



**SME Promotion within Development Aid  
of the new EU Member States**

Current Practice and Future Trends

commissioned by BMZ on behalf of the  
Donor Committee for Enterprise Development

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65760 Eschborn  
Internet: <http://www.gtz.de>

Economic Policy and Private Sector Development Section  
Sector Project 'Innovative Tools for Private Sector Development'  
[private.sector@gtz.de](mailto:private.sector@gtz.de)

Responsible:  
Sabine Becker, gtz

Author:  
Dr. Kerstin Schulenburg

Layout:  
Melanie Füller, Document and Graphics Centre, gtz

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## List of Abbreviations

ACU:	Administrative and Contracting Unit
BMZ:	German Federal Ministry for Economic Cooperation and Development
CIDA:	Canadian International Development Agency
CSP:	Country Strategy Paper
DAC:	Development Assistance Committee
DC:	Committee of Donor Agencies for Enterprise Development
EDI:	Emerging Donor Initiative
GNI:	Gross National Income
GTZ:	German Technical Cooperation
MFA:	Ministry of Foreign Affairs
NGDO:	Non-Governmental Development Organization
OA:	Official Aid
ODA:	Official Development Aid
ODACE:	Official Development Assistance in Central Europe
PCM:	Project Cycle Management
SME:	Small and Medium-sized Enterprise
TF:	Trust Fund
UNDP:	United Nations Development Programme
V4:	Visegard Countries

# 1. Background, Aim and Approach

## Background

The new Member States constitute success stories in their transition from centralised to liberal-democratic social systems. Policymakers, entrepreneurs, and non-government organisations in these countries contain a wealth of best practice acquired from the transition. In preparation for accession the new Member States emerged from being recipients of development aid to becoming donors. SME promotion is one central component of economic transition. Therefore the question arose as to how the Committee of Donor Agencies for Enterprise Development (DC) could co-operate with the evolving development aid structures of the new Member States.

## Aim

On behalf of BMZ/GTZ a short fact-finding mission was conducted to pursue the following aims:

1. Analysis of the institutional set-up of development aid in the new Member States.
2. Analysis of sectoral priorities and regional focus of development aid in the new Member States. Current situation and tendencies.
3. Analysis of the relevance of SME promotion and of the main approaches implemented in the field of SME promotion within the development aid of the new Member States. Current situation and tendencies.
4. Assessment of human and financial resources for development aid in the new Member States. Current situation and tendencies.
5. Conclusion: potential and options for interaction between new Member States and the Donor Committee.

## Approach

Four selected new Member States were visited. To visit all the new Member States would not have been possible within the given time frame. The selection criterion was the size of the economy of the new Member State. Appendix chart 1 shows the size of economy of the new Member States in Euro millions in 2004. Between 7 and 15 of April 2005 the following four largest countries (Visegrad countries (V4)) were visited:

- Czech Republic<sup>1</sup>
- Hungary
- Poland

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1 alphabetical order

■ Slovakia

The resource persons in the V4 countries either belonged to the Ministry of Foreign Affairs or to a kind of precursor of a future development agency. A background meeting with CIDA also took place. The resource persons are listed in the appendix. Findings about the other new Member States are limited to desk research. A couple of facts regarding the other new Member States are summarized in the appendix.

## 2. Findings

Chapter 2.1 presents similarities and general tendencies within development aid of the V4 countries. Short country profiles with more detailed information are enclosed in chapter 2.2.

### 2.1 Overview of general findings regarding V4 countries

#### 2.1.1 Size of Official Development Aid

To give an impression of the dimension of development aid by the V4 countries, chart 1 shows the ODA as percentage of GNI from 2003 to 2006. Chart 2 shows the total amount of ODA in USD millions 2004 (see also appendix tables 1 and 2). The following can be stated:

1. In international terms the available budget of ODA is currently small.

Poland, the largest V4 country, spent an amount of USD 124 million for ODA in 2004. As percentage of GNI this was 0.05. The Czech Republic, with an ODA of 0.11 % of GNI the most active donor, spent around USD 110 million in 2004.<sup>2</sup>

2. The budget of ODA is rising dynamically.

Poland started with ODA 0.01 % GNI in 2003 and intends to reach 0.1 % in 2006. This would then be about USD 230 million.<sup>3</sup> Hungary started with ODA 0.03 % and estimates ODA 0.07 in 2005. Slovakia started with ODA 0.05 % in 2003 and intends to reach 0.09 % in 2006, while Czech Republic started to increase the budget earlier. In 2000 the Czech Republic had spent only ODA 0.03 % GNI. The figures for 2005 and 2006 are tentative, and not yet finally approved.

