BSMD
BUSINESS SERVICES
MARKET DEVELOPMENT

Synthesis Paper

Business Services Market Development

Experiences and Lessons

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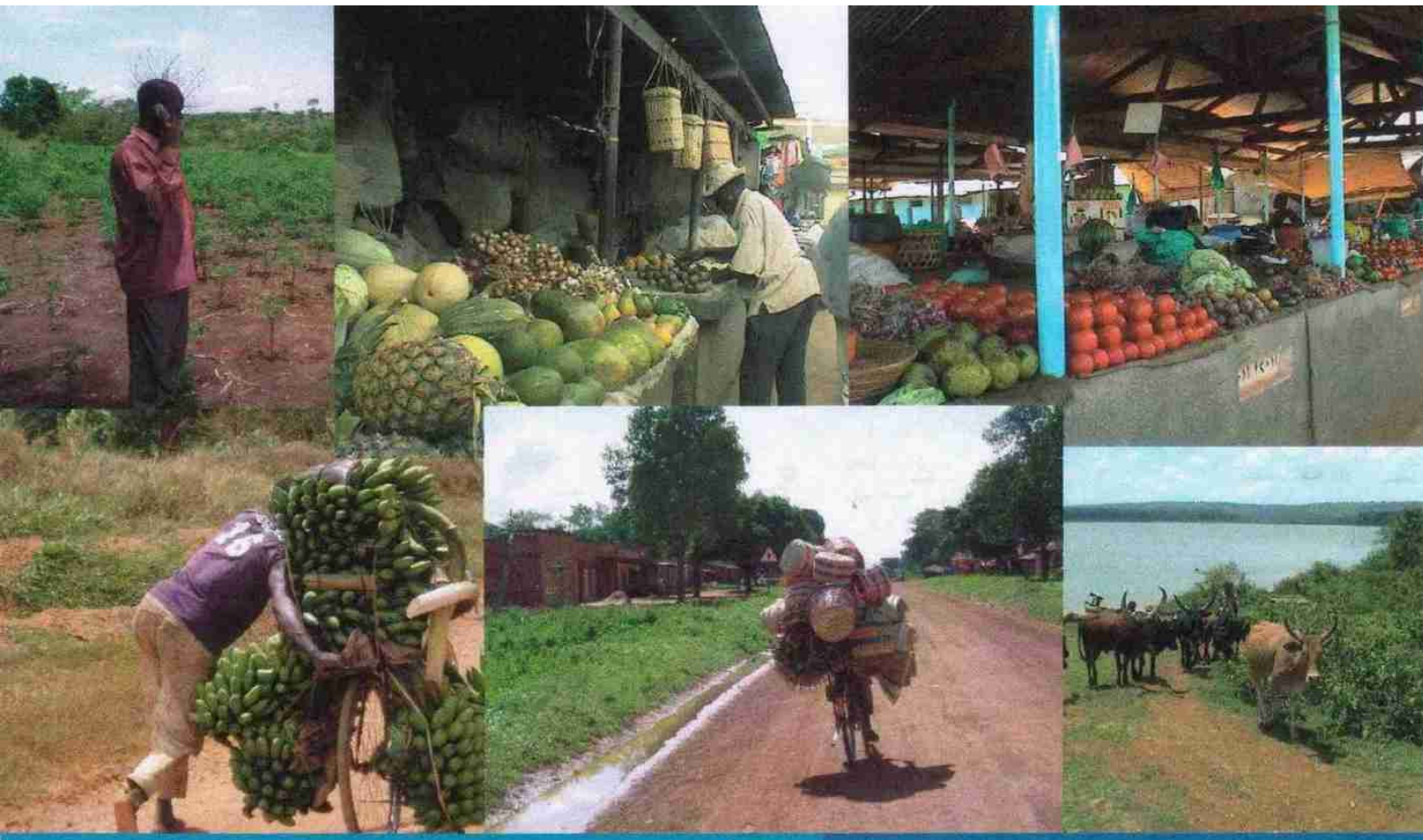

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Disclaimer

The views in this paper either is the authors' or derived from interviews with key informants and stakeholders and are not necessarily endorsed or shared by the International labour Organisation (ILO) or the British Department For International Development (DFID) as donor.

Foreword

The Business Services Market Development Project Uganda (BSMD) addressed the core economic problem of weak business linkages and helped to embed micro and small enterprises (MSEs), and smallholder farmers within, rather than be excluded from, markets. BSMD activities were focused around the establishment and development of supply chains. The project was initiated and financed by the British Department For International Development (DFID) and managed by the International Labour Organisation (ILO). It was implemented between September 2002 and November 2005.

BSMD undertook action research activities as well as specific studies to identify constraints that prevent the establishment of supply chains in Uganda. Based on the outcomes it developed alternative services and delivery mechanisms that addressed some of the identified constraints. It also promoted and demonstrated the benefits of effective and focused supply chains. This work has been documented and published extensively and can be found on the Internet at www.bsmd.or.ug.

This paper aims to provoke a discussion on private sector development and in particular on business services and its delivery mechanisms. The document is based on the experiences and observations of BSMD as well as discussions held with project partners and others working in the agro business sector in Uganda.

Acknowledgement

I would like to thank all the people that contributed directly to this paper and those that in one way or another were involved in the BSMD Project. They collectively provided the in-depth insights in the micro and small enterprise development area and the agro business sector in Uganda, on which this document is based. Their advice and information, experiences and skills shared are greatly appreciated. Michael Kairumba, Gavin Anderson, Jim Tanburn, Adrian Stone and others in the DFID and ILO team contributed substantially to the overall direction and implementation of the project. Special thanks to Sarah Kasozi for handling the project administration and her organisational support. Special thanks also to Sanjay Kumar, Fred Zake, Rita Ojok, Paschal Nyabuntu, James Ssemwanga, Regina Kamuhanda, Rosie Sexton, Marshall Bear, Richard Goldman, Claire McGuigan, Sarah Nambasa, Monica Twesiime, Daniel Musiitwa, Charles Ntale, Enoth Mbeine, Robert Kintu, Gerrit Ribbink, and others who undertook the research commissioned by the project and contributed to the seminars that have been organised. The advice and knowledge shared by those from donor and development agencies has been very useful. Last but not least, I would like to thank specifically Amin Shivji, Andrew Walter, Wayne Barrett, Sonia Mwadime, Moses Wanume, Alex Musoke, Grace Rukuba, Ronald Byamaka and all those other farmers, traders, processors and retailers who are running their private businesses and were willing to contribute to the pilot and research activities. Their willingness to contribute and share experiences, ideas and skills has been invaluable for the project.

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BSMD Project Manager

1 Introduction

This paper aims to stimulate debate on how to support the private sector more effectively and sustainably. In particular, it aims at provoking discussions on how to stimulate the development of business services and delivery mechanisms that are commercially viable and beneficial to more Micro and Small Enterprises (MSEs) and smallholder farmers than the lucky few reached by conventional approaches.

This paper is a synthesis of the experiences, lessons learned and the observations of the Business Services Market Development Project Uganda (BSMD). It also incorporates the outcomes of the many discussions held with project partners, people from the private sector, government, donor, development agencies and others working in the agro business sector in Uganda.

1.1 Background

The overall development of the private sector in Uganda is slow and the outreach of support programmes has been limited. The private sector is seen as the engine of growth for Uganda's economy. Micro and small businesses[1], including smallholder farmers, in the agricultural sector have an important role to play in achieving the Government's Poverty Eradication Action Plan (PEAP) targets. The Government, together with donors and development agencies, provides substantial support to enhance productivity, competitiveness and incomes in order to uplift these sectors.

Over the last ten years, donor agencies that have supported small enterprise development recognised the importance of Business Development Services (BDS) to help businesses to identify and exploit new market opportunities. Unfortunately, traditional development approaches to deliver BDS, for example subsidised training and consultancy services, have been characterised by low outreach and low sustainability. In response, the Committee of Donor Agencies for Small Enterprise Development prepared new Guiding Principles in 2001[2]. These emphasised the importance of facilitating the development of commercial service markets. It was envisaged that commercialisation of BDS provision, would improve the effectiveness and efficiency of service delivery. This in turn would boost the sustainability and the numbers of businesses that could be supported. The practical implementation of this paradigm shift in BDS support has proved more difficult than anticipated and it

Business Development Services (BDS)

This paper does not look at financial services; rather it focuses on the non-financial services, usually referred to as **Business Development Services (BDS)**.

BDS is broadly defined. It can, however, be divided into **strategic support,** such as consultancy, training and business plan development, and **operational support** such as transport, advertising and accounting. Services such as the ones mentioned above can be provided on a **stand-alone** and **for-fee** basis.

There is however also a lot advice, information, technology, etc., provided alongside or within normal business transactions. These are then referred to as **embedded services**. Chapter 3 looks at these terms in more detail.

