

Developing Commercial Markets for Business Development Services: Pioneering Systemic Approaches

Final report of the 5th BDS Seminar

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Chiang Mai (Thailand) and Bangladesh

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Any suggestions for, and comments on, the format and content of this report will be much appreciated and can be sent to: Jim Tanburn: jim@tanburn.com and Peter Tomlinson: sme@itcilo.it

This report reflects the interpretations of the author and does not necessarily reflect the views of the International Labour Office and Seminar presenters. Any remaining errors are the author's alone.

Foreword

The Annual BDS Seminar has become the leading opportunity for updating and networking in the field of business development services (BDS). The 650 people who attended the five Seminars organized since 2000 came from almost 100 different countries. Whereas the previous Seminars were held at the ILO International Training Centre in Turin, this year's 5th event was organized in northern Thailand with a study tour of BDS projects in Bangladesh.

The 4th Seminar looked back on how the field had developed and reassessed the validity of the guiding principles of BDS market development. This year, the focus was on the implementation of that approach and on commercial market development. The 5th Seminar discussed how research and analysis can help design activities in the field, how facilitation can build supply chains for embedded services, and how SMEs can be linked to market systems. Other major areas of discussion were intervention in weaker, rural markets, and reaching the poor.

These issues, and more, were addressed by 29 speakers who shared experience from Africa, Asia and Latin America over the five Seminar days. Each day ended with small discussion groups on specific topics that gave the floor to individual concerns and in-depth information.

This BDS Seminar Summary reflects the presentations and discussions of the Seminar. It goes along with the two Seminar Readers, "The Primer" and "The Update", the speakers' presentations and accompanying background papers – all of which are available at: <http://learning.itcilo.it/bdsseminar/> and <http://bdsknowledge.org/>. Together, these documents provide a comprehensive summary of the latest BDS thinking.

As Seminar directors, we would like to thank the very many people who contributed to the success of the 2004 Seminar. We sincerely encourage past participants and new readers to attend the 2005 Seminar to nurture, continue and enhance BDS learning. For more information, please access the Seminar website or e-mail us:

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Abbreviations

AMAP	Accelerated Microenterprise Advancement Project
BDS	Business Development Services
CIEM	Central Institute of Economic Management
DFID	Department for International Development
EAGA	East African Growers
ECDI	Entrepreneurship and Career Development Institute
EMC	Electro-Magnetic Compatibility
EMG	Emerging Markets Group
GTZ	German Agency for Technical Co-operation
IDEI	International Development Enterprises India
IFC	International Finance Corporation
ILO	International Labour Office
ITC-ILO	International Labour Office International Training Centre
KIS	Knowledge, Information and Skills
MA	Market Assessment
MSE	Micro and Small Enterprises
OTOP	One-Tambol One-Product
PSD	Private Sector Development
PDF	Project Development Facility
PPP	Public Private Partnership
SEED	As for IFP/SEED
SIYB	Start and Improve Your Business
SME	Small and Medium Enterprises
USAID	US Agency for International Development

Summary Guide

The BDS Seminar Summary has two parts. The first part briefly mentions the subjects of the presentations in chronological order. Subject presentations are numbered and linked, so that readers can easily skip to the part of most interest to them. The second part presents summaries of the presentations and lists the main points that came out of the daily discussion groups with a ♦. Throughout the report, participants' remarks are given in the following format:

“I have become a regular costumer of the Seminar and again this year feel very challenged by the proposed discussion themes.”

PART 1

The Programme

Monday

1. Christine Evans-Klock, director of the ILO Sub-Regional Office for East Asia, officially opened the Seminar and welcomed all participants on the first day. She emphasised that the issues that were on the agenda for the rest of the week were really the issues dominating the ILO agenda and the general development debate. Key topics were poverty reduction, good governance and private sector development, concerning all of which BDS markets had an important role to play. It was emphasised that BDS practitioners, in particular, were committed to really sharing knowledge, and to striving for impact. She expected that this year's Seminar would contribute to bolstering those traits.
2. Peter Tomlinson, one of the two Seminar directors, then introduced the BDS Seminar team, explained the objectives, organisation and rules of the Seminar, and pinpointed the (1) [Emerging Questions](#). The other Seminar director, Jim Tanburn, further prepared the participants for the (2) [Seminar Discussions](#) that were to come.
3. After the break, Alexandra Overy Miehlabradt explained the latest edition of the (3) [Seminar Reader](#) and illustrated the different chapters with BDS intervention examples from all over the world. Rob Hitchins from the Springfield Centre presented the main conclusions of a recent DFID study on BDS in (4) [Weaker Markets and Rural Areas](#), one of the major themes of the Seminar.
4. The afternoon presented three different cases of researching BDS markets. Alexandra Overy Miehlabradt, chairing that session, briefly mentioned the main (5) [Trends in Market Assessment](#) before Perveen Shaikh presented the case of ECDI from Pakistan, that illustrated how to use market (6) [Assessment for Program Design](#). Gabrielle Trah and Shawn Cunningham from GTZ shared the experience of a profound and (7) [Upfront Assessment](#) in South Africa, whereas Peter Roggekamp gave an example of more iterative market research done by Katalyst in Bangladesh and presented the lessons learned from (8) [Sub-Sector Assessment](#).

Tuesday

5. The second day began with feedback on the first round of discussion groups on Monday afternoon by Jim Tanburn. All morning presentations were about delivering business development services to small enterprises in rural areas. The first set of presentations was chaired by Katherine McKee. Shivani Manaktala showed how IDE India worked to integrate smallholder farmers into market systems through intervention in the (9) [Technology Supply Chain](#). Michael Kairumba from Uganda presented the experience of Business Services Market Development in linking small agro-producers to the (10) [Agro Export Chain](#) by facilitating the subcontracting of production tasks.
6. Peter Tomlinson presented the next set of speakers. Muli Musinga and Nipul Dodhia from Kenya gave another African example, and talked about supply chain interventions by Kenya BDS. They explained how Kenya BDS had facilitated (11) [Backwards Linkages](#) from a lead firm. The case of Agropyme in Honduras was presented by Iván Rodríguez; it showed how donor intervention

could link rural producers to increasingly demanding (12) [Domestic Agro Chains](#).

7. After lunch, professor Lue Chai Chulasai of the SME Institute of Chiang Mai University introduced the speakers who represented SME from Chiang Mai. All three had survived the economic crisis and had managed to be competitive in global markets. First, Narongsak Phajharoen of King Collection showed how they improved market access for handicraft SME by providing (13) [Research and Design Services](#) through a government programme. Saipin Vanichmongkol showed how a family company had managed to establish itself in the highly (14) [Competitive Market](#) of home decoration. Napong Sngnuannaporn of Lanna Wooden Products then gave an account of a firsthand (15) [Public Private Partnership Experience](#) for SME development in Northern Thailand.