3. The increase in budget will be ongoing over the next years.

Two reasons can be mentioned. Firstly, as part of the EU the new Member States are expected to fulfil certain obligations. The EU Commission has formulated quantitative targets for development aid. The old members are expected to reach ODA 0.51 % GNI 2009 / 2010 while the target for the new Member States is ODA is 0.17 % of GNI. Secondly, the budgets will increase because the GDP of the new Member States is growing significantly.<sup>4</sup>

<sup>2</sup> For comparison: ODA 2003 EC USD 7.173 million; EU countries combined USD 37.139 million. Source: OECD.

<sup>3</sup> UNDP Poland and MFA Poland, press release October 8, 2004. They assumed a 4 % GDP annual growth rate.

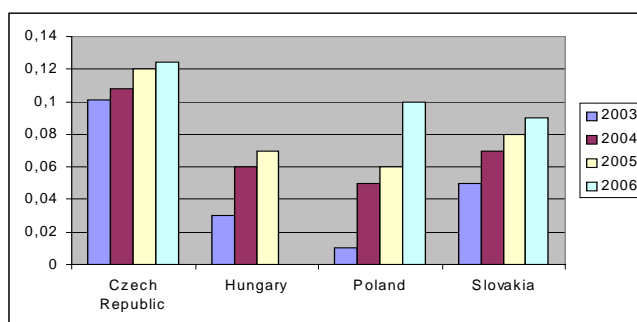
<sup>4</sup> Expected growth rates for the V4 countries in 2005 and 2006 range between 3.8 % (Hungary) and 5.2 % (Slovakia). Source: Eurostat.



4. Currently a large proportion of the ODA budget is spent on multilateral aid.

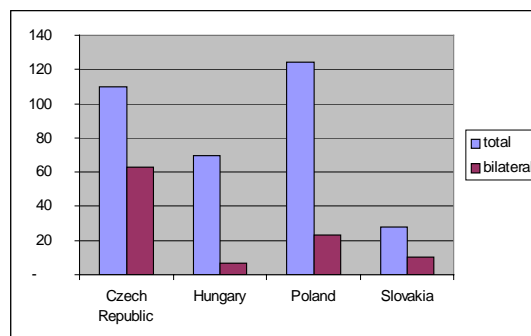
Of special significance are the contributions to the European Development Fund. E.g. Poland spent about USD 77 million in 2004 out of the total USD 124 millions for the EU. In the short and medium term the proportion of multilateral aid may even increase further. This is due to international obligations and also to the fact that an increase in ODA can be achieved more easily in a short period of time by contributing to multilateral organizations than by channelling ODA through the country's own development aid management capacities as in the case of bilateral aid.

**Chart 1: ODA as Percentage of GNI 2003 - 2006**



Source: Ministries of Foreign Affairs, Poland 2006 Press Release UNDP Poland / MFA Poland October 8 2004  
 Notes: 2005 and 2006 are tentative figures not finally approved, Hungary 2004 estimated data, 2006 n.a., Slovakia and Poland 2006 (% GDP)

**Chart 2: Total and Bilateral ODA in USD Millions 2004<sup>1</sup>**



Source: Ministries of Foreign Affairs  
 Annotation: (1) Hungary only figures for 2003 available

5. Presumably the proportion of bilateral aid will again increase in the medium-term and in the long-run.

This is a hypothesis by the author based on the assumption that a donor is more visible in the recipient country in the context of bilateral aid. Foreign policy interests and interests regarding economic co-operation and mutual trade can therefore be pursued more effectively through bilateral than multilateral aid.

### 2.1.2 Process of Establishing Development Aid Structures

To understand the current relevance of SME promotion within development aid it is useful to have an idea of the process of establishing development aid structures in the new Member States during the last years. Systematic establishment of development aid based on international standards started around 2001 / 2002. Before that time development aid was mainly delivered as a series of ad hoc and decentralized initiatives.

Systematic establishment of development aid mainly contains two aspects:

1. Developing the necessary legislative, institutional and policy frameworks for ODA
2. Building the professional skills needed to manage and run an effective ODA programme

In 2002 and 2003 strategy for development aid was elaborated and published in strategy papers by the individual countries. These strategy papers cover a time frame of about 5 years and deal with the subjects of institutional and policy framework, definition of sectoral priorities and regional focus.

The capacity building was and is supported by Canadian International Development Agency (CIDA), United Nations Development Programme (UNDP), the EU and also by BMZ and GTZ.

Two kinds of support can be distinguished:

- (1) Institutional support and capacity building through technical assistance and training
- (2) Trilateral co-operation in the field

CIDA started the Official Development Assistance in Central Europe (ODACE) programme in 2001. From 2001 to 2004 institutional support and capacity building was predominant. BMZ/GTZ in cooperation with other donors also supported capacity building through workshops and the offer of internships. Now trilateral co-operation and sharing experience within projects is the main focus. UNDP is active through its Emerging Donor Initiative (EDI). Jointly managed trust funds are of special importance in this context. In order to promote national expertise and to establish transparent and programmatically sound ODA delivery mechanisms, UNDP manages trust funds together with the individual new Member States. Through this strategy trilateral co-operation between traditional and emerging donors on the one hand and recipient countries on the other are being promoted.