[1] In this paper, micro and small businesses or MSEs include also the smallholder farmers.
[2] Committee of Donor Agencies for Small Enterprise Development, February 2001, Business Development Services For Small Enterprises: Guiding Principles for Donor Intervention

was in this light that the Business Service Market Development Project Uganda (BSMD) was launched in 2002.

1.2 The BSMD Project

During BSMD's inception period, a project strategy was developed based on an assessment of the agro business sector and the support provided. It was decided to focus on the establishment and development of supply chains as they provide a channel through which a variety of business services are or could be routed. Micro and small businesses learn most about all possible aspects of how to run a business from their customers, their suppliers, their business acquaintances and others they have to deal with to manage their business. It was anticipated that measures to strengthen business relationships within supply chains would stimulate the mutual beneficial sharing of knowledge, skills, technology and information among the business partners along the supply chain.

Supply Chains

Supply chains are the subsequent businesses from input suppliers to the consumers, which could include the input suppliers, producers, traders, processors, wholesalers, exporters and retailers. There are many other terms used in the literature like production-to-market chain or value chain. In addition, the term network is sometimes used instead of chain. In this paper, "**supply chain**" or the "**chain**" has been adopted.

BSMD undertook a number of pilot and research activities to test this hypothesis, to analyse existing business practices and to identify business constraints and success factors. The supply chain model proved to be a highly useful tool to analyse and promote the development and delivery of critical business services in a commercially viable manner. The experiences have been documented extensively. These documents, as well as the tools and guidelines developed for the private sector and their supporting agencies, have been published and can be found on the project's web site, www.bsmd.or.ug.

1.3 Outline of this paper

The starting point of this paper is the micro and small enterprises and their growth strategies. In chapter two it is argued that most MSEs, based on their specific characteristics, current market forces and business trends, should specialise and link up to supply chains to grow their business. Chapter three looks at how MSEs mostly learn and receive business support: through their business contacts. These are provided as embedded services, are often vital for survival and growth and are provided in a commercially viable manner. However, in chapter four, it is argued that many businesses do not benefit as much as they probably could from these services because of weak business linkages. This is partly due to poor business behaviour and their opportunistic business approach. Moreover, there is a lack of understanding and specific skills to establish and develop strong and mutual beneficial business links. Chapter five deals with the prospects for stand-alone and for-fee BDS. It is suggested that the providers of those BDS should develop specific services to help businesses to establish and enhance supply chains. They only then, for example, can also provide extension services to MSEs through the lead firms of their supply chains. Those lead firms will also benefit from these services and they are more likely to have the cash available than the MSEs to pay for the services. The final chapter, chapter six, looks at what this all

means for development agencies, in particular their role and approaches. It is argued that they should help commercial BDS providers to upgrade existing and develop new services and delivery mechanisms. Development agencies therefore require focusing on systemic change. This involves taking a long-term perspective, a holistic view, coordinated approaches and a shift from an output-orientation towards an impact orientation.

2 Micro and small business growth strategies

Micro and small businesses develop more effectively if they specialise and link up to long lasting supply chains. Many businesses pursue generic growth while there are also alternative growth strategies such as an agency arrangement, franchising, and technology licensing. These growth strategies, and business formats, often suit better the specific situation, capacity and objective of micro and small business. These strategies are based on long-term business relationships. The businesses that join the partnership can therefore more easily invest their time and money in specific production and management systems to collaborate effectively to exploit market opportunities. Ultimately, this intensive (also referred to as vertical) strategy is less expensive, less risky and less time consuming than the extensive (or horizontal) strategy, whereby businesses take a more opportunistic attitude and operate on the spot markets. They have many loose contacts with low levels of planning and coordination, which makes the trading activities rather opportunistic and risky.

An intensive strategy does not mean relying on only one supplier, one buyer or engaging in only one supply chain. It requires managing and balancing out the risks and dependency against the number of trading partners that is being collaborated with. For the agro business sector, this might include choosing suppliers from different agro zones to limit seasonal fluctuation. Dealing with fewer partners provides the required room to develop strong relationships with a high level of communication and collaboration. This then allows for mutual planning of business activities, sharing of information, aligning technology and systems with one another, early identification of problems, timely responds to overcome those problems and, if required, to adjust business activities. Obviously, this will enhance efficiency, effectiveness, productivity and thus reduces uncertainties, risks and costs.

2.1 Uganda's market and supply situation

There are companies that have taken up intensive business strategies although the majority are still following the extensive strategy and operate purely on the spot markets in Uganda. It was found that businesses are able and willing to pursue intensive business strategies. BSMD's pilots and studies illustrated good examples. For instance, Mr. Wamala, Mr. Ssebugenyi and Mr. Kyakuwa are three of eight farmers

who closely work with and continuously supply Mr. Ronald Byamaka who operates a fresh fruits and vegetable stall at Nakesero market, a wet market in Kampala. Mr. Byamaka's customers appreciated his consistent supplies and many became regular customers. Mr. Byamaka therefore fairly well knows their requirements. To ensure his supply, he makes a production planning together with his suppliers, frequently checks their progress and in case of production problems helps to sort them out by, for example, involving an agronomist. Other businesses that employ intensive approaches are for example Paul Serumaga who rears the broilers for Ugachick, the largest poultry farm in Uganda, who is also outsourcing this activity to individual farmers[3]. Mr. Timothy Lwanga operates an outlet of MTN, a mobile phone company, under a franchise arrangement and Muwenzi Gad is one of the two licensed distributors for Unilever. A recent development intervention that seeks to develop such vertical relationships in a number of sub sectors in Uganda is the Business Linkages Programme implemented by Enterprise Uganda, a development agency.

Benefits for the businesses!

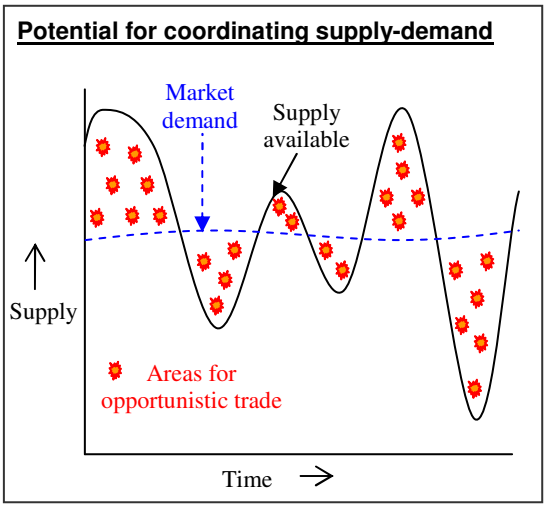
The businesses mentioned benefit in many ways, for example through improved supplies and inputs, training and extension services, marketing, market protections and some even enjoy a market guarantee.

2.1.1 Market preferences and requirements

Consumers want consistent supplies and prices of products. They therefore require stable availability, quality and price. In particular, retailers understand this and therefore prefer steady deliveries from their suppliers. Agro processors, like Dan Jakana, Director of Jakana Foods LLC, have invested in equipment and in order to utilise their facilities as effectively as possible they need consistent supplies. Of course, there are certain product and market developments and some seasonal influences but in general, it can be stated that the bulk of the market requires consistent deliveries. This is best achieved when sellers and buyers develop long-term business relationships and coordinate their activities.

In well-organised markets, there remains only a relatively small place for the more opportunistic businesses. These opportunistic businesses are important to buy the excess produce and fill the shortages of those who follow the intensive business approach but, for example, due to production problems had a supply gap. However, a recent study initiated by BSMD, covering 17 agro business sub sectors, revealed, "**most farmers still sell purely on the spot market with no prior agreement or contract**."[4] Therefore, the bulk of the supply, particularly in the wet markets, comes from opportunistic producers, traders and brokers that have an extensive sourcing strategy. Once traders receive an order they start searching for supplies or the other way around, when they come across produce they start searching for a buyer. This searching is costly and rather uncertain

Potential for coordinating supply-demand



[3] New Vision, 21 September 2005, "Ugachick starts contract chicken farmers' scheme"
[4] AT Uganda et al., May 2005, "Contract Template Field Study", BSMD consultancy report

because very little information is available and most producers have only small quantities of goods available. Quality issues are then put at a lower priority than finding a buyer or supplier. Consequently, losses are high as all sorts of false promises are being made and contracts are not being used[5]. The dotted line in the diagram represents the fairly consistent demand in quality, quantity and price. The curved line represents supply. By promoting intensive business strategies, this line is likely to be brought much closer to the demand line, which would reduce the areas for opportunistic trade and improve competitiveness of the chain.