Wednesday

8. As usual, the day began with discussion group feedback after which the speakers were introduced by Jim Tomecko. Chotiawutti Innadda from the Thai Department of Industrial Promotion picked up where the discussion had left off the day before, and elaborated on (16) [Public Private Partnership Policy](#) and SME network promotion. Nguyen Dinh Cung from Viet Nam kept the focus on East Asia and demonstrated the importance of (17) [Regulatory Reforms](#) for BDS market development.
9. After the break, more attention was paid to embedded services in supply chains in an industrially focused session chaired by Peter Tomlinson. Armin Sethna from World Education South Africa told how Ntinga Link was (18) [Strengthening Embedded Services](#) in the construction sector. Prashant Rana and Sadruddin Imran from Bangladesh clarified how Katalyst was (19) [Building on Embedded Services](#) in several sub-sectors.
10. The afternoon session, chaired by Peter Bissegger, set out the donor perspective on BDS. Per Dans from the Swedish development cooperation organisation, Sida, described how private sector development was becoming a cross-cutting issue. He presented the main findings from a policy document, “Making Markets Work for the Poor”, that made (20) [Pro Poor Growth](#) a cornerstone of poverty alleviation. Leila Webster from the SME department of the World Bank Group closed the plenary session by explaining the project development facilities of the IFC, and how these were strengthening (21) [Training, Consultancy and Linkages](#).

Thursday

11. The fourth day again began with feedback on the discussion groups. Gabrielle Trah introduced the first speaker, Peter Bissegger from Swisscontact, Indonesia, who talked about their efforts to develop markets for (22) [Credit-related Services](#). Linda Jones of MEDA then informed the participants of the results of an Internet discussion about reaching (23) [Low-income Women](#) with enterprise development services.

12. Katherine McKee introduced Karin Reinprecht of the Austrian Development Cooperation organisation, who put the emphasis on (24) [Cultural and Social Context](#) and systems in developing service markets. The rest of the day was largely devoted to the mass media and their role in BDS markets. Owen Kibenge and Gavin Anderson from FIT SEMA explained how (25) [FM Radio](#) played an important role in small enterprise development.
13. After lunch, Jim Tanburn introduced Tapera Muzira from the ILO, who further elaborated on mass media and explained how they had used (26) [Radio, Internet and Newspapers](#) to promote BDS in Zambia and Zimbabwe. Bunhom Chhorn shared the experience from FIT Cambodia of raising the awareness of rural enterprises through (27) [Comedy](#). Karl-Oskar Olming from ILO Sri Lanka closed the day with a presentation on the intervention strategy to improve (28) [Delivery Systems](#) for SIYB training.

Friday

14. The last Seminar day started off with feedback on the discussion groups by Jim Tanburn, who then invited Katherine McKee to give a (29) [Personal Overview](#) of the Seminar, in which she shared her perspectives on the issues that had surfaced during the week. After that, Aly Miehlabradt guided the participants through the BDS website, which was now entering its second year. She explained what one could expect to find and how to search. In the final session, Jim Tanburn made more comments on the themes of the week, stressing the diversity of issues, and encouraged people to keep sending information in for the BDS website. He also mentioned forthcoming BDS events. Peter Tomlinson made the closing remarks, acknowledging the work of all the support staff, and officially ended the Fifth Annual BDS Seminar.

PART 2

The Discussions

1. Emerging Questions

15. Peter Tomlinson, one of the Seminar Directors and head of the Enterprise Development Programme of the International Training Centre of the ILO, explained the purpose of the Seminar. The aim was to bring people together and encourage learning, the sharing of experience and new approaches, and facilitate networking. He pinpointed emerging questions that had come to the fore during a series of BDS courses. The participants were stimulated to think about the following issues:

- The need for market research was now widely accepted, but how should the results be applied to product design?
- How to design, position and bundle BDS in weak markets.
- What would be an ideal time-frame for facilitators? When should they withdraw?
- How could success stories be built into large-scale sustainable BDS projects?
- How to reach the poor with commercial BDS.
- Although subsidies were not encouraged, could they, in certain situations, play an effective role in BDS market development?
- How to demonstrate that BDS market development contributes to overall development goals.
- How to mesh BDS market development with good practice and methodology in other fields.

Finally, Mr. Tomlinson referred to the new BDS website and related sites.

2. Seminar Discussions

16. Jim Tanburn, the other Seminar Director and senior specialist on small enterprise development, outlined the composition of the participants, which was diverse and international, with more Asians than in former years, logically. The Seminar was primarily meant to provide a platform for those already working in BDS. However, some participants were new to the field, and for them a special tutorial discussion group was being organised. The presentations were to have an open character, sharing failures and mistakes, and Jim Tanburn gave an overview of the themes for the week.

17. One of the themes was the applicability of the BDS market development approach to other development fields. BDS market development had been controversial, because it dealt with developing whole systems instead of helping some beneficiaries. Today, more and more development fields were moving towards such a systemic approach, one that revolved around the question of how market systems can reach out to the poor. A book by Prahalad¹ was the proof of that growing trend: it perceived poor people as viable consumers and pleaded for systemic change to existing business models. Although that approach has been the foundation of BDS thinking for many years now, practitioners have not

¹ http://www.economist.com/people/PrinterFriendly.cfm?Story_ID=3104498

received the credit for their pioneering role in developing whole markets. Hence, a central issue would be how BDS practitioners can better “mainstream” their knowledge into other fields and apply their experience of market development and building on what is already there, to other fields.

18. Another issue was the development of weak markets in rural areas: how to learn from other fields and how other fields could learn from BDS. A block of presentations would address intervention in agricultural BDS markets, dealing with issues like the role of supermarkets and certification. Also, the link with other stakeholders such as governments would be discussed, with examples from Thailand and Viet Nam. Often, facilitation referred to interfacing between small enterprises and large administrations like governments, bridging the cultural gap between the two. The market was one system for that, but there were other communication systems. Those cultural systems would be the focus of another presentation. As in previous years, market research would be an important issue. Several presentations were expected on reaching rural markets through mass media. Then the rationale and perceptions of BDS from the donor perspective would be dealt with by the IFC and Sida. From the other side of the BDS market, a panel of Chiang Mai business women and men would share their experience of growing from small to medium-sized enterprises and describe what the role of the Thai government had been. Jim Tanburn ended by inviting the participants to suggest topics of particular interest for the discussion groups.

