In order to corroborate the data outlined in the current market climate section of this assessment, SEAF conducted its own field research among SME entrepreneurs in Croatia, Macedonia, and Serbia/Montenegro to complement data previously generated in Bulgaria and Romania (specific research was not conducted in Kosovo; input provided by USAID office). The purpose of the research was to better understand the needs of entrepreneurs with regard to training, the character of that training (practical vs. academic for example), the subjects for which there would be the greatest demand, and the most appealing course length (half-day, short vs. multi-day). Furthermore, we wanted to understand the degree to which they participated in local or regional networks. An example of the questionnaire is shown in Attachment 6. Key findings were as follows²:

1. CEOs are open to training. They judge it to be, together with financing, the key factor necessary to build their businesses. This is encouraging news, and clearly affirms that entrepreneurs recognize that well trained people are, and will be, critical to their success.

What is most required to achieve growth goals (voluntary comments) Base =50	Need	(%) of respondents
	Talented people/training	68
	Financing	54
	Equipment/IT	14
	More sales	8

2. These CEOs have some experience in supplemental training, and they want more. There are few entrepreneurs with business-oriented degrees, with most of non-business degrees being technical. Furthermore and in line with the character of the education system within former communist regimes, their education was less

¹ Base size is 50 SMEs total: Croatia (10), Macedonia (5), Serbia/Montenegro (13), as well as Bulgaria (16) and Romania (6)

² Fifty different SME entrepreneurs were interviewed overall, with a base of 28 in the West Balkans. Data shown below reflects the entire base. West Balkan data is specifically shown where the results were importantly different than the larger base average.

'practical' and more 'academic.' There was some experience with supplemental training, and more was desired. In line with the published research, nearly all (93%) of the entrepreneurs interviewed are quite open to the idea of training as long as it is results driven. They express a desire for business training that could help their businesses today.

	CEO (%)
Trained in business	20
CEOs having experienced supplemental training	38
CEOs interested in supplemental CEO training	93

3. These CEOs acknowledge the knowledge gaps within their management teams, and they want to address them. Across the board, entrepreneurs confirmed the lack of middle management talent and the need to have more middle managers trained in less academic and more practical business skills. Their management staffs oftentimes were not academically schooled in the functional areas for which they were responsible, translating to a middle management that was 'learning on the job' with respect to their functional responsibility (Operations head, Marketing head, etc.).

	Executive Level (%)
Exec. Level trained in area of responsibility	36
Exec. Level having experienced supplemental training	57
CEOs Interested in further training for their executive staff	93

(West Balkan Executive Level personnel were found to be somewhat more highly trained in their area of responsibility (64% vs. 15% in Bulgaria/Romania.)
The higher SEAF base of candidates may have contributed to this result
(discussed in Point 10 below.)

4. Training in Finance, Negotiation/Sales, Human Resource management, Marketing, and Operations are judged to be the greatest need areas for both the CEO and his/her executive staff.

Course needs (all voluntary comments)	CEO defined needs (%)	Senior Exec (as expressed by the CEO) (%)
Finance	44	42
Human Resource/General Management	38	40
Sales/Negotiations	29	48
Marketing	29	50
Operations/QA/Project Management	22	38
Strategy	16	4
Legal	4	–

5. There is an opportunity to train middle management together with the business owner. This research affirmed that, consistent with SEAF's experience, entrepreneurs are used to being 'one man shows,' tracing to the fact that they (at least those who are relatively older) have lived through times where trust and delegation of authority were not commonplace. This lack of delegation, in combination with weak middle management, are among the key reasons that SMEs lack the organizational structures they need to accommodate growth. CEED programs designed to improve organizational efficiency and intra-company communication, concluding with agreed action plans, would well serve this community.
6. Program credibility and trust will be key, and the merits of the program will have to be earned. CEED has to deliver strong content that delivers measurable results for the initial class of entrepreneurs participating in the program. In order for the program to grow it must be credible and this means it must produce immediate results (obvious payback). Proof of concept must be demonstrated for them to participate and to help them shed their bias regarding typical business training - that programs are too general and too academic. The use of highly credentialed professors and practitioners, as well as effective testimonials or “word of mouth” referrals will be central to marketing the program and bridging the credibility gap faced by any new program. Winning the trust of the entrepreneurs will lead to opportunities to train key executive staff.