Besides a consistent supply and price, **consumers also want to have more and more security**, particularly in international markets. Therefore, they want to know more about the product, the producers and their production processes. As a response to this, market players have developed a whole range of standards and certifications, for example HACCP, EUREPGAP, Organic and Fairtrade, ISO and the Fortified Food Label. These certificates, on the one hand, standardise products and processes to be able to achieve consistencies and to ease communication to consumers. On the other hand, they help to differentiate products in the marketplace and provide specific competitive advantages. As such, they serve as a marketing tool. The study on "Certification Mapping for Uganda[6]", which was commissioned by BSMD, provides a detailed insight into the advantages of certification, the relevant standards that need to be met and the certifying bodies for Uganda. Having one firm in a chain that is not certified makes the certification efforts of the others pointless, especially now when many of these certificates require traceability of the product. Certification leads to additional administrative and technical requirements. The costs are generally high and are not always covered by the prices that producers and traders get. The most cost effective manner to obtain the required certificates is where businesses work together to coordinate their activities and share the certification costs[7].

2.1.2 Supply constraints

BSMD found that **local and international markets are available but the supply is the major constraint, specifically the inconsistency and unreliability** in Uganda. Mr. Amin Shivji of Amfri Farms and Mr. Angello Ndyaguma, of Fruits of the Nile, both Directors of two of the major export companies of dried fruits, indicated that they were unable to meet current demand and are in the process of undertaking activities to increase their supply base[8]. Although these companies are very much willing to support their suppliers

Risks and requirements of international markets!

One leg of an insect and one piece of human hair was found in a consignment of dried fruits to the US. The produce was destroyed at the cost of the exporter and the buyer cancelled the order.

In international markets, suppliers need to meet the requested quality, safety, certifications, quantity and timely delivery, among other criteria. Failure on any of these parameters means not only the loss of the produce but also shouldering the costs for destruction or returning of the shipment. More importantly, however, is often the loss of a customer.

[5] AT Uganda et al., May 2005, "Contract Template Field Study", BSMD consultancy report
[6] Charles Walaga, September 2003, "Certification Mapping for Uganda", BSMD research report
[7] The lead firm, for example, might have the cash to pay the bill for certification and recoup part of those cost through increased turnover as market access might have increased. If necessary, the lead firm could further investigate possible price adjustments.
[8] Ribbink, Nyabuntu and Kumar, May 2005, "Successful Supply Chains in Uganda", BSMD consultancy report

to address issues like inconsistent quality and quantity they also face issues like short-term perspectives of producers and their reluctance to join efforts to supply the identified export markets. BSMD found that part of this reluctance stems from a lack of trust and opportunism. For example, many producers compare international prices with the price offered by exporters and feel that the exporters' prices are too low. They, however, seem to greatly underestimate the expertise required, the costs and the risks involved.

The supply challenge of Amfri Farms and Fruits of the Nile are, unfortunately, only two of the many examples in the fruit and vegetable sub sectors BSMD came across. Other examples are provided in the text box below.

Other examples of supply failures

- A small market for dried oyster mushrooms in the UK could not be supplied by Mycolex and its supply chain that was supported by BSMD;
- Ms. Helen Baguma, a local trader supplying supermarkets in Kampala, faces problems supplying Uchumi with dried mushrooms[9];
- Shoprite, who has a long term interest in Uganda, has to import some produce that could be, but is not, consistently available in Uganda[10];
- Apollo Kasozi, a fresh vegetable exporter started producing part of the required export quantity himself because his suppliers could not guarantee a consistent quality and quantity[11];
- An Iranian delegation visited Uganda in 2004 and placed an initial order of 40 metric tons of dried mushrooms from smallholder farmers in Jinja and Iganga District, which, up to today, was never supplied[12];
- Interfood Co, a gourmet coffee importer in Egypt confirmed a market for at least 200 metric tons per year of Ugandan origin but prefers to buy this volume of the London market rather than directly from Uganda because of lack of consistent supply[13].
- One mission to Egypt learned that Mufaddal Enterprises is very interested in buying tea from a Ugandan company. The Ugandan company response was very slow and after three weeks had still not sent a sample and the offer[14].

2.2 Micro and small business characteristics

Smaller businesses that have specialised generally operate more efficiently. These businesses supply a niche market or provide a particular product or service to a chain. They are able to utilise their resources more effectively and therefore have higher profits than the small businesses that try to do everything by themselves.

There are many steps, or functions, that need to be undertaken before a primary product reaches the consumers in the market: market research, marketing, distribution, packaging, product development, inputs sourcing, production, quality management, administration and overall management, just to name a few. Larger companies, who, in principle, could take up all these functions, because of their economies of scale, are however also keen to specialise on their core competence and outsource many,

[9] Nyabuntu and Kairumba, July 2005, "Establishing a Supply Chain for Dry Oyster Mushrooms", BSMD case study
[10] Bear and Goldman, May 2005, "Enhancing Local Sourcing of Fresh Fruit and Vegetables in Uganda's Domestic Market", BSMD consultancy report
[11] Kasozi, personal comment
[12] Lyagoba, personal comment
[13] Kumar, personal comment
[14] Kumar, personal comment

sometimes even important business functions such as product development, marketing, distribution and billing.

For micro and small businesses, it is clearly not the best and most efficient option to handle all production and business aspects in-house. Compared to larger businesses, it requires relatively more skills, equipment and stock for smaller businesses while production output is lower. Indeed, micro and small businesses that specialise depend on other companies but so are actually also the larger companies in supply chains that need to deliver the right product, in the right quantity at the right time to the market.

When the market requires a regular supply, as is mostly the case, it is worthwhile for the different companies to closely collaborate with each other and coordinate their planning, production and management systems. This is valid for local and national markets. It is of course also important when export markets are targeted because quality, quantity and other requirements are relatively higher. In addition, transport and communication are more expensive. All in all, the total amounts of money and the risks involved are relatively much higher for smaller businesses when they do not cooperate in utilising market opportunities.

2.3 Development agencies' perspectives

Many development agencies seem not to be aware of the implications of the market requirements on micro and small enterprises. Skills training are being provided to individuals or groups of farmers, for example on *how* to grow mushrooms. During such training, often very little or no attention is paid to input supply and marketing issues. Rarely do they involve the inputs suppliers and the buyers of the produce. Instead, support agencies promote the formation of producers groups to take on functions such as input provision and marketing. In doing so, they actually develop parallel systems and leave out those existing businesses that have specialised expertise in those functions.

Eliminating the middleman & traders!

Often an argument is presented that by removing the middlemen the farmer or producer can capture the price differential. However, this is more often than not an unsubstantiated premise. Traders and middlemen are fulfilling highly specialised and resource consuming functions in the market, including innovations in sourcing, bulking and marketing of produce, that other players either would prefer not to undertake or are incapable of undertaking. Either way they do play an important role that should not be underestimated.

Business training is provided on issues like bookkeeping, cost price calculation, marketing and business planning. Many of these courses are based on the assumption that the business will sell its products or services direct to the end users or consumers. They often omit issues related to business-to-business links, chain management, and alternative business formats and growth strategies.

BSMD undertook a survey on agro business support in October-November 2005. Twenty questionnaires were sent out targeting key Small Enterprise Development (SED) agencies in the agro sector. Fifteen of them were returned and valid[15]. The survey showed that thirteen out of fifteen organisations (87%) have specific programmes

[15] Although the sample of the survey is small, the message distilled from it is clear and indicative that this is the trend.

focusing on business growth. Eleven (73%) of them stated that they address issues related to supply chain development. Nine (60%) of them promote growth strategies that imply business linkages in a supply chain context. However, only four organisations (27%) work with all partners in the chain: input suppliers, farmers, service providers and local traders or other marketers. This means that although supply chain related activities are undertaken by these organisations, very few are actually working with commercial stakeholders in the chain other than farmers or producers. Further, most of the organisations do have production and marketing related activities, however, the emphasis of their support is on production. Ten of the fifteen organisations (67%) state that production and securing supplies is more of a problem than identifying markets and all organisations work directly or indirectly with potential producers. Only eight organisations (53%) work with potential buyers, local traders, processors or exporters. Out of those eight organisations, only three (38%) have a specific skills upgrading intervention for local traders, while one of them happens to also support interventions that effectively will bypass local traders.

Consumers prefer a consistent supply of goods and increasingly demand security and information about the product and production processes. While many firms have responded to this by introducing certification systems and by linking up with suppliers and buyers, most MSEs in Uganda still operate in an unplanned, solitary and highly opportunistic manner. They seek to exploit emerging opportunities that provide direct benefits; take on a wide range of jobs and activities; and have a short-term perspective.

Interestingly, and in addition to the above situation, it seems that many support agencies have not yet been able to respond to the changing market requirements and incorporate business linkage issues into their support services.

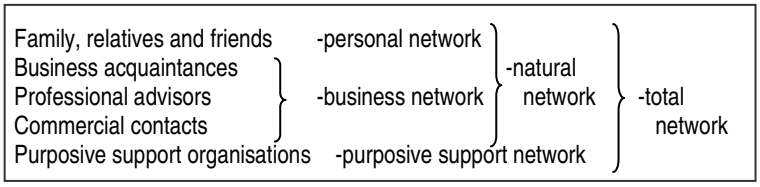
3 Embedded services

Micro and small enterprises can easily access business support through embedded services, if they have long-lasting relationships with their suppliers and buyers. Where businesses are collaborating, for example to target a specific market, they are most likely to support each other to maximise their own and collective benefits.