The establishment of a development aid structure is a time consuming process. In the course of formation the professionals in the development aid of the V4 countries had to accomplish several tasks besides their work routine. Three fields of action should be mentioned here:

- (1) Preparing the basis for legislative decisions, negotiating basic budget principles with Ministry of Finance and raising awareness of policy decision makers and the public about principles, scope and benefit of development aid, based on international standards
- (2) Setting up the communication channels and co-ordination principles with active or potentially active stakeholders in development aid, such as line ministries, other public bodies, NGOs, private bodies and embassies in the recipient countries.
- (3) Establishment of management principles and capacity building regarding project cycle management (PCM), tender procedures and the measurement of impact.

There is still unfinished business, although a solid foundation was accomplished in the course of the past three years. The first call for proposals under the newly implemented regime of public tender (and therefore systematic appraisal of project proposals) started roughly around the end of 2003 and several projects were in the implementation phase in 2004. Evaluation of these projects will start in 2005.

Generally speaking a strong determination to live up to international standards set by Development Assistance Committee (DAC), the United Nations (UN) and the EU was encountered. This covers the general principles of development aid (e.g. ownership, untied aid), the pursuit of the Millennium Development Goals and management standards of ODA delivery (e.g. PCM, measurement of impact).

### **2.1.3 Institutional Outline – Basic Structures**

Chart 3 shows the basic structure of the institutional outline. Three kinds of tasks can be distinguished within the delivery mechanisms of ODA.

#### **A. Setting the political guidelines, priority fields and regional focus**

These tasks are the responsibility of the Ministry of Foreign Affairs (MFA). All V4 countries have established specialized departments at MFA.

#### **B. Public tender, PCM and evaluation**

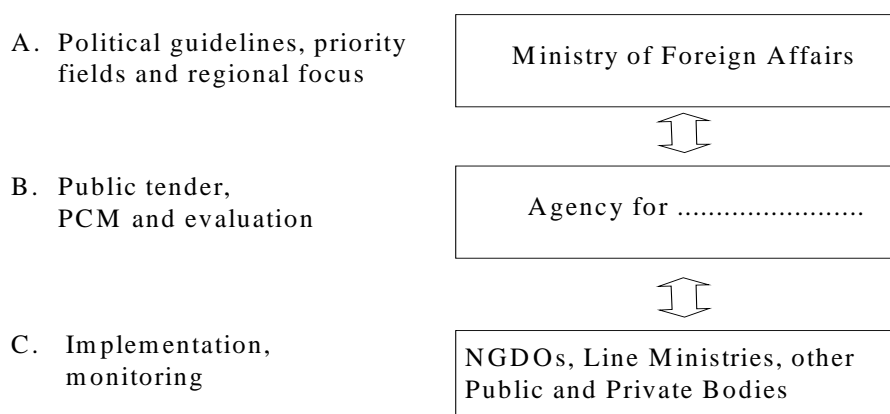
The situation regarding these tasks is varied. All resource persons were in favour of implementing a separate development agency. Up to now a development agency does not exist in any of the V4 countries. This is either due to the fact that the necessary legislative process is not yet finalized or that the public tender to select the non-governmental entity is not completed. At the moment the tasks are either the responsibility of MFA (Poland), of a separate Administrative and Contracting Unit (ACU) (Slovakia), or of a kind of precursor of a future development agency (Czech Development Centre, HUN-IDA) in co-operation with line ministries (Czech Republic) or MFA (Hungary).

#### **C. Implementation and monitoring**

Projects are always executed by third parties. These third parties can be either line ministries or other public entities, NGOs or private bodies. The third parties have to submit their project idea by public tender.

The borderlines between these three levels are floating. This shall be illustrated by the example of setting sectoral priorities. The setting of sectoral priorities is the privilege of MFA. Based on their guidelines and the need of the recipient countries, possible fields of cooperation are described within the calls for projects. The next step is the application for the budget by a third party. But if no qualified proposal for certain fields is submitted, the priority field will not be covered in practice. Therefore priority fields are also determined by the number, professional expertise and origin of the applying bodies.

**Chart 3: Institutional Outline – Basic Structure**



The structure of the submissions can be influenced by setting up communication channels to the potential implementing bodies. The way that linkages to potential implementing bodies are established is therefore decisive. Standard practice has been to install NGO platforms as supportive structures for co-operation with NGOs.

Finally, to give an impression of the capacity regarding human resources, the following figure has to be mentioned: on level A and B together roughly 10 to 20 full-time staff members are working in each V4 country. Detailed figures can be found in the country profiles. Up to now no SME promotion expert is part of the full-time staff, but in the Czech Development Centre one will take up employment in June 2005.

#### **2.1.4 Regional Focus**

All V4 countries decided to concentrate their budgets on a limited number of recipient countries in order to achieve visible impacts with limited financial means. Two categories can be distinguished: programme countries and project countries.