7. Entrepreneurs have limited time. Courses targeting the owners must be short and focused. Half-day to 3-day modules seem to be the most desirable format. Even courses targeted to executive staff need to be abbreviated. Depending upon the responsibility level of the staff person, he/she cannot be absent from the office for More than a day or two aweek over the period of one or two months.

	CEOs (%)	Senior Executives (%)
Provide training on weekends or in less than one day sessions	41	42
Interested in sessions of 3 days	36	34

8. CEOs are price sensitive Price is an issue for many entrepreneurs. Some are willing to pay up to a few hundred Euros/day for CEO training, and perhaps executive staff Training, if it truly warrants the price. Others were unwilling to commit to training their staff at these prices. Given that the cost of effective business training using practitioners and experienced staff is not cheap, it will be imperative that the training be highly beneficial and provide 'good value.' Critically, it will be important that the entrepreneur is convinced of this value as he/she is the gateway to his/her middle management.
9. Local networking groups are increasingly evident within the region, and there is a good opportunity for CEED to enroll them, network among them, and raise their effectiveness. Entrepreneurs and their key managers are members in intra-industry and non-industry specific organizations, with about half of the interviewees involved in one or the other. Some of these organizations are providing training, some are not. Our research suggests as well that involvement with local non-industry specific groups is growing. For example, virtually all of the interviewees in Montenegro were members of the Montenegro Business Alliance (MBA), many of the Croatian interviewees were members of the Croatian Employers Association (HUP), and many Macedonians were members of new Independent Chamber of Commerce. They are not networking regionally, however, thus providing CEED a strong opportunity to regionally fill the gap.

	In Industry Group	In local non-industry groups
CEO membership (%)	45	58

10. The perspective of entrepreneurs in which SEAF had invested was similar to those who were not SEAF investees. Not surprisingly, SEAF investees found less of a need for financing. Additionally and tracing to SEAF's encouragement, SEAF investees had higher levels of supplemental business training at both the CEO and Executive levels.

What is most required to achieve growth goals (voluntary comments)	Need (%)	SEAF investee (base size:15)	Non SEAF investee (base size:35)
	Talented people/training	66	66
	Financing	40	60
	Equipment/IT	7	14
	More sales	13	11
(%)			
CEO trained in business		22	16
CEOs having experience with supplemental training		53	26
CEOs interested in supplemental CEO training		87	97
(%)			
Exec. Level trained in area of responsibility training		31	37
Exec. Level having experience in supplemental training		88	41
CEOs interested in further training for their executive staff		100	90

C. Institutional Input

Based on the May regional meeting that included representatives from Serbia, Kosovo, and Macedonia, we find high interest in supporting the growth of the CEED initiative. Reference the notes in Attachment 7. ■

VI. Roll-out Timing

Roll-out timing will be governed by funding, the success of the Bulgarian, Romanian, and Slovenian centers, and improved visibility as to the financial sustainability of CEED's business model. Our goal is to achieve the following rollout, with fund raising efforts similarly aligned:

CEED Southeast Europe Roll-Out

Country	2005	2006	2007	2008	2009	2010
Bulgaria						
Romania						
Slovenia						
Montenegro						
Serbia						
Macedonia						
Croatia						
Bosnia/ Herzegovina						
Albania						

CEED programs underway

Current fund raising initiative

Future Initiative

Given the geographies of interest to our key partners including FMO, the South Balkan Fund, and USAID, and a time horizon that goes through 2008, the budgetary process outlined below will focus on expansions into Montenegro, Kosovo, Serbia, and Macedonia. ■

VII. Budget

Three-year and five-year pro-forma budgets for CEED centers in Serbia, Montenegro, Kosovo, Macedonia, and Croatia are provided in Attachment 8.

Though suggested timing is outlined in these budgets, actual deployment and thus spending would be greatly influenced by the interests of key donors such as USAID and FMO. A summary of the three-year budget is provided below.