3. Seminar Reader

19. Aly Miehlsbradt presented the Seminar Reader. The Reader consists of two parts, the BDS Primer and the BDS Update. The BDS Primer is meant for those who are new to the field. It presents the basic approach and concepts. The Update has 45 examples from around the world, and is a synthesis of the latest trends and innovations. She would highlight five of the seven trends that were in the Update, with examples that would complement the other presentations.
20. Converging systemic approaches. Private sector development and rural development were converging in the approach of looking for systemic change with the involvement of the private sector. Crucial issues were the broadness of programmes and the trade-off between short-term results and systemic change. An example of relatively quick systemic change being achieved was SDCAsia in the Philippines, which had facilitated an existing relationship between an agribusiness and micro-farmers. Through strengthening business links amongst themselves and with larger enterprises, capacity-building, and the promotion of embedded and fee-based BDS, micro-producers had gained improved access to value markets. Systemic change was seen in the fact that the micro-producers could meet international standards, were bringing in new services and payment schemes, moving into other crops, and were resilient to market change.
21. Reaching the poor. The Triple Trust Organization in South Africa had been working with small retail shops in poor urban areas. It had strengthened the links with business partners, enhanced embedded services and developed an association of those small retail shops. The supply of inputs had been more efficient, they had addressed security issues, and advice had been given in stock management. Another example was EDA in India, which targeted micro-

entrepreneurs in the footwear industry, providing services to both micro-enterprises such as leather producers and business development service providers. There were several advantages in receiving BDS from fellow producers, like sharing the same culture.

22. Business services and delivery models. There was a great similarity between different countries when developing BDS markets in similar sectors. The role of corporations as service providers was increasing, and in many countries state-provided services were being privatised. There was an increasing effort to facilitate groupings of enterprises to become BDS providers. Amongst the main queries related to delivery models were the bargaining power of the poor in commercial relations and whether the delivery of basic business training was a public or private affair. The example of a large trading firm, ITC, in India illustrated how corporations were increasingly becoming service providers to micro-enterprises. ITC provided community representatives with a computer and training, with which they could assess information on crop prices, inputs and technology. In doing so, transaction costs for both farmer and trading company had gone down, and production quality and quantity had improved. An example of service provision through associations came from Sri Lanka, where GTZ had strengthened nine providers, mostly chambers of commerce.
23. Interventions and programme management. There was more attention to the demand side of BDS markets. Better strategies had come up for attracting and selecting suppliers as partners, and for strengthening their capacity. Uncertainties persisted in what came first: intervention on the demand side or on the supply side, and which character requirements services should have in order to justify support. An example from Central America showed that demand and supply could be strengthened at the same time. GTZ had developed a regionally based website that linked demand and supply, but also held information that could strengthen the capacity of enterprises and service providers².
24. Performance assessment. Progress in this area was lagging behind the other areas mentioned before. Despite the interest from donors and practitioners in demonstrating the link between poverty alleviation and BDS market development, little had been done. The causal link is long, expensive and difficult, but the need was there to prove it and use the information for decision-making. A final example was the Aga Khan Foundation in Pakistan. It had been monitoring the market and its position, and had decided to redefine its own role and transform itself from provider into facilitator. Aly Miehlabradt ended her presentation by thanking everybody for their valuable contributions, which had made the Reader what it was.

4. Weaker Markets and Rural Areas

25. Rob Hitchens of the Springfield Centre presented a study prepared for the DFID on BDS markets in rural areas. The study, part of the DFID agenda to make markets work for the poor, is discussed in the Reader and available at <http://bdsknowledge.org>. They had collected and reviewed a large amount of

² www.infomipyme.com

material in order to come to grips with the significance of business services in rural areas, the relevance of those to other fields and to drawing inferences for the BDS market development approach. He reported three main findings.

26. BDS are a critical part of rural development, although often not acknowledged as such. Better access to BDS proved to be related to better profit levels and tended to link businesses to more complex markets. BDS in rural areas were often fragmented and hence less visible, but in essence were not really different from BDS as generally understood. Rural BDS reflected rural constraints. There was a fair overlap with other services like telecoms and transport. There were often basic services, provided by informal or small providers, and many related to sub-sector access. The embedded character was stressed and consumption was often via groups. He illustrated the diversity with examples from India, Zimbabwe, Mali and Nicaragua. He explained that the cause-effect relationship between weak service markets and most interventions was often conflicting. Service-related constraints were often key elements in economic weakness, invoking interventions that directly offer those services, but, in doing so, easily undermined rural commercial systems.
27. A second conclusion of the study was that market development had become imperative in other disciplines. There was an obvious trend in rural intervention to stimulate private-sector delivery of services, which was illustrated by a case from Mali. Services were considered important but service markets often had a history of disappointing public delivery that underlined a need for more systemic change. Rob Hitchens then called for realism about the limits of market development interventions, as one should differentiate between business development and social or environmental protection, and should be pragmatic about what interventions can achieve.
28. The third main issue concerned the implications of the study for the field as such. BDS were *part* of a conducive business environment, and sometimes using BDS terminology could close more doors than it would open. There was a need to move beyond the narrow BDS box. The value of BDS was really in its experience in making markets work for the poor, which was characterized by:
 - systemic views and objectives;
 - careful understanding of institutional contexts;
 - nuanced interpretation of different players;
 - explicit view of sustainability from the outset;
 - realistic market-appropriate solutions consistent with local norms and resources;
 - innovative, flexible interventions consistent with objectives.
29. The need to go broader, to mainstream with private sector development, was also an opportunity to play an influential role and apply specialised BDS techniques to other fields. However, attention should be paid to making “right size” interventions with market development objectives, in order to avoid talking the talk without walking the walk. Several characteristics of the gap between interventions and objectives, which hampered results, were mentioned. The need to engage broadly, constructively and urgently with other fields implied a pragmatic and creative analysis of economic systems involving the poor. In order to harness the dynamism of markets and promote inclusion and

opportunity rather than dependency, integration into private sector development was needed, as well as interaction with other fields, and interventions must be adaptable and flexible.

5. Trends in Market Assessment

30. Before introducing the speakers in the afternoon session, Aly Miehlabrad, who was chairing, highlighted the trends in market assessment. Although MA had not become much cheaper, or much faster, it had become more useful for programme design. Whereas before, market research started blank, without any bias, today it started with a more developed hypothesis, which enabled a better focus on the final goal. She also mentioned a broader understanding of what markets are, a more creative use of methodology, and a less rigid application of the steps to be taken. Market research was more mixed than before, assessing, planning and implementing at the same time. She pointed out that market assessment was more than data collection: it was also an opportunity to establish oneself as a facilitator and build relationships with market players. Before introducing the speakers, she mentioned some new resources for assessment: the SEEP practitioners' learning programme³, USAID's Accelerated Microenterprise Advancement Project (AMAP)⁴, and the BDS knowledge-sharing website⁵ covered over 70 market assessments that were available online.