With programme countries<sup>5</sup> the new Member State will develop a broader co-operation. The co-operation will be of a more comprehensive nature and content. All V4 countries will elaborate or have elaborated country strategy papers (CSPs) as a basis for the co-operation with the recipient country.

The co-operation with the project countries is simpler and based on the implementation of isolated and relatively small projects. In order to achieve the desired effects with smaller projects too, there is willingness to incorporate the projects in programmes of larger donors and to use the modality of trilateral co-operation.

Besides ODA countries, Official Assistance (OA) countries, esp. Ukraine minus Belorussia are of current relevance. This is due to the geographical and historical proximity of Ukraine and Belorussia and the vital interest which the new Member States therefore have in their future development.

The following table gives an overview of the regional focus regarding ODA countries:

**Table 1: Overview of the regional focus of the V4 countries<sup>6</sup>**

Recipient Country	Czech Republic	Hungary	Poland	Slovakia
<b>Balkan Countries</b>				
Serbia and Montenegro	X	X		X
Bosnia-Herzegovina	X	X		(X)
Albania				(X)
Macedonia		(X)		(X)
<b>CIS</b>				
Kazakhstan				(X)
Kyrgyzstan		(X)		(X)
Moldovia	X	(X)	X	
Mongolia	X	(X)		(X)
Georgia			X	
Tajikstan				(X)
Uzbekistan				(X)
<b>Other Regions</b>				
Angola	X		X	
Cambodia				
China		(X)		

<sup>5</sup> Hungary calls them strategic partner countries

<sup>6</sup> X are programme countries, (X) are selected project countries. Poland and Czech Republic have not yet defined a limited number of project countries. Poland conducts projects in about 20 different countries besides programme countries and Czech Republic in about 40 different countries.

Ethiopia		(X)		
Kenya				(X)
Laos		(X)		
Mozambique				(X)
Sudan				(X)
Vietnam	X	X	X	
Yemen	X	(X)		
Zambia	X			
<b>Post War / Middle East</b>				
Afghanistan		(X)	X	(X)
Iraq		(X)	X	
Palestine		X	X	
Number of Programme Countries / Strategic Partners	8	4	7	1

In general selection criteria can be divided into three groups:

1. General criteria set out by the donor community

Urgency of needed aid (Millennium Development Goals), rule of law, principles of good governance and human rights

2. Logistical and practical criteria

Historic links, existence of a representation of the new Member State, existence of activities of implementing bodies (NGDOs, public and private bodies, line ministries)

3. Political and economic criteria

Coherence with the foreign policy of the new Member State, possibility of using comparative advantages especially because of their own transition experience, potential of economic co-operation and mutual trade, existence of a minority of nationality of the new Member State in the recipient country.

### 2.1.5 Sectoral Priorities and Relevance of SME Promotion

All V 4 countries defined sectoral priorities in their strategy papers. The basic idea is to focus on priority fields where the new Member State has comparative advantages. This comparative advantage is generally seen in their own transition experience.

The transfer of knowledge based on this transition experience can be applied to a broad range of possible sectors. Consequently all strategy papers name a broad range of priority sectors. Political and economic reform is always one priority field. Then a fairly long list of sectors varying from e.g. infrastructure, environmental protection, education, agriculture, health care to water management are mentioned.

This approach has a readily understandable background. By naming a wide range of priority fields the flexibility to react to the main stakeholders in development aid is maintained:

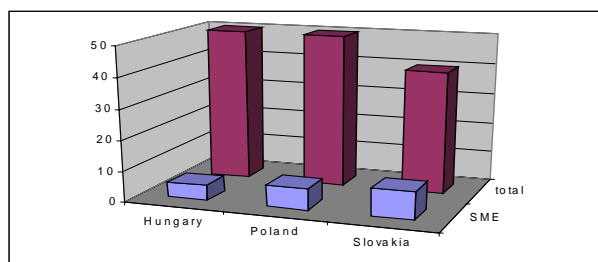
1. Demand side: Needs of the recipient countries. For the programme countries the needs are named or will be named in the country strategy papers.
2. Supply side: Professional expertise of the implementing bodies (NGDOs, private and public bodies, line ministries) and their existing experiences in recipient countries.

Potential future specialization will therefore evolve as a kind of market process within the triangle of demand side, supply side and the frame set by the sectoral priorities of the individual new Member State. The framework set by the sectoral priorities and the needs of the recipient country is put into place by the concrete terms of reference within the calls for project proposals.

At the end of 2003 the first tender procedures started. In preparation NGDOs platforms as a communication channel were set up. Dialogue with already existing actors (e.g. line ministries) also was initiated.