Three Year Budget (in Thousands)

	Montenegro	Kosovo	Serbia	Macedonia	Croatia	Total U.S.\$	Total €
U.S.\$	470	760	770	470	770	3240	
€	367	594	601	367	601		2530

Two financial models have been built around both larger, fully functional CEED centers, as well as leaner satellite centers for smaller geographies. For example, we expect that Serbia, Croatia, and Kosovo will require stronger fully staffed centers given their geographic size and/or, as in the case of Kosovo, greater underdevelopment (see Budget, Attachment 9). On the other hand, we expect that Macedonia can be a smaller operation managed from Bulgaria while Montenegro can leverage the existing Center for Entrepreneurship and Economic Development entity already there (Attachment 10).

Sources of Funding - USAID is forecasted to provide substantial support. Though obligations have yet to be formally made, we anticipate funding of approximately US\$1.0 million for use in Serbia, Montenegro, Macedonia, and Kosovo. Because potential funding for Croatia has not yet been identified, Croatia is not included in the table on the next page.

We will seek other donors and sponsors to support this initiative including FMO and SECO given their participation and interest in the SEAF South Balkan Fund. We have already opened discussions with a number of foundations including Citigroup and Unidea (Unicredito Bank). We will be opening discussions with Google.org and other foundations that support entrepreneurship.

Sources of Funding: three-year program (ex: Croatia)

U.S.\$ (000)	Montenegro	Kosovo	Serbia	Macedonia	Total U.S.\$ (000)	Total € (000)
USAID	165	317	325	200	1007	844
Other donors	165	298	270	130	868	680
Foundations	20	25	35	20	100	75
Sponsorships/ fee income	120	130	140	120	510	460
US\$	470	760	770	470	2470	
€ (000)	367	594	601	367		1930

The table above importantly illustrates the importance of locally generated Sponsorships/Fee Income. Our goal is to locally generate, via the provision of various services as well as via membership and corporate receipts, 40% of local operating cash-flow needs by the end of Year 3 of operation, with a stretch goal to achieve local sustainability and break-even on a local cost basis by Year 5. Realistically however, the local organizations at minimum are expected to source, on average, about 75% of cash-flow needs by the end of Year 5. This suggests that, over the five-year

U.S.\$ (000) (except %)	Year 1			Year 2			Year 3			Year 4			Year 5		
	Local costs	Local income	%	Local costs	Local income	%	Local costs	Local income	%	Local costs	Local income	%	Local costs	Local income	%
Serbia	198	30	15	196	50	26	205	95	46	220	135	61	225	215	96
Macedonia	138	30	22	141	50	35	144	60	42	157	100	64	161	125	78
Montenegro	138	30	22	141	50	35	144	60	42	157	90	57	161	100	62
Kosovo	198	30	15	196	50	26	205	75	37	220	85	39	225	105	47
Croatia	198	30	15	196	50	26	205	95	46	220	135	61	225	215	96
Total													997	760	76

period, it will be imperative for each organization to identify new sources of revenue streams. These will likely vary from geography to geography, but could include consulting or finders fees associated with linking members to corporate buyers.

Slovenia will be testing a 'Go to Market' model that entails significant fees, and will serve as a pilot for validating the forecasted revenue streams (we recognize that the economies within the region are highly variable, and that validation of the model in Slovenia will not necessarily translate throughout the region). As illustrated below and with its forecasted membership model, Slovenia may generate as much as €90,000 in income with as few as 10 corporate memberships, 50 premium memberships, and 100 regular memberships.

CEED-Slovenia Go-to-market model

Use **membership** from the start in order to build up a good database of clients. In the database, we should keep information about all people that contact CEED, including reasons why they called, and the information they were looking for.