Support services are often defined in a very narrow way. Most people assume they only consist of those services provided by special Small Enterprise Development (SED) organisations such as government and development agencies, training institutions, consultancy firms, etc. Gibb, in his paper on Entrepreneurial Models of Support for Small Business calls this the purposive external (usually public) interventions, services or support[16]. For micro and small businesses, accessing those **purposive support services** is often only a last resort.

[16] Gibb, 1988, "Towards the Building of Entrepreneurial Models of Support for Small Business", Durham University Business School, Occasional Paper 9046

MSEs are part of already an existing **natural** network of commercial and voluntary support, which is defined as the network of contacts, individuals and organisations with which the MSEs normally deal. The natural network includes the **personal** network of close friends and family members, and more importantly, the **business** network of business acquaintances, professional advisors (such as bankers, lawyers, accountants, etc.) and commercial contacts with customers, suppliers, etc.



This natural network is essential for survival. It also embraces primary personal and institutional contacts, which vary in depth and intensity. Because of the overlap in personal and business life, there is also a high degree of integration of social and business contacts, which makes the natural network very complex. The **total** network of the MSEs comprises of both its purposive and natural networks.

The **embedded services** are those that derive from the business network. These services include for example business advice, market information, technology transfer and training. Businesses provided these services both to their customers and to their suppliers and are part and parcel of their normal business transactions. They are made available because the businesses that are offering these embedded services gain direct commercial benefits. These customer services and suppliers' support have proven to be highly viable and effective. Embedded services are often provided in a rather ad hoc and informal manner but larger companies sometimes do have policies that are more formal and might have specific training or guidelines for their employees on these issues.

3.1 Embedded services in Uganda

The development of embedded services is not promoted by development agencies and in many cases, even hampered due to the direct provision of subsidised services. BSMD commissioned the Daily Monitor, a newspaper in Uganda, to profile companies that provide embedded services to their customers or suppliers. A series of 30 articles of different cases were published in the Money Monitor, a previous insert of the Daily Monitor, between March 2004 and February 2005. A synthesis of those articles clearly showed the existence of these embedded services in Uganda[17].

Examples of embedded services in Uganda published in the Money Monitor

- Importer/distributor providing staff training of veterinary drug supply stores to give advice to customers.
- Input supplier providing training to farmers in better farming techniques, storage and post harvesting techniques.
- Seed supplier developing, importing and selling unique varieties of seeds to enable customers to reach export markets, improve quality and increase product diversification.
- Buyer providing inputs on credit and product buy-back schemes for farmers
- Buyer providing product information and training in business skills to suppliers.
- Trader providing suppliers with product feedback from the end users.
- Buyer undertaking farmer mobilization, providing training and consultancy services through extension workers,

[17] BSMD, March 2004, "Business to Business Services: Synthesis of Money Monitor Articles", synthesis report

BSMD's pilot activities, as well as the different studies, showed also that businesses are able and willing to support their suppliers. Mycolex, the exporter of dried oyster mushrooms for example gave highly valuable technical support to farmers, the producer of the gardens[18] and the processor. However, this was often provided at informal meetings and in a haphazard manner[19]. Amfri Farms, the exporter of dried fruits developed a technology-licensing package for rural enterprises to establish a fruit-drying unit. The exporter was to provide a guaranteed market and offered a premium price, organic certification for the processor and the out growers, quality control manuals and training, and extension services[20]. BioFresh, the export company that linked up with the mango farmers in Iganga proposed to provide training, extension services and organic certification as part of the long-term deal[21]. The study investigating the local sourcing practices of larger companies came across various traders and retailers offering embedded services to their suppliers[22]. In addition, the analysis of Successful Supply Chains revealed that part of the success of their businesses lay in the strong long-term relationships they had with their suppliers and that a range of support was provided to them[23].

The synthesis of Business to Businesses Services articles of the Money Monitor found that the underlying reason for offering embedded services by the commercial enterprises interviewed was to increase their share of the market. The businesses therefore, on the one hand see the provision of services as a marketing strategy to enhance their business relationship with existing clients so that they keep coming back and to attract new customers. On the other hand, by securing the quality and quantity of the needed supply, processing and trading businesses are able to offer services that are more reliable to their customers. This enhances trustworthiness, which opens new business opportunities for them. The specific reasons mentioned in the articles are developing export markets, improve quality and quantity and to attract new customers, among others. The text box contains more examples. [24]

Reasons for offering business services

- To develop an export market for goods that can be grown locally, for example mushrooms.
- To improve the product quality and quantity.
- To encourage customers to buy their products, and therefore increase demand.
- To encourage product diversification and therefore develop a wider market for selling goods.
- To secure their customers, their suppliers and their market, and thereby sustain their business.
- To ensure long term supply of goods.
- To increase the price that can be obtained for the products.

3.2 Development agencies' perspective

Most development agencies underestimate the importance and potential of embedded services and mainly concentrate their activities on the development and

[18] The gardens are the bags with the substrate and spawn on which the mushrooms grow.
[19] Nyabuntu and Kairumba, July 2005, "Establishing a Supply Chain for Dry Oyster Mushrooms", BSMD case study
[20] Kumar, May 2005, "Technology Licensing: Securing a supply base", BSMD case study.
[21] Kumar, November 2004, "Linking Smallholder Farmers to Markets", BSMD case study.
[22] Bear and Goldman, May 2005, "Enhancing Local Sourcing of Fresh Fruit and Vegetables in Uganda's Domestic Market", BSMD consultancy report
[23] Ribbink, Nyabuntu and Kumar, May 2005, "Successful Supply Chains in Uganda", BSMD consultancy report
[24] BSMD, March 2004, "Business to Business Services: Synthesis of Money Monitor Articles", synthesis report

delivery of BDS that are provided on a "stand-alone" and "for-fee" basis: consultancy, advisory, training, information services, etc. They are encouraging the *purposive* BDS providers[25] to commercialise their service products by directly charging the full cost. However, most of these BDS providers are struggling and subsidies remain high. BSMD's survey on agro business support (Oct.-Nov. 2005) found that fourteen out of fifteen organisations (93%) provide subsidies to deliver BDS. Nine out of thirteen organisations (69%) provide 50% or more subsidy and their average subsidy is about 74%. It should however be noted that this does not mean that BDS customers pay the remaining (26%) as some do access additional subsidies from other sources.

When *purposive* BDS providers lose their subsidies, they often need to scale up their services and offer them to medium and large enterprises that have more financial resources available to pay. This then leaves again the micro and small businesses un-served. Therefore, the traditional approach employed by development agencies: to subsidise the development and introduction of stand-alone and for-fee services can be questioned, as this approach seems to fail to achieve the objectives of development organisations to increase the outreach of business services and to support the poor.

From the synthesis of Business to Businesses Services articles of the Money Monitor, it also became clear that development agencies are providing highly subsidized BDS that are similar to and targeting the same businesses as those that are being provided with embedded services by the private sector in a sustainable manner. The synthesis therefore concluded that development agencies are discouraging, rather than encouraging, businesses from providing these services[26].

Development jargon

Many development agencies use jargon that is not widely used and understood by the private sector. And the other way around: The private sector is using terms that are not understood by development agencies. For example, in a meeting held in August 2005 for agencies involved in business support, a representative of the BUDS, a cost-sharing grant scheme stated, "less then 100 BDS providers responded to a call in the newspapers for BDS Providers to register with the grant scheme and almost all of those who did register were based in Kampala". This however is not surprising, as most businesses that provide services in the private sector do not call themselves BDS providers. They primarily are the buyers or suppliers and call their advice customer services or supplier support. Others are the professional advisors, for example accounting or marketing firms who take over specific tasks of a business and while doing so, provide some good and useful advice. As a result, most potential service providers do not benefit from support to upgrade their services.

BSMD's agro business support survey (Oct-Nov. 2005) confirmed that many development agencies do not support the further development of embedded services that is provided sustainably by the private sector. Most organizations asked, eleven (73%), believe that less then 25% of the businesses in Uganda provide embedded services and the other four organizations (27%) stated that between 25%-75% of the businesses provide embedded services. However, almost all organizations (93%) consider embedded services to be very useful or useful. Unfortunately, and surprisingly, only four organisations (27%) support input suppliers and only two organisations (13%) support marketing companies. No organisation in the survey supports any other potential professional service provider that could become an important service provider.

[25] As defined in chapter 3: special Small Enterprise Development (SED) organisations such as government and development agencies, training institutions, consultancy firms, etc.
[26] BSMD, March 2004, "Business to Business Services: Synthesis of Money Monitor Articles", synthesis report

From the results of the survey and the anecdote in the text box above, it seems that the working definitions of development agencies maybe too narrow to fully exploit and effectively target the capacity of the private sector towards developing and promoting business support.