Graph 4 shows the total number of projects and the number of SME-related projects. The transfer of transition experience regarding economic reform and SME promotion is currently of minor relevance. One reason is the relatively poor attendance from professionals out of the field of SME promotion within tender procedures. The following reasons were given:

- these professionals are mostly not part of the NGDO platforms. The NGDOs of the platforms basically concentrate on civil society, social, educational and humanitarian matters
- as far as is known there are only a few public or private bodies specializing in SME promotion with experience abroad.
- awareness of the business possibilities (e.g. specialized consultant firms) is still low and information about the procedures/requirements to work in this field have to be spread.
- linkages with professional entities of the business community (e.g. Ministry of Economy / Ministry of Industry and Trade, agencies SME development, business associations, Chamber of Commerce) are normally still weak at the moment. An exception is Hungary. The resource persons stated that the linkages are established.

**Chart 4: Total Number of Projects and SME-related Projects 2004**

*Source: Resource persons; Slovakia: annual report funds*  
*Notes: Czech Republic data not available*

Another possible explanation of the relatively poor participation of SME professionals within tender procedures was not covered sufficiently during the short mission: With accession, various funds of the EU are accessible. Application and management of these funds demand professional expertise too. Therefore it is quite conceivable that firstly, the capacity of SME professionals is to a certain extent tied up and secondly, there is no push for SME professionals to seek business opportunities in the new field development aid.

The resource persons see SME promotion as a relevant topic within development aid because of its importance as part of economic transition. Intentions to intensify the linkages to the business community were expressed.

The titles of the SME-related projects are listed in the appendix. A broad range of SME-related subjects are covered.





### 3. Country profiles

#### 3.1 Profile Czech Republic

<b>Size of ODA</b>		
	2003	2004
Percentage GNI	0.10	0.11
USD million	91	110
<b>Institutional Set-up</b>		
Role / Task	Institution	Full-time Staff
Policy direction	Ministry of Foreign Affairs, Department of Development Co-operation and Humanitarian Aid	approx. 8
Management	1. Czech Development Centre (Institute of International Relations). Possible precursor of development agency, funded by MFA on annual basis, partially funded by UNDP until the end of 2004 2. 10 Line ministries: grants and public tenders	8, increasing to 10  approx. 15
Implementation	Line ministries, NGOs, other public and private bodies	
Remarks: Line ministries had in the past leading role in development aid and widely acted independent. Strengthening of co-ordination role of the MFA started based on advisory of the Czech Development Centre (established in 1999 as UNDP project "Strengthening National Capacities for International Development Co-operation") in 1999.		
<b>Regional Focus</b>		
Programme countries	Angola, Zambia, Moldova, Serbia and Montenegro, Bosnia-Herzegovina, Yemen, Vietnam, Mongolia	
Project countries	Currently activities in about 40 countries	
Remarks: Size of budget reserved for programme countries for 2006: 25 % of total budget for bilateral projects. Shift of budget to programme countries will be an ongoing process. CSPs are elaborated.		
<b>Sectoral Priorities</b>		
Priority fields are named in the strategic framework of the Czech ODA and cover a wide range: e.g. good governance, infrastructure, environmental protection, education, agriculture, health care. In practice existing experience of line ministries in the recipient countries and in the Czech Republic is important.		
SME-promotion	No. of SME-related projects in 2004 could not be separated exactly, as projects sometimes consist of several components.	
<b>Linkages with Implementing Bodies</b>		
NGDOs	NGDO platform: 17 members	
SME Professionals	Future staff member of Czech Development Centre with main focus on private sector development, including introducing new mechanisms (PPP etc.) and building up the relationships to the business community (umbrella private sector institutions as well as individual companies)	

### 3.2 Profile Hungary

<b>Size of ODA</b>		
	2003	2004
Percentage GNI	0,03	0,06 <sup>7</sup>
USD million	30	55
<b>Institutional Set-up</b>		
Role / Task	Institution	Full-time Staff
Policy direction	Ministry of Foreign Affairs, Department for International Development Cooperation	11
Management	Ministry of Foreign Affairs, Department for International Development Cooperation  The appraisal, monitoring and evaluation of projects is supported by Hungarian International Development Assistance Non-profit Company (HUN-IDA) on demand. Contract period HUN-IDA until end of 2005. Than new public tender for supporting agency.	see above  10 plus freelance evaluators
Implementation	NGDOs, public and private bodies, sometimes line ministries	
<b>Regional Focus</b>		
Strategic partners countries	Serbia and Montenegro, Bosnia-Herzegovina, Vietnam, Palestine Authority	
Other partner countries	Macedonia, Moldova, China, Mongolia, Kyrgyzstan, Ukraine	
Least developed countries	Ethiopia, Yemen, Cambodia, Laos	
Under international commitment	Afghanistan, Iraq	
<p>Planned allocation of USD 4.3 million bilateral budget 2004 Strategic partner countries 60 %, other partner countries 20 %, LDCs 7 %, under international commitment 6 %. Residue humanitarian aid and emergency reserve.</p> <p>Planned allocation of the ODA budget of the MFA for 2005: Balkan and Eastern Europe Fund: approx. 25%, Asia Fund: approx. 13%, LDC Fund: approx. 13%, Stability Fund: approx. 18%, NGDO-project Fund: approx. 18%. Residue multilateral funds, communication budget and reserve.</p>		
<b>Sectoral Priorities</b>		
Transfer of Hungarian experience related to the change of political systems, information technology and communication, education, health, agriculture, water management, infrastructure planning, environmental protection. Special emphasis is laid on the transfer of knowledge.		
SME-promotion	Total number of ODA projects 2004: approx. 50 SME-related projects: 5 projects	