- Develop a **feeling of exclusivity**: not everybody is our member; there are certain conditions to become a member; our members are successful entrepreneurs; the number of places for every training is limited (which assures high quality) etc. This works very well in YES, but we should be careful in CEED because entrepreneurs usually like more open communities than corporate executives. Everybody likes to be in the company of successful people.
- Although we shall create a feeling of exclusivity, the **atmosphere** we create in our community, at events, through our communication etc. should be very **informal, 'no-tie', peer-to-peer, creative, open, international**.
- **Honorary members club**: invite successful Slovene entrepreneurs to become our honorary members even before the launch of CEED. They can be used as a good promotional tool (use them in promo materials) to attract other members, but can be later on used also as trainers, mentors and business angels to less experienced entrepreneurs. Their companies are also interesting as examples of best practices which can be gathered in a database and used for training, as a knowledge base, or for promotion of entrepreneurial culture.
- **Prices and Membership Model**
Regular prices:
 - Training: € 150
 - Discounted training (for those that have referred participant): € 100
 - NLE: € 50 (first year for free except EDGE conference)

Membership Added Value

Added value of membership is calculated based on the regular prices of trainings (9 per year) and NLEs (4 per year) compared to the membership fees. The value of other services that are included in membership packages (online library, consulting, newsletter etc.) are not calculated in the added value. ■

Services	Type of Membership			
	Free	Basic € 200	Premium € 1.000 Entrepreneurial Mini MBA	Corporate € 2.000
Monthly Mailing	✓	✓	✓	✓
Quarterly Newsletter	✓	✓	✓	✓
Training	✓ First training only € 100	✓ All training € 120	✓ All training FREE	✓ All training FREE for 2 people
Network Learning Events		✓ All NLEs FREE	✓ All NLEs FREE	✓ All NLEs free for 3 people
Surprise Events (Invitation to YES event)			✓	✓
Online Library		✓	✓	✓
Online Members Database		✓	✓	✓
Consulting			✓	✓

Type of Membership	Fee in €	Added Value in €
Free	0	50
Basic	200	270
Premium	1,000	550
Corporate	2,000	1,300
Total Value of Trainings & NLEs per person in €		1,550

VIII. Governance

As mentioned in the introduction, SEAF has legally established foundations in both Bulgaria and Romania. Advisory Boards are being established in each of these two countries, with the goal to have representation from the entrepreneur, academic, financial, government, and consulting communities. An Advisory Board is already established in Slovenia.

Budgets are developed locally but managed centrally by SEAF in Washington D.C. A U.S. or European-based CEED Advisory Board is under consideration. A U.S. or European based Foundation/Stichting will likely be considered as the program grows. Timing for this is to be determined. ■

IX. Partners

As CEED has evolved it has been increasingly important to develop partners, both formal and informal. From a CEED perspective, partnerships serve a variety of purposes:

1. Networking - we believe we can ultimately better serve our clients/members and help them to grow their respective SME businesses.
2. Training - we will leverage where possible the skills and know-how that partnerships can provide.
3. Funding - in many cases our partners can and will be a source for sponsorships and/or grant funding.

SEAF - One of CEED's two founding partners. Research teaches that the linking of training to finance is a powerful incentive to SMEs. SEAF provides CEED this financial credibility. Further, SEAF's SME focus and global footprint provides invaluable practical perspective that can be applied to our training programs. Finally, local SEAF personnel, and their ability to contribute their time and wisdom, provide invaluable equity for the CEED brand.

USAID - The second of CEED's founding partners. USAID has provided crucial funding as well as organizational support. USAID brings a powerful network to CEED, enabling it to leverage sister organizations throughout the region and the world. In particular, we expect to join with USAID's Regional Competitive Initiative (RCI) and their market access focused conferences to provide both knowledge and networks on a regional basis through 2007.

FMO - As a funder of this feasibility study and stakeholder in SEAF's South Balkan Fund, we look forward to an ongoing relationship with FMO given its high interest in fostering entrepreneurship and encouraging the formation and growth of SMEs.

The Russian Center for Entrepreneurship (RCE) - The RCE was founded by the U.S. Russia Enterprise Fund with funding largely sourced from USAID. RCE has

created an approach to combining networking and training that we highly endorse and hope to expand upon as we grow CEED.

The Young Executive Society - (Slovenia) They have provided a base from which CEED Slovenia is developing and are providing a powerful network of entrepreneurs and government contacts from which CEED will build its local platform.

The Center for Entrepreneurship and Economic Development / Montenegro - CEED Montenegro, established in the mid-90s, provides training and support to local entrepreneurs as well as the research and consulting services they, and others, need to effectively and locally compete. It is near self-sufficient, and we look forward to working with them to understand the best practices that will contribute to CEED's goal of self-sufficiency within five years.