6. Assessment for Programme Design

31. Perveen Shaikh gave an account of the experience of MEDA, a Canadian NGO, and the Entrepreneurship and Career Development Institute (ECDI) in Pakistan. The current programme had started after two and a half years of market research. Based on the results of a feasibility study, they decided to do market research on market contacts and product design in three sectors: garments, IT and handcrafts. The assessment had had three phases: they had started by interviewing the enterprises and the BDS providers, then had had focus group discussions with the BDS providers, and finally had organised marketing workshops with the BDS providers. They concluded that there was a niche market for hand-embroidery garments in urban centres and Middle Eastern countries. It found that the poor rural women were highly skilled, but did not have suitable designs. Rural embroiderers lacked mobility, were highly dependent on men who took their products to the local markets, were connected to few sales agents, who sold in low-value markets, and there was no mechanism for disseminating new designs and market information. This market assessment resulted in the design of a programme to train mobile women sales agents, a system that already existed but was found weak. The sales agents would improve the logistics and market information flows between urban buyers and

³ <http://www.seepnetwork.org/>

⁴ <http://www.povertytools.org/>

⁵ <http://bdsknowledge.org>

rural producers. The rural enterprises would have access to better designs and urban garment-makers would have access to quality embroideries that would give them access to higher-value markets.

32. The programme planned to train 60 sales agents, resulting in increased revenue for the rural embroidery enterprises. Flexibility had been crucial in the market assessment. For example, they had included enterprises that were not provisioned; they had combined the research with pilot interventions; and they had been open to discussion and comments. They had been working *with* existing cultural systems and had strengthened relationships. The emphasis they had put on mutual understanding and building trust through communication and the involvement of beneficiaries had been another factor in their success.

7. Upfront Assessment

33. Gabriele Trah and Shawn Cunningham from GTZ explained that it had been difficult to convince the South African government of the value of the market development approach. Free service provision was part of post-apartheid policy, it was considered a threat to government and donor money was less than two percent of the government's budget. In order to persuade the government, GTZ had decided to do several pilot projects, and they had started with a market assessment. Unlike the other presentations, their case was a piece of upfront large-scale market research that was subcontracted to a commercial company. Also different was that they had opted for a territorial approach, basically because it fitted their local economic development strategy. The aim was to create "service profiles" so that other facilitators could also get involved in market development.
34. The assessment had four phases: design, a qualitative phase, a quantitative phase, and an analysis and intervention phase. Of the 32 services, 16 had been selected for further research in two pilot areas, with more than 800 interviews in all. Gabriele Trah pinpointed the difficulties in working with a commercial market research company. They were new to the field, had underestimated the amount of work, and focused too much on the demand side. The good part was that they had introduced new methodology, some of which was mentioned, and had presented the information in a refreshing way. Overall, it had generated a more sophisticated understanding of the purchase and retention decisions.
35. Shawn Cunningham then presented some of the information generated, showed some charts and roughly explained how they could be interpreted. One conclusion had been that the service of financial planning would give the most benefit if delivered to SME. Also, it turned out that service providers were very aware of the demand amongst SME but just not responding to it. Another result was that SME *were* using services, and paid for them. Surprisingly, the most remote business were most aware and had very clear ideas on how services should be working.
36. He then showed a "service profile", one for very generic services like advice and mentorship, and explained that it pinpointed the root causes of market failure. One such cause was that providers were using "cold mediums" for promotion, like mass media, whereas SME were using very "warm mediums" for service

information, like family and colleagues. This was reflected in low awareness and low usage. Providers were acknowledging their lack of expertise in dealing with SME, therefore providing poor service and generating a low level of satisfaction amongst SME. And those competent providers were not reaching out to the smaller enterprises. Information-sharing had been a major problem. In order to address that, they proposed a so-called “open space technology”, in which a BDS facilitator assists SME and BDS providers to make contact with each other and share information. They saw a potential role for chambers of commerce here, namely to organise work groups on particular topics.

37. Gabriele Trah shared the mistakes they had made, comparing the rigorous assessment they had done with a leaner, integrated assessment. They had generated more data than they had needed, although research institutions were using the data. They had researched far too many services; four or five should have been sufficient. Also, the focus should have been more on the providers. The first two phases, design and qualitative research, could have been combined and simplified. A shorter, more participatory information-gathering process could have helped narrow the focus. Shawn Cunningham said that their future approach would be more participatory, so that local stakeholders would get an understanding of the sector. Sector knowledge should not remain with donor agencies. And finally, BDS practitioners were encouraged to move out of the BDS box and increase their responsiveness, since service markets were a problem in other fields, too.

8. Sub-Sector Assessment

38. Peter Roggekamp presented the lessons they had learned in Katalyst, a five-year multi-donor project in Bangladesh. He briefly laid out the project structure and explained that they worked with six sub-sectors that had weak BDS markets. The typical steps in a sub-sector approach were selecting a sub-sector, followed by a constraint analysis, the selection of service markets and market assessment, leading to a report that served as input for the design of the intervention. A sub-sector map listing the different players, used for constraint analysis, was shown. The selection of a sector was based on a variety of criteria, like sector potential and the link to poverty, and took place during the assessment. The challenge was to find opportunities and deals with “high-level supporters” who were willing to work as co-facilitators. And if such opportunities did not appear, there should be enough freedom to reject sectors.
39. One lesson on market research was that it should only be done with a clear strategy and action plan. Another lesson was that market research was not linear but an iterative process. A sub-sector strategy helped to focus an intervention; it improved the effectiveness and allowed you to look for opportunities. They looked for a wide range of services and only intervened if there was commitment by high-level supporters. Standard assessment tools were not adequate for the markets in which they worked. If markets were weak, one did better to start by exploring opportunities and should only do small, focused service assessments.
40. In reality, the different steps in a sub-sector approach were not taken one by one, as the results of one led to a refocusing of the other. Market research and

intervention were not to be isolated: they had to go hand in hand. He closed by mentioning project documentation available on their website⁶.