<sup>7</sup> Estimated data

<b>Linkages with Implementing Bodies</b>	
NGDOs	NGDO platform: 19
SME Professionals	Dialogue started 2003

### 3.3 Profile Poland

<b>Size of ODA</b>		
	2003	2004
Percentage GNI	0,01	0,05
USD million	27	124
<b>Institutional Set-up</b>		
Role / Task	Institution	Full-time Staff
Policy direction	Ministry of Foreign Affairs, Development Cooperation Division	6, increasing to 9 in June and to approx. 15 by the end of 2005.
Management	Ministry of Foreign Affairs, Development Cooperation Division	
Implementation	Line ministries, NGDOs, other public and private bodies	
<b>Regional Focus</b>		
Target countries (to become programme countries)	Afghanistan, Angola, Georgia, Iraq, Moldova, Vietnam, Palestine	
Project countries	Not defined. Currently activities in about 20 countries	
<p>Remarks:</p> <p>For programme countries a line of 9 million Sloty (approx. USD 2.5 million) is reserved for development aid channelled via MFA in 2005. In future, the financial means will be progressively focused on these countries. CSPs will be elaborated.</p> <p>A special line of total 11 million Zloty (approx. USD 3 million) is directed to Ukraine and Belarussia (7 million Zloty) and to the Balkan States (4 million Zloty) in 2005.</p>		
<b>Sectoral Priorities</b>		
Support for democratic institutions, improvement of public administration efficiency, development of cross-border co-operation and sector restructuring, consolidation of local structures, health protection, education and science, access to potable water, protection of the environment		
SME-promotion	Total number of projects in 2004: 50 No. of SME-related projects in 2004: 7	
<b>Linkages with Implementing Bodies</b>		
NGDOs	NGDO platform with about 50 members. One SME-oriented.	
SME Professionals	Linkages are not installed yet	

### 3.4 Profile Slovakia

<b>Size of ODA</b>		
	2003	2004
Percentage GNI	0,05	0,07
USD million	17	28
<b>Institutional Set-up</b>		
Role / Task	Institution	Full-time Staff
Policy direction	Ministry of Foreign Affairs; Department of Development Co-operation	6
Management	1. ACU Bratislava-Belgrade Fund BBF: Responsible for priority country Republic of Serbia and Montenegro	3
	2. 2. ACU Slovak-UNDP Trust Fund TF: Responsibility for the twelve defined project countries	6
Implementation	Line ministries, NGOs, other public and private bodies	
Remarks: Both funds provide two calls per year		
<b>Regional Focus</b>		
Programme countries	Republic of Serbia and Montenegro, in the long-term two to three programme countries planned, in all likelihood coming out of the project countries	
Project countries	Afghanistan, Albania, Bosnia and Herzegovina, Kazakhstan, Kenya, Kyrgyzstan, Macedonia, Mongolia, Mozambique, Sudan, Tajikistan and Uzbekistan	
Remarks: Programme country approved projects in 2004 USD: 1,7 million, budget 2005 USD 1,9 million Project countries approved projects in 2004 USD: 2,1 million, budget 2005 USD 3,35 million		
<b>Sectoral Priorities</b>		
Slovak Aid will concentrate on (a) Developing democratic institutions and market environment (b) Infrastructure, including the social infrastructure (c) Landscaping, protection of environment, agriculture, food safety and use of raw materials.		
SME promotion	Total number of ODA projects: 40 projects No. of SME-related projects in 2004: 9 projects	
<b>Linkages with Implementing Bodies</b>		
NGDOs	NGDO platform: 25 members	
SME Professionals	Up to now none of full-time staff person MFA/ACU is a specialist in SME promotion. A deputy of the Federation of Employer's Associations of the Slovak Republic is member of the Steering Committee.	