While embedded services are provided in a commercially viable manner and are often similar to the BDS supported by development agencies, very little is known about these embedded services and little targeted support is provided to develop them. Embedded services come from the complex and informal business network of the MSEs, which might be one of the reasons that make it difficult for development agencies to understand and utilise existing business systems and capacities to develop appropriate services for MSEs. Moreover, development agencies are not part of the natural network and often have the ambition of developing and delivering high quality services that are beyond the needs, ability and willingness to pay of the MSEs.

It is evident that embedded services are not fully understood, appreciated, supported and promoted in the private as well as in the development sector. A more extensive understanding of these embedded services and their providers would greatly help to analyse further what services are provided, when services are provided and their largely informal delivery mechanisms. Development agencies would then be in a position to assess the importance of embedded services for their specific target groups and decide whether to facilitate their further development and delivery.

4 Underlying business constraints

Business linkages in Uganda are weak. The opportunistic business approach used by most agro businesses undermines the development of trust and reliability as well as the necessary practices to develop intensive and lasting business relationships. Micro and small businesses can grow only when they understand and access markets effectively. They therefore need systems that help them to receive accurate and up-to-date market information, to improve their skills and to upgrade their technology. As pointed out earlier, these services are or can be provided as embedded services but only when businesses have strong and lasting business relationships. This requires businesses people to be honest, transparent and willing and able to communicate effectively. It further also requires mutual investments and appreciation of long-term benefits. Moreover, businesses have to be able to rely on and trust each other.

4.1 Business Behaviour

Poor business behaviour has a detrimental impact on business opportunities. BSMD's experiences of poor business behaviour and its impact on business opportunities were most evident during a pilot in developing a supply chain for dried oyster mushrooms[27]. The businesses involved made promises they could not fulfil; did not inform each other sufficiently about their operation and facilities; did not inform

[27] Nyabuntu and Kairumba, July 2005, "Establishing a Supply Chain for Dry Oyster Mushrooms", BSMD case study

each other in time about problems that occurred and that effected the operations of others and; some participants had multiple and conflicting interests that were concealed. As a result, problems cropped up that sparked off conflicts, mutual trust could not be built, and they collectively missed a profitable business opportunity.

Unfortunately, this experience is not exceptional. The case studies recorded during the field study on the development of a contract template "were filled with bad stories of producers who were cheated when buyers disappeared with their hard earned products."[28] On the other hand, BSMD met many buyers, like Apollo Kasozi, a fresh fruits and vegetable exporter, who had been disappointed by their suppliers because of poor quality, unmet quantities or delayed deliveries. The over 30 participating companies, private sector representatives and supporting agencies that were involved in the development of the Agro Trading Principles all had experienced similar mishaps in the agro business sector.

Key findings from the grounding study for Agro Trading Principles[29] showed that: there was a growing consensus within the agro industry that the business culture and current trading practices are unsustainable and costly for all players and; there was widespread interest in creating a set of business-to-business 'trading principles' around which to build greater trust between businesses in the sector. Based on the study and subsequent consultative meetings with many representatives of business and support agency, a framework of agro trading principles was developed by BSMD and its partners[30].

4.2 Supply chain management systems

Very little is known by businesses and business advisors as regards the systems that need to be put in place to develop successful supply chains. Specifically, there is a clear lack of supply chain development and management skills. BSMD's pilots in the dried oyster mushrooms, the dried fruits and the mangoes supply chains revealed many key questions that need to be addressed, for example:

- How does an enterprise **identify and select a partner**?
  - Where to find a suitable partner?
  - What selection criteria are to be used?
- How to **communicate**?
  - By phone, e-mail, face-to-face meetings?
  - Are written and standard documents required, for example, purchase order, delivery notes, and receipts?
- How to **plan and coordinate production**?
  - Who should take the initiative, the buyer, the producer or any other partner?
  - How to adjust effectively to changes?
- How to manage **quality and other specific market requirements**?
  - How to translate the market requirements into minimum standards for inputs, production processes and products?

[28] AT Uganda et al., May 2005, "Contract Template Field Study", BSMD consultancy report
[29] McGuigan et al, April 2005, " Developing and Promoting Trading Principles for the Ugandan Agro Business Sector"
[30] For further information and materials on this issue see BSMD webpage: http://www.bsmd.or.ug/agro_trading.htm

    - How to measure quality and manage it effectively across the chain?
- Who organises and pays for **transport and other services** required in the chain?
    - Is the supplier to deliver the goods, are they being collected or can this be outsourced to a transport company?
    - Who is to pay for this?
- What **prices** to pay and how to reach consensus between the businesses?
    - What are the production costs of the different businesses?
    - How are the investments and the risks of each business in the chain dealt with?
    - What is a fair and viable price for the goods at each stage of the chain?
    - What pricing mechanism can be adopted to cope with changes in market prices?
- How to do **financial transactions**?
    - Cash, cheques or bank transfers?
    - Advance payments, on delivery or after?
- What are the **legal requirements**?
    - Do the business partners have to be registered?
    - Are individual contracts required or is a Memorandum of Understanding sufficient? Who can draft one of these?

The consultants, employed by BSMD to guide the businesses in their effort to develop their supply chains, tackled the issues above together with the business involved. The results were mixed. The partners and consultants had neither straightforward solutions nor practical examples or frameworks to guide in handling these issues. More disappointing however was that some of the advisors with specific expertise could not provide appropriate support. For example, two professional business consultants struggled to develop templates and model business plans. Further, an experienced financial advisor was not able to prepare understandable financial forecasts of different business options and the subsequent financial statements for the businesses in a chain. None of the local business consultants BSMD has met had practical experience in supply chain development.

4.3 Development agencies' perspectives

Development agencies have neglected to address business behaviour issues and little specific support is provided to improve supply chains, their systems and management. Support is mainly concentrated on individual businesses and their internal operational and management systems. Entrepreneurship and business courses, provided by many organisations, cover issues like business planning, marketing and financial management. Technical training is mostly concentrated around building businesses' own production capacity and upgrading technologies. NAADS, APEP, PIMSAT and many other support programs provide marketing support to individual businesses and groups of producers by providing market information, through group formation and facilitating market linkages. The approaches and systems taught and used are mainly addressing internal operational issues. As mentioned earlier, BSMD agro business survey revealed that although 73% of the development agencies indicated that they address supply chain or business linkages issues, only 27% of them work with the different business in a supply chain and no specific programme or systematic support is known of which helps and includes all businesses in a chain to establish or develop their entire supply chain.

Development agencies are under huge pressure from donors to deliver outputs quickly, often within three to five-year project horizons. This is mostly in terms of numbers of households or individuals served by a particular development project. Working with individual businesses and measuring their improvements is an easier and quicker way to deliver verifiable results than working with a number of businesses that depend on each other in a supply chain. Experiences from the JOBS Project in Bangladesh and elsewhere have shown that supply chain development can easily take up to five years or more. Similarly, establishing a change in business behaviour is a long-term process that is difficult to manage and measure. BSMD's initiative to develop and promote model contracts and agro trading principles surprised many development agencies, including those that collaborated. All however found it a very helpful initiative, which BSMD's partners are now successfully taking forward. The importance and use of the contracts and agro trading principles emerged as key business constraints in the agro sector only after two years of work. It then took about half a year to develop the tools. BSMD's project timeframe was three years and the time remaining was too short to fully promote the implementation of the tools and to monitor impact.

Illustrative example

"It is a lot of work and takes a long time to sort out market opportunities and to develop a relationship with potential suppliers"

EarthOil visited Uganda for the first time in 2003 to participate in the "Meet the Buyer" event that was organised by BSMD. The many people who had planted moringa and were not able to sell any of the products struck them. Earthoil decided to undertake a market research and developed a processing procedure to extract the oil from the seeds. About two years later, they started buying the first moringa seeds from Uganda. By the end of 2005, they will have sourced about 90,000 metric tons and new contracts have been signed for the delivery of 280 metric tons. This new contract will benefit an estimated 10,000 farmers in the Northern and Western parts of Uganda.

While most small agro business support is aimed at poverty reduction, commercialisation of farming, business growth and increasing competitiveness, **critical issues like business behaviour and supply chain development are omitted.** Poor business behaviour is clearly hampering the development of business linkages. Specific practical expertise and support to develop supply chains is not available. Both issues require development processes and thus considerable time, which is often not provided by development agencies.

Instead, support available is mainly based on conventional approaches that assist individual businesses or production groups. This can easily promote the success of the individual business or production group at the expense of other businesses in or related to the chain. Moreover, vertical integration of businesses is not promoted in a focused and systemic manner. Businesses continue with their opportunistic approaches, which causes unnecessary loss of business opportunities for micro and small businesses. It is evident that this is contributing to the instability of supplies and the high transaction costs in the agro sector in Uganda.

It is difficult for individual businesses to compete with each other and certainly for small businesses to compete with larger ones. Efficiency gains, and therefore competitiveness, can be achieved most effectively within chains. There is therefore a need to develop tools, models and a business culture that helps businesses to build long lasting and market oriented business linkages.