The Supply Chain Counsel - A global organization whose mission it is to cultivate best practices in supply chain management, we expect to work with them and their South African partners (Lumus) to integrate SME-appropriate training and methodologies that will better position our SME members to compete in the new global marketplace.

We as well look forward to developing further relationships with **Citicorp, Unicredito, Procter and Gamble, Bunge, Inbev** and other multinationals who can contribute as financial sponsors or practical resources for our SME programs.

We are further working to develop relationships with sources of functionally specific networking and training materials. These include such associations as the **American Marketing Association, the Association of Management Accountants, and Management Centre Europe.** ■

X. Synergies with SEAF's South Balkan Funds

Establishing CEED centers in each of the SEAF South Balkan Fund's major markets would be invaluable to not only its investees, but to the Fund itself. CEED will by definition help to strengthen SEAF South Balkan Fund investees by providing the networking, training, and market access opportunities that will help them succeed in the increasingly more competitive environment that has already been discussed in these pages.

CEED will also, however, provide the South Balkan Fund unequalled access to the local marketplace and enhance its efficiencies. CEED will provide the Fund unique insights and knowledge, and these insights will likely lead to better deals. Better deals will on balance lead to better returns for the fund. More specifically:

- **The Fund will be better able to build a strong pipeline** - CEED is targeting higher growth SMEs run by 'high expectation' entrepreneurs. This is the ideal target for the Fund where the Fund can be expected to find 'better than average' candidates faster.
- **The Fund will be able to screen through candidates faster** - over time CEED will develop an on-line local and regional database of SMEs providing sector, company size, product line, and personnel information that will heighten the Fund's ability to more quickly assess investment opportunities.
- **The Fund will be better able to personally access high potential SMEs** - CEED's local managers will intimately understand the 'who's who' within Serbia, Macedonia, Montenegro, and Kosovo, and have unique knowledge of the landscape. This will extend the Fund's reach and yield operational efficiencies.
- **The Fund will be better able to assess the character of an SME's entrepreneur and leadership teams** - CEED's personal experience with various SME managers, or lack thereof, will provide important insights as to the relationship that can ultimately be built with an SMEs leadership. CEED will have insights as to an entrepreneur's interest in skill development (given its training programs), providing perspective that the Fund would not normally have.

- **The Fund will be better able to access larger regional and multinational corporations, the key to more trade sales** - CEED with its 'market access' focus will be connecting with large companies. The Fund can leverage these CEED contacts, and work with CEED to get access to large company representatives. These opportunities could greatly expand the Fund's opportunities to exit investments via more valuable trade sales.
- **The Fund will be better able to promote/advertise itself and build awareness of the South Balkan Fund's existence within the community** - The value of this cannot be overstated. CEED's frequent Network Learning Events will provide speaking engagement opportunities for SEAF's South Balkan staff, giving them the opportunity to establish and heighten the Fund's credibility within the SME community. ■

XI. About SEAF

SEAF (www.seaf.com) is a global investment firm focused on providing growth capital and operational support to businesses in emerging markets and those underserved by traditional sources of capital. SEAF selectively makes structured debt and equity investments in locally owned enterprises with high growth potential.

Based in Washington D.C., SEAF invests in more than 20 countries around the world through an international network of 15 offices in Central and Eastern Europe, Latin America, and Asia. Investors include a cross section of public and private institutions, including several of the international finance institutions, local pension funds, insurance companies, banks and family offices.

Since its inception in 1989, SEAF's successful expansion into a global organization stems from realizing attractive returns for our investors and building value in our portfolio companies. Central to SEAF's ability to source opportunities and work with management is our on-the-ground presence in the economic regions of focus. As a global organization with a local presence, SEAF is uniquely able to provide management with hands-on operational support and provide businesses in emerging economies with the global connections that accelerate their growth and profitability.

SEAF's global investment teams pride themselves on being solutions-oriented business people who work with our local partners to achieve solid economic growth, with equally solid returns for our investors. ■

Thomas Drum
SEAF, Director of Business Development

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SEAF, Director of CEED Program