## 4. Conclusions and Recommendations

The evolving approaches of SME Promotion within development aid of the new Member States can make a valuable contribution in terms of enriching the knowledge within the Donor Committee, for the following reasons:

1. The bodies implementing development aid can transfer knowledge to the recipient countries based on the experience of implementing SME promotion approaches in their own country under the conditions of transition. Specially adapted approaches to approved concepts of SME promotion within development aid may possibly evolve. A different perspective may be added based on their own experience.
2. The relevance of SME promotion within development aid cannot be judged based on its current role. This is due to the fact that development aid in the new Member States is just emerging from being at a still initial stage. The foundations are in place, although a lot still needs to be done.
3. SME promotion is one core topic within economic transition.
4. A dynamic development of the sector can be anticipated due to expected budget increases and the consolidation of management capacities concerning bilateral aid.
5. As members of the EU, the new Member States are under the obligation to follow international standards. It was also evident that they are strongly committed to do so.
6. As implementation is exclusively carried out by third parties interesting models of partnership may evolve.

Therefore it is recommended to the Donor Committee to start investing in building relationships with the development aid structures in the new Member States as from now.

The aim of the Donor Committee to build relationships with the new Member States was received positively, and interest to stay in contact was explicitly stated. No strong desire was, however, expressed to join DC immediately. This was due to two factors: Limited experience of systematically evaluated projects with the focus on SME promotion within development aid up to now, and the fact that DC is a place to share experience and resource persons do not yet feel able to contribute.

The next steps to intensify the contact must take into consideration the limited human resources for development aid in the new Member States. Joint activities must bring a practical win-win effect for both sides. For the time being one bottleneck for the relevance of SME promotion within development aid are the limited linkages and working relations with the professionals concerned with SME promotion within the new Member States. Therefore a first step or option could be the contribution of DC to:

A workshop at the national level with potential implementing bodies:

- overview of scope and content of SME promotion within development aid
- best practice based on the experience of the DC
- examples from development aid by new Member State

The workshop would support the process of raising awareness among potential implementing bodies. As the focus is on the implementing bodies, the workshop should preferably take place in the individual countries.

A second or alternative step after further implementation experience by the new Member States could be a contribution of DC to:

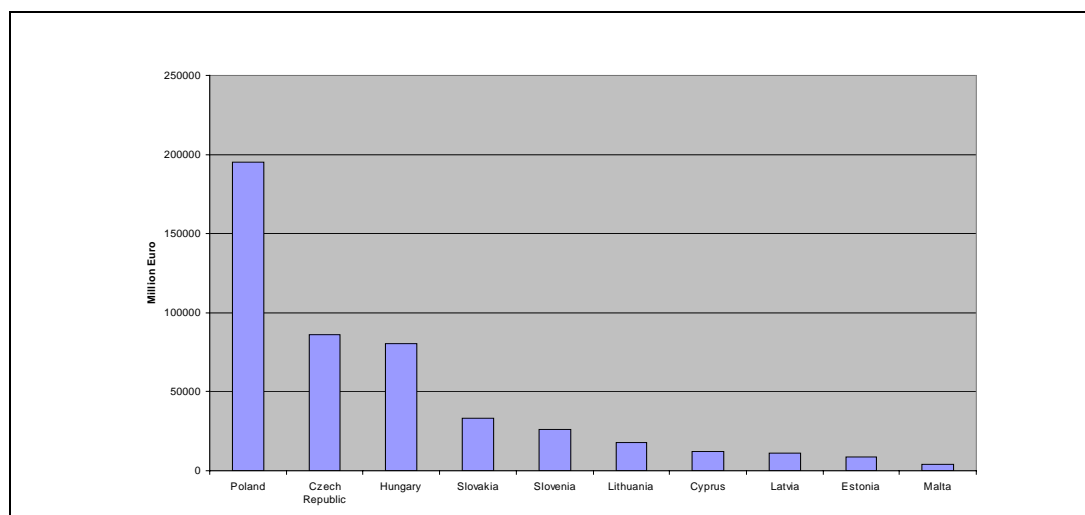
Workshop at regional level (Visegrad Countries plus Baltic States plus Slovenia) with representatives of the Ministries of Foreign Affairs, from the institutions with public tender / project cycle management (PCM) responsibility and representatives of the implementing bodies:

- examples from SME promotion within development aid by new Member States
- contribution by DC
- exchange of experience between new Member States and between new Member States and DC.

This workshop could facilitate the creation of a unique perspective of the new Member States because of their own transition experience with SME promotion, and therefore add to the knowledge of DC.

## Appendix

**Chart 1: GDP new Member States 2004**



Source Eurostat

**Table 1: ODA as Percentage GNI 2003 – 2006**

Year	Czech Republic	Hungary	Poland	Slovakia
2003	0,10	0,03	0,01	0,05
2004	0,11	0,06	0,05	0,07
2005	0,12	0,07	0,06	0,08
2006	0,13	n.a.	0,10	0,09

Source: Ministries of Foreign Affairs. Poland 2006 press release UNDP Poland/ MFA Poland 10/08/04

Notes: 2005 and 2006 are tentative figures not finally approved. Hungary 2004 estimated data. Slovakia all figures and Poland 2006 (% GDP)

**Table 2: Total and Bilateral ODA in USD Millions 2004<sup>1</sup>**

ODA	Czech Republic	Hungary	Poland	Slovakia
Total	110	30	124	28
Bilateral	63	5	23	10