5 Prospects for stand-alone and for-fee BDS

There is a place in the market for commercially viable stand-alone and for-fee Business Development Services (BDS) but they should be packaged and targeted better. Stand-alone and for-fee BDS include for example entrepreneurship and business courses, skills development training, product development, production enhancement, market development and also information, advisory and consultancy services related to financial, tax and legal issues, food safety and hygiene, certification, and of course support to develop supply chains. As discussed in chapter three, the more specialised purposive BDS providers often offer these services.

5.1 BDS markets

The market for for-fee BDS is constrained in the micro and small enterprise sector while there is a perceived huge need for support. Micro and small enterprises have limited resources. The costs of BDS, such as training and advisory services are high: Fees for those services are often equal to or more than a micro and small business' monthly income, which normally ranges between UShs 50,000 and UShs 500,000. For example, the Private Sector Promotion Centres that were set-up with donor support have been privatised recently. One of those centres is Pricon Private Sector Development and Consultancy Centre in Fort Portal. Their price list includes various computer application courses that cost between UShs 30,000 and UShs 50,000; four-days customised businesses courses at UShs 200,000 and for business plan preparation is UShs 200,000 charged. This situation is similar in developed countries: For example, in the UK, most small businesses have a net profit of £1250 to £1650 per month while a consultancy service costs about £350 per day. One day of support therefore costs 21% to 28% of a monthly net profit[31].

Purchasing information, training, advisory or other services are also rather risky because the fees have to be paid in advance and the businesses are not sure whether it will be able to recoup its investment[32]. This is partly because information about the services available and their benefits is scarce. A further complication related to this is that businesses find it difficult to diagnose correctly what support they need[33] and most businesses expect donors to pay the full, or at least part, of the cost as they are continuously doing this.

Most staff at development agencies has no experience in running a business of any size and they operate as civil servants. They apparently have not realised the constraints indicated above and seem unable to put themselves in the position of a businessperson who owns a micro or small business. The main question therefore is: How to package and sell business development services in such a way that micro and small businesses will benefit from it, are affordable and thus can become commercially viable?

[31] Imani UK, personal comment
[32] Tanburn and Kamuhunda, September 2005, "Making service Markets Work For the Poor: …", BSMD consultancy report
[33] Moto, PSFU, personal comment and Byaruhanga, Uganda Gatsby Trust, personal comment

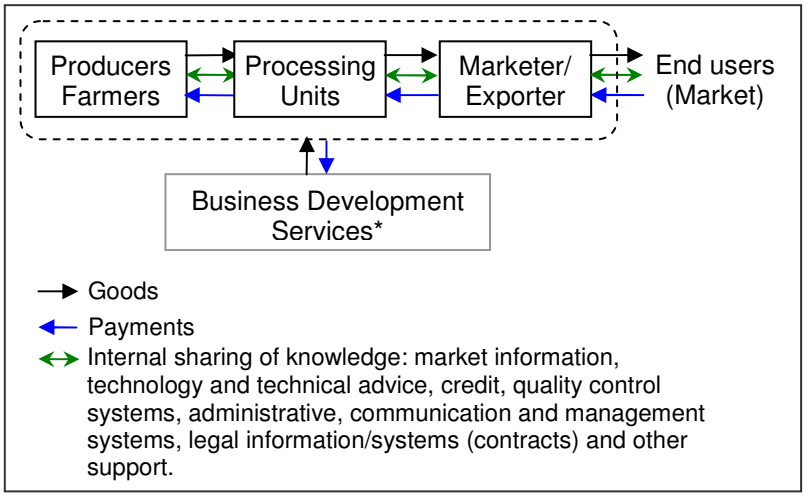
5.1.1 Conventional approach

Business development services are mostly offered directly to individual micro and small businesses or to groups. However, as stated earlier, those businesses normally do not have the cash available to pay the full costs of the BDS. High subsidies are therefore continuously required and provided but subsidies and the programmes that provide them have limited funds and timeframes. They also come with application and selection procedures that are costly and time-consuming. Moreover, as recognised by the donor community, the outreach and sustainability of BDS that depend on subsidies are relatively low.

In order to sell BDS, providers, for example, have started offering their services in modules (sachets) to break up the total cost and thus the payments in smaller amounts. They also offer their services to groups to spread the costs over more businesses. Although this has worked partly, for example for the generic training courses, many customer tailored services cannot be offered in such a way.

5.1.2 Possible alternative approach

Business development services can reach and benefit micro and small businesses and still become commercially viable if they are offered to and provided through the lead companies of supply chains. For instance, instead of offering extension services direct to a farmer or a farmers' group, the advisor could approach their produce buyers, exporters or agro processors. The offer then could be, "I can help to improve your business by increasing the quality and quantity of your supplies." In practice, the extension service will mainly remain the same: helping farmers to increase the quality and quantity of their produce, except that in this case there is an existing and strong market link.



The BDS provided will be more targeted and effective. It will benefit the client of the service, in this case the buyer, because of increased consistency, quality, quantity and efficiency. In this way, the cost of the services can be recouped. The suppliers will benefit because the BDS will be more relevant and better focused towards the market requirements, thus positively affect the product price, the volume or both. In addition, the farmers supported are more likely to apply what was taught as they have a ready buyer who paid for the service, which also will further strengthen their business relationship. The BDS provider will benefit from the increased effectiveness as the cost-benefit of these services are likely to become more evident, which will make it easier to sell the service again.

An illustrative example that also demonstrates the extent of this approach is Microcare, a private company providing health insurances that is pushing its services towards the low end of the market, including micro and small businesses. They need to double their client base to become commercially viable and have therefore started offering health insurances through larger companies like tea plantations to reach not only their workers but also their out growers and their families.[34] This will benefit all parties as Microcare more easily reaches larger numbers of customers; the tea plantations offer, besides of the common extension services, etc., a new service to their suppliers that will ultimately improve the access to supplies; and the smallholder farmers get access to a new service, which ultimately benefit their businesses as it covers an important personal risk that can greatly effect their business operations. Payments could be handled through deductions from deliveries and the price of the service could be negotiated according to the number of clients reached and, for example, the availability of a health services at the plantations.

5.1.3 Product range

BDS providers could expand their product range by providing services that support all issues around the development of supply chains. Specifically, BDS providers could specialise in process management of supply chain development. For example, as indicated in chapter four, behavioural issues and supply chain development aspects are currently being omitted. These issues can be addressed through training, consultancy or counselling. Guidelines and templates can be developed that could be used directly by the business or by BDS providers. An example here is the model contract that was developed by BSMD in collaboration with a number of development agencies and a law firm. This contract is now published in the form of a notepad and available in the markets as a "Sale Agreement"[35]. Another example is the Agro Trading Principles that have been developed with the support of representatives of the private sector, their associations and support agencies[36]. This product has been published as an insert in the national newspaper and is available from the collaborating organisations. The Agro Trading Principles and the Sale Agreement can be adopted and adapted by companies for their supply chain or by associations for their members. Other system issues that need to be addressed are quality management, legal framework, production and planning, financial systems, among others.

Facilitating development

Rather than providing contracting or contract management services, BSMD developed a Model Sale Agreement that was missing in the market. The Sale Agreement has been printed in a pad and is now available in the bookshops. BSMD therefore facilitated the development of:

- a new product for a publisher,
- a new tool for input suppliers, farmers, traders and others in the agro-business sector,
- a template that can be adapted to specific products, sectors or companies, which is a new service that could be offered by BDS providers.

BSMD did not compete in the market but created a business opportunity for publishers and the BDS providers to reach many of their clientele.

[34] Tanburn and Kamuhunda, September 2005, "Making service Markets Work For the Poor: The experience of Uganda", BSMD consultancy report. Also Muhame, Microcare, personal comment
[35] See BSMD's webpage for documents and materials related to the Sale Agreement: http://www.bsmd.or/model_contract.htm
[36] See BSMD's webpage for documents and materials related to the Agro Trading Principles: http://www.bsmd.or/agro_trading.htm

BDS providers could develop BDS related to the development and provision of embedded services. New BDS could be developed that help companies to develop and improve their customer services or suppliers support. For example, support to importers of drugs for livestock to develop product information in various local languages that can be printed on the packaging materials or on leaflets, flyers or posters or even published on a web site. Support could also be offered to develop customised instructions, newsletters or training programmes that companies can offer to their retail outlets. This could include specific product and service information such as specifications, application, dosing and safety and health issues. Other issues that could be addressed are customer care, and business skills.

BDS providers could expand their client base by assisting professional advisors to adapt their services to the MSE market. For example, MSE experts could help marketing companies or accountancy firms to scale down their services to suit the specific needs of MSEs.

As information and support provided by companies through their customer services efforts could be seen as biased, support agencies could develop company and product comparisons that help customers to make better-informed decisions. This could also be done for the BDS providers' own services: What services are offered? Who are they for? What do they cost? How good are those services? This type of information could be published in a monthly magazine, on the Internet or other medium.