9. Technology Supply Chain

41. Shivani Manaktala presented the experience of International Development Enterprises India (IDEI) in strengthening the supply of BDS in supply chains in order to integrate the poor into market systems. They worked with small and marginal households in the agricultural sector and focused on irrigation technologies. The technologies had to be affordable, with a complete and quick return on investment and a high impact on poverty alleviation. She explained why the IDEI was working in horticulture and how crop analysis had led to the conclusion that affordable drip irrigation had big potential.
42. The intervention strategy had four components: access to affordable drip irrigation, provision of quality inputs, provision of training, and access to information and markets. For each component, they had identified service providers and defined how the IDEI could safeguard the delivery of drip irrigation to poor MSE. They had assisted in the development of a new drip technology, linked the manufactures to other players in the supply chain and had provided technical training to practically all players from manufactures to end-buyer. They had also facilitated the establishment of information kiosks. The key challenges had been to reach the poorest and to deal with a welfare mindset. She stressed the importance of a baseline study in order to measure impact.
43. In two and a half years, more than 21,000 MSE had been served at a cost of \$25 per enterprise. Their incomes had gone up by \$322, more land had been brought under cultivation, and BDS providers' income had also significant increased. She showed a graph of the product lifecycle and explained that the start-up losses had been borne by the IDEI. Drip technology was now in a growth phase and sales were picking up. As the market seemed ready to take it further, now was the moment for the IDEI to exit.
44. However, the IDEI still had two concerns regarding the future. One was the late majority and the other quality control. A second graph showed the adoption curve of new technologies, distinguishing among five groups: innovators, early adopters, the early majority, the late majority and the laggards. The market was currently serving the early majority and was unlikely to take care of the late majority, never mind the laggards. In other words, the market would not involve the more risk-averse farmers, who were not getting engaged in modern agriculture. These were likely to be the poorest and a cause of concern for the IDEI. The other concern in its market exit was quality: how could product quality be secured?

⁶ www.katalystbds.com

10. Agro Export Chain

45. Michael Kairumba represented Business Services Market Development (BSMD) in Uganda, a project funded by the DFID and managed by the ILO. It had started in 2002 with \$3 million and had seven activities, three on the development of business linkages and four on the development of supply chains. They had started as a project for innovative business services but ended up looking at agricultural supply chains. In Uganda, key constraints on SME were market linkages, access to appropriate services and infrastructure. Businesses operated rather isolated from each other. He then gave some characteristics of the BDS market in Uganda and explained that the few service providers were experiencing competition from subsidised donor support.
46. The BSDM approach started with existing market opportunities. They considered supply chain players as key service providers who could link agro-MSE to market opportunities. The approach was illustrated by explaining their intervention in the mushroom supply chain, one of the seven activities. They had allied with an existing mushroom grower and successfully convinced it of the advantages of subcontracting MSE in the production line. With the support of BSDM, it had divided its production into separate tasks, like bagging, growing, processing and marketing, tasks which had then been outsourced to 22 MSE.
47. As a result, information on production, quality control and markets had been shared on an informal, random and voluntary basis, and business services were being exchanged. Those providing the services perceived it as an investment, since was mutual interest in improved production. Also, there were indications there that the flow of embedded services had a positive impact on the market for fee-based services. Despite the progress, there were some problems, too. It remained troublesome to share crucial information. Also, it had been difficult to balance business and development objectives. To overcome these challenges they were developing tools related to quality control, coordination, communication, business plans, financial systems, dispute resolution and monitoring systems.
48. Overall, their facilitating role in separating functions within the supply chain had been appreciated by the stakeholders. However, there was tension between the pace of capacity-building and the need to respond quickly to market opportunities. Collaboration among MSE had really been a bottleneck and mediation was needed to foster trust. Closing with the challenges, it was mentioned that ongoing subsidies were disturbing the market. The project timeframe did not allow for impact measurement, but future efforts would be directed at documentation of the lessons learned, the development of supply chain management tools, and research.

11. Backward Linkages

49. Muli Musinga from the Emerging Markets Group (EMG) and Nipul Dodhia from the export company East African Growers (EAGA) explained how the programme Kenya BDS, managed by the EMG and funded by USAID, had facilitated the EAGA's strengthening of its backward linkages with rural MSE

mango producers. Muli Musinga outlined the setting for Kenya and explained that access to markets and skills was crucial for growth. Kenya BDS aimed to address poverty through BDS market facilitation and worked in two sub-sectors: tree-fruit and fish. The presentation was about the avocado programme, one of the three products that were included in the tree-fruit sub-sector. BDS Kenya had five key principles in BDS facilitation: intervention had to be grounded in an existing market opportunity, it must address specific constraints, the facilitator must adopt a minimalist approach, commercial signals had to be maintained at all times, and an exit strategy was to be applied.

50. Avocados accounted for more than half of export earnings from fruit, but Kenyan avocados had a bad name on international markets because they lacked good marketing. The market had collapsed in the early nineties, as a result of which many small farmers were still out of production, and market channels had been inefficient. On the other hand, exporters struggled with the quality and the volume they could get. Hence, Kenya BDS had identified a market opportunity and decided to link small producers to the production chain. They had chosen to work with one of the largest exporters, the EAGA. They organised the small avocado producers into skilled groups, and trained the agronomists and extension officers of the EAGA, who, in turn, provided embedded services to the small avocado producers. Amongst the critical factors, Muli Musinga identified their strong focus, clear definition of responsibilities, the sensitisation phase, the fact that the producers had been grouped, the use of contracts in order to minimise risk, the payment systems that had been developed and constant monitoring and evaluating.
51. Nipul Dodhia then elaborated on the motivation and experience of the EAGA in working with BDS Kenya. It was the largest fresh produce exporting company in Kenya, commanded twenty percent of national avocado exports and had been sourcing its fruit from middlemen. It needed better-quality fruit and needed to streamline its supply chain in order to forward integrate into higher-value markets. The proposal by BDS Kenya therefore elicited total commitment from the EAGA's board and management, and it assumed ownership. It had agreed to buy all first-class produce and to provide embedded services.
52. After one year of operation, 405 small farmers had gained guaranteed market access and increased their incomes. Apart from the embedded services that had been provided, 66 commercial providers had been developed. The supply chain was already more efficient, with direct delivery to the EAGA, and it had noticed a multiplier effect among other lead firms. However, the relationship with the farmers was still fragile, still included free-riders and non-performing farmers. It was still getting a lower price on international markets than other countries producing the same quality. Moreover, the expectations of the EAGA had been overestimated due to delayed start-up and the pace of cultural change among smallholders. Apparently, it was a long-term investment. The EAGA's future plans were many: to expand into other areas, convert to stronger tree varieties, increase its market share by certification, establish a Kenyan brand and set up horizontal links with avocado processors.