Source: Ministries of Foreign Affairs

Notes: (1) Hungary only data 2003 available



## List of SME-Related Projects of the V4 Countries 2004

### Hungary

- Expanding market access for women entrepreneurs and small scale producers (Bosnia-Hercegovina)
- Conference for majors on cross-border economic cooperation (Serbia-Montenegro)
- Study tour for wine and champagne producers (Kyrgyzstan)
- Study tour for farmers on goose breeding (Moldova)
- Study tour for officials from the Ministry of Planning and Investment on strengthening small and medium sized enterprises (Vietnam)

### Poland

- Development of rural market and entrepreneurship (Afghanistan)
- "Leaders in Entrepreneurship Project" (Moldova)
- "SME Development" project (Ukraine)
- Development of Microfinances (Ukraine)
- Land privatization in Kazakhstan
- Development of a professional education centre (Atok, Cameroun)
- Development of IT Sector (Moldova)

### Slovakia

- Building of market environment – regulatory convergence (Slovak Office of Standards, Meterology and Testing / Kazakhstan)
- Building of market environment – regulatory convergence (Slovak metrological institute / Kyrgyz Republic)
- Enhancing the business contribution to Kenyan Communities (Integra Foundation / Kenya)
- National capacity building for integrated management systems implementation (ASTRAIA Ltd. / Kazakhstan)

- Cleaner production & energy efficiency: developing and improving competitiveness and environmental performance of SME's (Slovak Cleaner Production Centre Ltd. / Uzbekistan)
- Mikroenterprise development for women at risk (Integra Foundation / Serbia)
- Project of regional economic development of Vojvodina (Slovak Rating Agency, a.s. / Serbia)
- Support of creation of regional development institutions in Vojvodina (Trnava Regional Development Agency / Serbia)
- Transfer of experience from Slovakia into Serbia in the fight against corruption (TIS – Transparency International Slovakia / Serbia)

## **List of Resource Persons**

### **Czech Republic (04/13/2005)**

Czech Development Centre, Institute of International Relations  
Peter Halaxa  
Head of Development Centre  
T. + 420 251 108 103

Czech Development Centre, Institute of International Relations  
Michal Prochazka  
T. + 420 251 108 131

### **Hungary (04/15/2005)**

Ministry of Foreign Affairs  
Department for International Development Cooperation  
Eszter Pataki  
First Secretary  
T. + 36 1 458 1127

Ministry of Foreign Affairs  
Department for International Development Cooperation  
Beatrix Kese  
Desk Officer  
T. + 36 1 458 2105

### **Poland (04/12/2005)**

Ministry of Foreign Affairs  
Department of the UN Systems and Global Affairs  
Pawel Baginski  
First Secretary  
T. + 48 22 523 94 06

### **Slovak Republic (04/07/2005 and 08/07/2005)**

Ministry of Foreign Affairs  
Department of Development Cooperation  
Mr. Michal Horvat  
T. + 421 2 5978 3562

ACU Bratislava-Belgrade Fund  
PhDr. Katarina Vajdová  
Director  
T. + 421 2 5720 6171  
ACU Slovak-UNDP Trust Fund  
Zuzana Letková  
Project Manager for CA, Mongolia and Afghanistan  
T. + 421 2 5720 6175

**Background (04/07/2005)**

Canadian International Development Agency  
Regional Office for Central Europe (ODACE)  
Chandran Thiruchittampalam  
Canadian Field Adviser  
T. + 421 2 5245 0294

### Overview Development Aid other New Member States

New Member State	ODA 2001 (%) GDP	ODA 2003 (%) GDP	Regional Focus	Sectoral Priorities	Strategy Paper Development Aid
Slovenia	0,1	0,1	Balkan States, esp. Bosnia-Herzegovina, Serbia and Montenegro, Afgahnistan and Iraq	democracy and legal security, public finance, regional security, sustainable development, mine clearing and support of refugees	No
Estonia	0,01	0,03	Ukraine, Belorussia, Armenia, Azerbaijan, Georgia, Kyrgyzstan, Moldova, Tajikstan,	democracy and legal security, regional security, health care, poverty reduction, information technology, preparation membership WTO	Yes
Latvia	0,02	0,03	Ukraine, Belorussia, Moldova and Balkan States	democracy and legal security, regional security, protection of the environment and humanitarian aid	Yes
Lithuania	0,02	0,03	Ukraine, Belorussia, Moldova and Balkan States	democracy, regional security, integration of the developing countries into the global economy	Yes
Cyprus	0,02	0,02	Middle East, esp. Palastine Balkan States, esp. Albania Central Asia	regional security and sustainable development	No
Malta	0,01	0,01	Mahgreb States, Africa and Latin Amerika	poverty reduction	Yes

Source: Bohnet, M. (2004), IDC / Development Strategies (2003)

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