BDS Information

Several projects like BUDS and SPEED or organisations like the Uganda Export Promotion Board developed databases of consultants and other service providers. However, these databases have not been published and are only made available on request.

5.2 Development agencies perspective

Development agencies should focus more on developing new and innovative services and their delivery mechanisms than subsidising more of the same existing services. BSMD's agro business survey showed that out of the fifteen development organisations that responded, thirteen (87%) have a Research and Development department or component. Out of these, all thirteen indicate that they undertake specific activities to develop or facilitate the development of BDS, while seven organisations (47%) develop or facilitate the development of agro sector policy. In terms of budgets, most of the organisations have set aside allocations of approximately twenty eight percent of their total resources for their research and development component. Two organisations stated to have substantially more resources available for research and development activities, 80% and 95% respectively. One of them is however based on rather conventional approaches and delivery mechanisms while the second one is more innovative and is seeking new training approaches and support delivery. As already stated earlier, no organisation supports the development of services of professional service providers, such as accounting, marketing or law firms, that are potentially important service provider.

The micro and small businesses sector offers huge opportunities for growth of commercially viable BDS. However, alternative products and delivery mechanisms need to be developed. This means, for example, that BDS providers need to distinguish between their clients and beneficiaries. They then can package their services that target MSEs better and offer them to lead firms in supply chains, which are better able to pay. BDS providers could also support marketing firms, lawyers, accountancy firms and many others to adapt their products and improve their services. They then could develop the demand for their BDS and at the same time many MSE could benefit indirectly. Development agencies could support those initiatives, as they are risky, costly and might require specific skills and technical support that BDS providers might not yet have.

6 Shifting development efforts towards systemic change

Development agencies should aim more at systemic change to achieve sustainable impact. This requires a clarification of the roles between development agencies and that of the private sector. It also requires developing a long-term perspective, maintaining a holistic view with coordinated efforts and a shift of orientation amongst development agencies from output to impact.

6.1 Role of development agencies

The role of development agencies in the agro business sector is to facilitate the development of the sector as a whole. By doing so, development agencies should be careful not to take over specific roles of the private sector. However, there is no clear and agreed policy. Development agencies too often decide to provide a service themselves when it seems more difficult and time consuming to identify and support potential private sector partners to deliver that service. However, should a development agency provide a standard training course, business advice, equipment and other inputs, brokering and trading services or business information? If so, are they then not taking potential business opportunities away from existing private training institutions, consultancy firms, input suppliers, retailers, traders, brokers, marketers or sometimes even exporters, and the media? Are these organisations not part and parcel of the sector and the system that they are helping to develop? What are development agencies doing to build the capacities of these existing private sector

Business taken away from the private sector

- Development agencies are providing business and skills training, services that are also provided by local training institutions and freelance consultants.
- Development agencies are providing marketing services that are also provided by Ugandan marketing companies.
- Africare, a development agency has taking on the role of a broker or trader by linking potato farmers to Nandos, a fast food restaurant in Kampala.
- Two development agencies, APEP and ASPS, are supporting Mukwano Industries, one of the largest agro processing company in Uganda to build stores where farmers can deliver their produce directly. It is hoped that the management of the stores can be passed over to farmers, thus taking away the role or potential role of traders. The project did not study whether the performance of the traders could be improved: It is assumed that the farmers can learn the required skills in the very short project timeframe and that this is cheaper and more efficient than working with traders.
- A large relief organisation, the World Food Programme, has built stores in West Nile in an effort to purchase produce directly from farmers and therefore increase their incomes. Also here traders are bypassed in the hope that farmers perform this task better.

players? What is their exit strategy? It has often been argued that service providers are not available or that they cannot provide the services at the desired quality level. Development organisations however often seem to lack the time, the mandate or the capacity to scan the market to identify a potential collaborator in the private sector or another support organisation that could help. All development interventions cause a certain degree of **market distortion,** positively but also negatively. It is the responsibility of the development agencies to maximise the positive impact and limit as much as possible the negative impact. BSMD's experience is that development agencies all too often fail to invest sufficient time and resources to gain an in-depth understanding of the sector and the service markets where they intervene.

Long-term subsidised service provision is discouraging the private sector from developing and providing services. The articles published in the Money Monitor in 2002-2003 demonstrated that many private companies in one way or another support their suppliers and their buyers. BSMD's pilot in the mushroom and dried fruit supply chain clearly demonstrated that the exporting companies involved were able and willing to provide support to each other. BioFresh, the export company that linked up with the farmers group in Iganga to market their mangoes, hesitated and kept postponing the provision of the promised support for various reasons. One of the reasons was because they had earlier been assisted by DED, a German development agency, who provided training free of charge. BioFresh had hoped that BSMD or another organisation would do likewise. In addition, Enterprise Uganda offered the farmers group to pay for an extension worker and EPOPA, a development programme, who had approved to support the organic certification for other sourcing activities of BioFresh, was also expected to cover the cost for the organic certification in Iganga. Because of this, BioFresh kept delaying decisions in the hope of future subsidies. The two other problems were that they, as a young company, had very limited financial resources and secondly, communication with the farmers was very difficult: Specifically, BioFresh could not get hold of the farmers and several meetings were cancelled. On the other hand, the farmers complained that they did not hear from BioFresh and they felt that they were left in limbo, not knowing what was going to happen and what to do next. At this point it is worth mentioning that an initial estimate of the costs for developing the farmers' capacity to produce the mangoes, would require perhaps USD 15,000, which is about 2% of the total cost of trade, which was estimated at USD 730,000. However, by the end of the first year of exporting, that would have turned into a gross profit of USD 145,000.[37]

The experience above shows that despite the ongoing direct subsidies and delivery of subsidised services to the private sector, many micro and small businesses that need support most, cannot be reached. It has been argued that more funds and projects are needed but BSMD's experience shows that more of the same support is not likely to be effective. If development agencies aim **to achieve sustainable impact and outreach then they need to adopt strategies that focus more at systemic change**. Specifically, development agencies should concentrate more on the development, testing and promotion of improved market-oriented systems, tools and approaches that enable firms to access the support they need to improve their businesses. The ultimate purpose would

[37] Kumar, November 2004, "Linking Smallholder Farmers to Markets", BSMD case study. Mwadime, BioFresh, personal comment and Kumar, personal comment

be, for example, to develop methods, standards and guidelines that the private sector can use and adapt to continue and repeat proven services and approaches profitably.

An illustrative example may be the identification of a market for cardamom by APEP for one Ugandan exporter. This helped one company only. The long-term objective of development agencies, however, is to develop market access approaches that potentially can help to build the capacity of many more companies to identify their own markets without external support. BSMD's guideline, "Access to Markets through Long Term Business Partnerships" is a new approach based on the experience gained to identify a market for fresh mangoes for the Fruit and Tubers Farmers Group mentioned earlier[38]. Doing business: developing products, exploring market opportunities, production, providing business services, etc, is in principle the task of the private sector. Development agencies should help companies to undertake this task themselves more effectively.

6.2 Long term perspective

Development agencies should consider their long-term perspective right from the design stage of the intervention. In other words, what will happen after the project? BSMD's purpose was initially stated to develop more effective markets for business services. Developing a viable and commercial BDS market however depends a lot on the profitability of the private sector. Only when potential BDS clients have sufficient cash available, facilitating the development of commercial for-fee BDS can probably be done on a fairly predictable basis. This would make project targets more clear, achievable, and relevant to the private sector and to development objectives. However, a profitable and well functioning micro and small business sector is clearly not the case in Uganda. Therefore, the purpose of immediately pursuing activities to develop commercial BDS markets in a relatively short time frame, say two to three years for a project, is probably more ambitious than realistic. BSMD's experience indicates that the shift from a highly subsidised business service market towards a well functioning, vibrant and commercially sustainable business service market requires addressing the fundamental constraints in the existing functioning of the private sector first. Alternative approaches and "smart solutions" need to be developed. BSMD pursued a clear and conscious focus on supply chains and the embedded services that come with them. It has become clear that supply chains can provide an opportunity to boost efficiencies and competitiveness and that the embedded services are a substitute for many of the currently highly subsidised BDS. A better-organised private sector and increased profitability will subsequently provide room for activities towards developing and commercialising BDS, for example, contract templates or the Agro Trading Principles, which are aimed at enhancing self-regulation within sub-sectors. Therefore, a relatively short and flexible project like BSMD was instrumental to identify specific defects in existing systems and develop potential tools and approaches to address them. However, three years is too short to also measure a substantial impact. Follow-up activities are required either by other development agencies or through a new initiative.

[38] Kumar, October 2004, "Access to Markets through Long Term Business Partnerships", BSMD guidelines.