12. Domestic Agro Chains

53. Iván Rodríguez informed the participants about Agropyme, a Swisscontact programme that worked with small agro-producers in the vegetable, fruit and bee-keeping sectors in Honduras. After explaining the socio-economic context, he pointed out that the national market had become more demanding as the participation of multinationals had increased. Rural producers were not producing the quality, variety, and volume required by retailers such as supermarkets, and lacked the skills, working capital, flexibility and association needed to sell on domestic value markets. Because BDS could address most of these constraints, Agropyme had decided to facilitate BDS markets. Two examples of their intervention were given.
54. One example was the BDS market of irrigation technology. Agropyme worked with cooperatives to adapt existing technologies and educate the demand side about the benefits of irrigation technology, which enabled more and better production. Through a co-financing fund and assistance, Agropyme had helped the cooperative to adapt commercial irrigation technology and made it available to small farmers.
55. Another example was the promotion of EUREPGAP. Agropyme had linked providers and buyers of the certification. It had helped the establishment of demonstration farms through awareness-raising, had financed training and certification, and had built up the capacity of local providers. Although demand was still very weak, supply players had been adapting their services. Agropyme had co-financed an international company to train a national cooperative for technical assistance in the certification process. Another international company was co-financed to certify the farmers who had received assistance from the cooperative. The auditing was free. The intervention was expensive but considered necessary to gain access to competitive markets. They were currently convincing the government to develop a cheaper alternative national certification system.
56. Iván Rodríguez then briefly mentioned some other BDS that were needed to increase the competitiveness of Honduran small agro-producers. So far, production had gone up from one to three production cycles a year, job conditions had improved and incomes were higher and more regular. In conclusion, the small farmers had transformed themselves from “cabbage producers” to agri-businessmen. He closed his presentation by mentioning that they had learned that, in the service markets, one should address the key constraints on service delivery. Also, the development of local capacity was a good strategy by which to reduce transaction costs and make services available. Lastly, the involvement of commercial market players had elicited innovative ideas.

13. Research and Design Services

57. Narongsak Phajharon represented Kings Collection, a private enterprise. He explained how they worked with a government programme, OTOP, in order to improve the design and marketing of Thailand’s crafts products. The OTOP

programme, on which there would be another presentation the day after, was one of the many strategies for improving Thailand's competitiveness at the grassroots level. It aimed to link local production with international markets, to create jobs and increase incomes. Kings Collection provided research and design to the SME within the OTOP programme who lacked the uniqueness, differentiation, marketing, in other words competitiveness, for world markets. Their competitive advantage lay in the highly skilled craftsmen with their long history of handicrafts. It was shown that tourism was a growing market for national handicrafts.

58. Kings Collection was a creativity-oriented company and offered design, marketing and management services. Its aim was to add value to the products of the OTOP enterprises with whom it worked. He showed the "holistic marketing framework" in which demand was the triggering factor. By investigating demand, they defined market niches; and by building on core competencies, they would develop new products. Their networks and intense contact with their customers had been important. Most contacts were maintained via modern information technology. He invited the participants to have a look at their websites⁷. Then he set out their four-phase business strategy. Having started by copying, they embarked on doing their own design, and now focused on branding. Next year, they were to open the first shop of their own.

14. Competitive Market

59. Saipin Vanichmongkol was the marketing manager of Vaniché, producing home decoration, and showed how they had managed to create an international market niche. She explained that it was a family company, established in 2001, and that it was aiming at the modern lifestyle market. Although the enterprise itself was medium rather than small, they worked with 200 small-scale suppliers in different communities. They sold silk products and ceramics. Key success factors in production were the uniqueness of the raw materials, the quality of the handwork and the creative combination of different materials. Key factors in design had been conceptualisation that reflected the character of the products, having two collections a year, and combining beauty with functionality and tradition with modernity. Quality and reliability were further success factors. The marketing approach had been aggressive, going to trade fairs, and complete, in the sense that the information was regularly updated and there were good means of communication.
60. She then mentioned the current challenges: their inputs were relatively expensive and they operated in a highly competitive market. Their survival strategy was built upon differentiation and niche markets. Concerning BDS, Vaniché was member of an export association that provided information, training and contacts, and facilitated at trade shows. The governmental Department of Export Promotion was also a good source of information and provided subsidies for major trade shows. A third BDS provider was the

⁷ www.king-collection.com, www.lannakingdom.com, www.expcop.com and www.phuketmission.com

Department of Industrial Promotion, which provided information on new production techniques and now had a one-stop centre for SME. She ended her presentation by mentioning the BDS that were still absent, but much needed: updated export information, more seminars and training, support for access to new markets and new marketing approaches.

15. PPP Experience

61. The third MSE from Chiang Mai was represented by Napong Sngnuannaporn, the managing director of Lanna Wooden Products. He showed how Northern Thai Public and Private Partnership (PPP) had worked for his small enterprise. His company had been established in 1990 and now had two factories and two showrooms⁸. He listed four success factors: (1) its benchmarking had been very strong; (2) it created its own designs; (3) it had spent on finding the best market channels and delivered its products to the end user; and finally, (4) it networked with its suppliers in order to learn from others' experience, and was a member of various chambers and associations. One such association was NOHMEX, a regional association of handicraft manufacturers and exporters.
62. The Ministry of Industry had a mission to promote Thai SME and to create 50,000 new ventures by 2005, launching programmes and projects through its SME Promotion Centres. The first example of PPP was an established network of 21 agencies from government and private BDS providers, such as research institutes, banks and associations, among which were the government's Northern SME Promotion Centre and the NOHMEX association. The objective of the network was to provide better quality services and maximise service usage.
63. He then mentioned eight other examples of support projects that had benefited SME, which showed that services should be subcontracted to specialised, private agencies, enabling them to specialise further in particular BDS. The Northern SME Promotion Centre was such an example of a government-owned but privately managed centre. Another PPP example was NOHMEX, which, with direct government support and the SME Promotion Centre, assisted its members to participate in trade fairs. In October, they would go to a trade fair in Hong Kong. NOHMEX had developed into a marketing cluster for its members, and was developing into a window for BDS purchasing, negotiating deals with providers. Nevertheless, it had to improve its service quality.
64. A final example was the Institute for SED that was transforming itself into a government-owned but privately managed research and training agency. It illustrated a general trend towards PPP in the provision of public services, boosting the service sector. Napong Sngnuannaporn finished by stressing that there was still a long way to go in PPP, which needed to focus more on the inclusion of small enterprises and on addressing discriminatory SME regulation. More attention had to be paid to the characteristics of SME and BDS needs. Lastly, entrepreneurship, cooperation, cluster formation and socially responsible practice needed to be strengthened.