A medium to long-term time frame is needed for practical as well as strategic reasons, especially in the agro business sector; because it takes time to establish a project and to become familiar with sector actors including the service providers. After the intervention, it further also takes time to be able to measure impact at business and household levels. For example, it takes 18 months to grow a pineapple and to harvest the first mangoes takes three years. Developing business opportunities with the required supplier and buyer relationships too require substantial time. EarthOil participated in the "Meet the Buyers" event in 2003. It was their first visit to Uganda. They placed their first orders after about two years, in 2005[39]. These are minimum timeframes to see how a supply chain can be established but for optimizing and measuring, any type of impact more time will be required. As mentioned in paragraph 4.3, it has become clear that setting up a supply chain can take up to five years or longer. Strategically, a medium to long-term project will allow for a more nuanced understanding of the existing market systems and discovery of constraints and defects in both business operations and service markets so as to develop a coherent and pragmatic approach that addresses those issues. It will also allow time to develop, test and promote specific BDS products that address the constraints and to move towards full commercialisation and embedding of these services in existing market systems.

Moreover, where mechanisms or a change in practice and behaviour is required, which is normally the case; experience from social interventions suggests impact that is more positive after a fairly long and sustained engagement with beneficiaries. For example, programmes addressing HIV/AIDS and child labour issues are long-term interventions. Achieving sustainable changes takes time and medium to long-term projects would allow for not only the delivery of relevant and practical outputs but also the sustainable adoption of new approaches.

Overall, it can be said that **projects with a long-term perspective are in a better position to address critical constraints that result in systemic changes. They are also in a better position to achieve sustainable impact. Short-term projects usually are limited to the facilitation or direct delivery of business services. They are more or less forced to be output-oriented.** This, in the end, through multiple projects and extensions, could stifle the adoption of those services by the private sector.

6.3 Holistic view and coordinated approaches

Project interventions are more effective if they focus on specific issues but it is essential that they maintain a holistic perspective. More recently, the emergence of the Making Markets Work for the Poor (MMW4P) framework helps development agencies to take a much more holistic perspective. Development agencies can choose to work within a specific sector or to focus on cross cutting issues. Project activities should however not restrict the development of services that require a broader scope. In other words, projects should be able to cope with market dynamics and focus on the commercial viability of the services developed. For example, broadcasting price information through commercial radio stations might not be viable in itself while a business programme covering a wider range of business topics, including price information, might be feasible.

[39] Barrett, Eartoil, personal comment

Achieving systemic changes in a large sector such as the agro business sector requires coordinated efforts and agreed approaches between the development agencies. To achieve a systemic change will depend on the collective interventions of development agencies and the Government as well as the overall economic development of Uganda and international trends. Regarding international trade, there is a strong worldwide trend in supply chain development, which cannot be ignored and can possibly speed up the development in Uganda.

As already indicated above, development initiatives can easily undermine the initiatives of the private sector but it can also undermine the efforts of other development agencies. Within Uganda, there has been an effort to coordinate the development efforts of non-financial business services through the BDS Coordination Group. Not all players participated and although this was a relatively small group, they have not been able to pursue a common approach to offering development support. As a result micro and small agro businesses are being approached by different support organisations with conflicting practices. This leaves the businesses confused on what to do. In contrast to the micro finance sector where there is greater consensus on international best practices and where coordination is stronger, the BDS sector has achieved less impact.

Some examples

- Development agencies that buy airtime from radio stations to air pre-recorded programmes undermines the capacity building work of the media by FIT-SEMA
- A development agency provided subsidies for skills training and equipment and by doing so undermined BSMD's pilot activities in developing a mushroom supply chain.

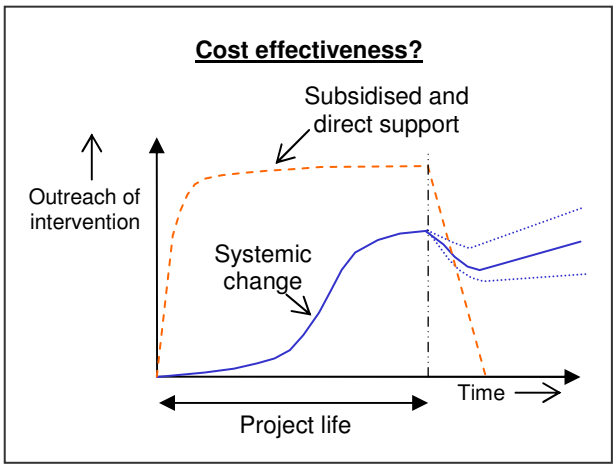
Micro and small agro businesses are facing a wide range of challenges and are being influenced by a wide range of individuals and organisations: agriculture and private sector development agencies, micro finance institutions, local and national government, private sector organisations, business acquaintances and partners, media, transport, health, education, etc. This is opposed to the 'compartmentalised' interventions that seem to fit the implementing organisation's structure, departments, etc. Development agencies should however take into account these influences and the development efforts in other sectors. Moreover, as recommended by Tanburn and Kamuhanda[40], **development agencies should make an effort to collaborate and learn from those in other sectors, as some have been more successful than others have**.

6.4 Output or impact

The focus of project evaluations should shift from an output-orientation towards an impact-orientation. This is, as discussed above, because output-orientation tends to push implementation towards achieving short-term objectives, rather than impact-orientation, which is more long-term. Achieving quick results is however, what donors want. They still are eager to hear and refer to the number of businesses supported and the increased turnover and profitability of those businesses. However, in practice, the outreach remains relatively small when compared to the often reported 800,000 micro and small businesses in Uganda, the 1.8 million households that operate a micro

[40] Tanburn and Kamuhunda, September 2005, "Making service Markets Work For the Poor: The experience of Uganda", BSMD consultancy report.

"household enterprise" or the about 3.8 million households engaged in agricultural activities[41].



The graph is adopted from Gavin Anderson[42] and shows the outreach of project interventions against time. The dotted line represents the provision of direct and subsidised services while the other line represents an effort to achieve systemic change. The main question is which approach is more cost effective and has a greater impact? Attempts to achieve quick results have turned out not to be successful in the long term and even hamper efforts to achieve systemic change in the sector. Moreover, for market development projects, the range of outputs reflected in the log frame at the beginning of the project may not necessarily reflect those outputs critical for developing a market. Critical constraints to the efficient functioning of the market might emerge as the project progresses.

Measuring impact is much more complicated than measuring outputs. Specifically, impact evaluations need to address issues like attribution. Impact also often only emerges towards the very end of a project or even after the project has ceased. This requires a special provision in terms of availability of resources to undertake those impact assessments.

BSMD developed a monitoring and evaluation system for supply chain development interventions[43]. It can be used to measure individual business performance, household income and supply chain efficiency. The impact of supply chain interventions will most probably include improved farm-level production; an increased stability in household incomes due to stronger linkages, better knowledge of and response to market requirements; a stronger focus on improving productivity 'end-to-end' or 'farmer-to-market', increased supply chain efficiencies, long-term market-orientation within the private sector both in perception and practice; and a business service sector responding to activities from these supply chains and therefore better targeted. All this is contributing to business growth and increased competitiveness. Methods of measuring these impacts from this approach are still at an early stage. During the ILO's BDS conference in Turin in September 2005, agencies were suggesting that impact assessment for each individual activity is probably not achievable and that a coordinated effort among donors would be required.

Tackling the impact assessment issue could be part of the tasks of the BDS Coordination Group and, besides of the need to clarify the roles between development agencies and that of the private sector, developing a long-term perspective and promoting a holistic view, another argument to revive their coordinating efforts.

[41] See e.g. UBOS, www.ubos.org
[42] Anderson, various presentation
[43] Nyabuntu, July 2004, "Monitoring and Evaluating Agro-Chains", BSMD guideline.

This paper is based on the experiences and observations of the BSMD project and in the first chapters business practices, market requirements, business support and the micro and small businesses characteristics were presented and analysed. The closing chapter concentrated on issues related to development support. It was found that:

The agro business sector could develop more vigorously if it would adjust its mode of operations towards market requirements, its own business characteristics and long-term objectives. In other words, the sector would become more competitive if the mainly micro and small businesses in the sector would organise their operations through supply chains. This would enhance their market orientation and suit better their capacity and characteristics. The agro business sector is largely informal and unorganised. Businesses tend to work in isolation, doing all activities required to access inputs and markets themselves. There seems to be relatively little planning and coordination between the different players. Products are mainly traded on the spot market and the risks and losses appear to be substantial. The related transaction cost and the lack of collaboration are therefore stifling the growth and competitiveness of the sector.

There is a need for a more coherent, focused and coordinated support from development agencies. Specifically, support and development approaches should be appropriate, consistent and complementary. They need to be based on, utilise and strengthen the already existing capacities and systems in the commercial sector. The agro business sector is relatively big and important for the development of Uganda. It is heavily supported in many different ways and by many different organisations and initiatives. In spite of all the policies developed, coordinating efforts and projects implemented many agro businesses and in particular, smallholder farmers have not been able to benefit from this support and still live below the poverty level.

It was argued that **development agencies should aim more at systemic change to achieve sustainable impact**. This requires a clarification of the roles between development agencies and the private sector. It also requires developing a long-term perspective, maintaining a holistic view with coordinated efforts and a shift of orientation amongst development agencies from output to impact.