⁸ www.lannatoys.com

16. PPP Policy

65. Chotiwutti Innadda, from the Bureau of Supporting Industries Development Department of Industrial Promotion, set out the BDS landscape in Thailand by explaining governmental BDS programmes. There were three ministries involved in BDS, the Ministries of Industry, of Commerce and of Science and Technology, with 38 offices. It was difficult to define their roles, because donor, facilitator, and provider roles were often mixed. He explained four different government-led initiatives, all by the Ministry of Industry. The first, OTOP⁹, which stood for “One-Tambol (region) One-Product”, focused on support, not on subsidy. Its aim was to promote one product in each of the 7000 regions through training and product development, maximizing local resources. It encouraged intellectual property registration, included a revolving fund, managed at regional level, and promoted the products through various mass media. OTOP focused on 6 sectors and had almost 38 thousand registered OTOP entrepreneurs, with sales expected to top 1,000 million baht in 2004.
66. Another programme was New Entrepreneurs Creation, NEC¹⁰, which had the aim of creating 50,000 new entrepreneurs in 18 months by promoting business linkages and advocating embedded service delivery through mentorship. It used the national networks of federations, about 300 agencies, to promote the slogan “Big Brother takes good care of you”. Large companies were stimulated to create smaller companies by sub-contracting, outsourcing services like design, cleaning or logistics, and franchising. Service delivery was stimulated mainly through training, either by the “Big Brothers” or by subsidised consultants. Big Brothers received benefits, loans and venture capital.
67. The third example, Invigorating Thai Business, had already ended and had been pretty large, with \$50 million for two years. It subsidised consultancy services in which the SME paid 10 to 25 percent for the service from a semi-governmental institute. Its impact had been 1.4 to every dollar invested, which was considered very moderate as programmes normally had a rate of 10 to 1. The last example was cluster development, a programme in which the government was facilitating the self-development of industrial clusters. For each cluster, they had spent \$50,000 on training, facilitation and marketing. This required a subsidy of \$1000 per entrepreneur per year.
68. Chotiwutti Innadda moved on to PPP by pinpointing the interest for both private and public partners of getting involved in a network of service providers¹¹. The example given, electro-magnetic compatibility (EMC), a technology for measuring the interaction between radiation fields, was special in that it did not target the poor. EMC was a highly technical field. It was needed to prepare production for export, but had largely been in foreign hands. National labs, as well as the SME, needed to catch up, and foreign labs needed cost-effective practice in order to serve locally. Hence there were incentives for all players to get involved in a network which the government had facilitated.

⁹ www.thaitambon.com

¹⁰ nec.dip.go.th.

¹¹ Business Development Service Network: www.service4sme.com

69. Three final points were made. Thailand was, slowly, moving away from conventional approaches and adopting the market development approach. Since conventional approaches were limited by budgets, market development approaches would always be applicable in the openings left by subsidies. Local input which took local culture and resources was essential to the success of BDS. To round off, some contacts were given.

17. Regulatory Reforms

70. Nguyen Dihn Cung of the Central Institute of Economic Management (CIEM), a policy think tank, showed how the legal environment restricted BDS delivery in Viet Nam. Current regulation of the BDS market contradicted the fairly new law on enterprise; for example, training could not be delivered commercially. Market entry for service providers was complicated in Viet Nam, at times unclear, and transactions had restrictions, for example on the percentage spent on advertising. Also, the attitude of business registration officers was an impeding factor since they would not recognise new services. Hence GTZ had initiated research to pinpoint legal constraints, in the first place to raise awareness about them but also to address them and enable BDS market development.
71. The study was carried out by CIEM, the chamber of commerce and a consultancy firm. Criteria like relevance to SME and legal reform feasibility were used to select seven services initially. Nguyen Dihn Cung then posed the question of how to move from research recommendations to policy reform. Recommendations had to go through a non-transparent policy-making process. The selection of the right partners with high local ownership was crucial. They had done this by involving institutions directly linked to policy formulation, who gave frequent input to the government, which is often more responsive to internal calls for reform than to donors. It was stressed that one should not wait for the final report, but constantly feed the dialogue. It was also important to propose the right areas for reform. These had to be priority services like intellectual property rights. They had to link to a higher interest like the law on enterprise, their advocates had to be persistent, and mass media should be used to raise public awareness.
72. Specific reforms had been integrated into policy documents, and proposed reforms had been adopted by the Directive of the Prime Minister in an effort to strengthen the law on enterprise. The presentation closed with an example of how recommendations on IP regulation had resulted in action at the ministerial level.

18. Strengthening Embedded Services

73. Armin Sethna of World Education in South Africa explained the Ntinga LINK programme. Its goal was to bring MSE into the mainstream of the construction sector via business linkage services. They had chosen the construction sector because of its importance to MSE and to the economy as a whole, and because

of its potential. An overview of the industry showed the weak links between MSE and larger enterprises, and brought out their vulnerable position.

74. BDS awareness among MSE contractors was quite high. However, the main users were NGOs and government services, which tended to be generic and non-technical; they needed specialist services that could help them to move upmarket. BDS suppliers, in turn, were sceptical towards serving MSE, perceiving them as unwilling to pay and underestimating the value of BDS. Suppliers were not convinced of the competitive potential of MSE and deemed it impossible to compete with subsidised services. Providers acknowledged a lack of technical skills and know-how.
75. LINK then started the facilitation process with a dialogue among the larger construction enterprises, governments, including infrastructure development authorities, and financiers, with the objective of strengthening the link between construction contracts and service providers. LINK did research on the industry and its trends too, and pinpointed the opportunities. The generic service providers were organised into forums that then gave advice on linkage and formulated a code of conduct. As a result, four specialist services had been developed to provide skills in costing, scheduling and tendering, and training in joint venture management.
76. LINK had broadened its definition of BDS, involving material suppliers and financiers. In the current situation suppliers wanted cash up-front, and MSE were often unable to pay on time, creating a lose-lose situation. LINK had seen an opportunity to strengthen embedded services in order to improve MSE performance and thus their on-time payment: a win-win result. It had identified the inhibitors and drivers behind embedded services among the different players in the value chain, and promoted a platform for providers and MSE contractors. Among the advantages to using suppliers as service providers were the credibility, proximity and affordability of the services. Disadvantages were its supply-driven character, which left little room for the MSE, the limited pool of expertise, and the familiarity between supplier and MSE, which could inhibit competition and innovation. Supply side factors that influenced the cost of the service were the size of the order placed by the MSE, the size of the construction project, the level of MSE experience, and the potential the contract offered to improve the future positioning of the provider. The risks suppliers faced were a vast demand for embedded services, the legacy of failure on the MSE side, ongoing payment problems, unending demand for non-core services, and difficulties in analysing the cost and benefits of providing the embedded services.
77. South Africa's specific policy of redressing past inequities had opened up opportunities for small black firms, and could push the frontier of service provision to a long-neglected group. However, care had to be taken to see that providers were not only driven by imperatives, thereby developing an unsustainable market. The current role as facilitator for embedded services was discussed and potential roles were named, mainly related to service product development. Finally, four barriers to facilitation were listed: the limits of BDS jargon in real business, competition among suppliers, limited willingness to share knowledge, and the difficulty of making a cost-benefit analysis of embedded services, since they seem to grow organically.

19. Building on Embedded Services

78. Prashant Rana and Imran Sadruddin gave a second presentation on the experience gained within Katalyst, Bangladesh, focusing on embedded services in the plastic sector. Katalyst had three donors, DFID, SDC and Sida, and was implemented by Swisscontact and GTZ, started in 2002, and had three divisions. Prashant Rana, from the division of industry and rural services, presented some facts about the size of the vastly growing sector and pinpointed the challenge: how to augment the competitiveness of the sector with information and skills, applying the market development principles? Knowledge, information and skills (KIS) were essential for competitiveness. He pointed out the difference between external, fee-based services, which were provided by trainers and consultants, and internal, embedded services provided by players in the production chain such as customers and suppliers. There were three major reasons why embedded services had become important. The first was the increased focus on sub-sectors. The second was that they concerned the bulk of services. And the third reason was that they made it possible to build on what already existed.
79. Imran Sadruddin presented the specific case of training the injection-moulding machine operators. After a sub-sector study, Katalyst concluded that productivity could be improved and identified a demand for more machine-related information. They had studied the KIS exchange between the producers and the machine suppliers and troubleshooters, and concluded that the exchange of KIS was minimal. Both machine producers and mechanics were identified as potential KIS sources, but needed capacity-building. Katalyst decided to train one machine supplier and its troubleshooters, who in turn were expected to pass the KIS on to the producers. Importantly, the machine supplier already attracted more troubleshooters to meet the increasing demand for its service, hence developing a new service market. Katalyst had invested a total of \$2900 in research, training and staff time, and expected to multiply its revenue by increased productivity and reduced waste. The key to sustainable intervention was a win-win situation between service supplier and producer.
80. Prashant Rana then went back from the specific to the general. Common to all sub-sector interventions was that they tried to identify the reasons why embedded services were not thriving. Deals, too, were important. Opportunities for facilitation were enforced by deals with service providers in order to trigger the embedded services. Measuring impact from the start was another common feature of the interventions. All their interventions built on what was already out in the market.
81. It had been difficult to identify the embedded services, to isolate the service from the transaction. BDS assessment tools were not appropriate for embedded services. Moreover, the business case was a prerequisite for sustainable intervention since it determined whether the market would be able to pick it up. Since the private sector was the driving force, unpredictability was a fact, and donors should allow for that. Embedded services held the key to sub-sector development for SME.

20. Pro-Poor Growth

82. Per Dans gave the participants an idea of private development thinking within Swedish Sida, largely based on the study “Making Markets Work for the Poor”. He put the BDS market development debate in the wider development setting, explaining that today’s complex globalised world had made pro-poor growth a cornerstone of poverty reduction. Poverty reduction was no longer only about the level of economic growth but about the pattern of growth, and required systemic change. The poor had to be perceived as economic players. He also mentioned that pro-poor growth was not only about economic growth but involved social issues. Within Sida, market development had become a cross-cutting issue that had been set out in three documents: the policy, the background study, and a resume. For Sida, the market meant not only the commercial market but included household and public production.
83. He pinpointed three points that were new to that way of thinking. The first was that private sector development (PSD) had become part of the poverty reduction toolkit, whereas before it had been seen as something different. The second novelty was that PSD was no longer a separate “sector”, it was becoming a cross-cutting issue that needed to be mainstreamed. Thirdly, PSD used to focus on enterprises as individuals, with interventions at firm level, but the market development approach required a focus on markets. Flexibility was needed in order to work coherently from macro to micro levels. BDS should indeed go out of the box as it was part of an enabling environment.
84. Some lessons for PSD interventions were shared. He mentioned the various diagnostic instruments and the characteristics of BDS market development: a focus on markets, perceiving clients as customers, a market transaction relationship, limited use of subsidies, working with a multitude of providers, differentiating between provider and facilitator, a clear exit strategy, and a focus on addressing market constraints.
85. Sida supported BDS as part of its poverty strategy, in order to promote pro-poor growth, to promote markets as engines of growth, and because people had a right to income. It did this through inclusive market development, innovation system development, involving local partners and adopting an exit strategy. Examples were wide support for the ILO’s SME training package worldwide, for media interventions in east Africa, and for chambers of commerce. The challenges in BDS support, or PSD, were various: impact assessments, because donors needed hard figures, exit strategies, the development of weaker markets, and new areas like agricultural BDS. It had been difficult to find good facilitators, and he still had doubts about the role of facilitators. However, overall, the BDS principles had been useful as an analytical tool in many other areas and BDS needed its own advocates.

21. Training, Consultancy and Linkage

86. Leila Webster of the SME Department of World Bank Group explained what BDS meant for the International Finance Corporation (IFC). The IFC supported SME, though not the smallest of the smallest, through credit lines and through

project development facilities (PDF). Its work on BDS was predominantly through the nine PDF worldwide and it currently had about 250 BDS programmes divided among direct training, developing consultancy markets, improving access to information and special categories. Training was the largest, and comprised general management training and specialist training, with the latter being more frequent. She gave detailed examples of both types of training, and pinpointed the critical issues in developing training markets. It remained difficult to make money from training. Product development was expensive, and an appropriate area for donors. Safeguarding quality was another problem area. Certification, too, was a time-consuming activity and impact measurement was almost impossible.

87. Besides training, a good consultancy market was crucial to SME development, although many SME were reluctant to hire consultants. There were two roles for the IFC in building consultancy markets: a retail model that outsourced pre-selected products, and a wholesale model that built general consultancy skills. Then she distinguished between general and specialised consulting skills, and gave examples of IFC intervention to develop both types of skill. The issues in consultancy markets were the low demand and the weak supply of appropriate SME services. Pricing was challenging too, as there was often a history of heavy subsidy, and although costumers were few, their needs were diverse, which made it even more complex to build sustainable markets.
88. The linking programmes were an example of a special BDS category. For Leila Webster, linking and value chain development were two different things. Linking addressed the “triple bottom line” of the IFC: building better businesses, promoting economic growth, and sustainable poverty reduction. The objectives of linkage were to develop mutual benefits for large and small enterprises, to increase the value of the supply from SME, and to increase the number of small distributors. The IFC did this through information-sharing, training, consultancy, mentoring, financing and legal intervention. The IFC had 26 linkage programmes in 18 countries, and the number was growing. She gave examples of linkage programmes, and listed six linkage issues: to pinpoint the mutual interest of large and small was tricky, few large firms were willing to get involved in linkage programmes, it had broad implications for procurement practice, with gaps between the requirements of large firms and the capacities of SME, finance could be more difficult to provide than BDS, and sustainability issues were different.
89. She then outlined the BDS trends within the IFC, which were (1) consolidation: there were fewer but larger programmes; (2) sharing: successful products and approaches were exchanged among the PDFs; and (3) reporting: the IFC was increasingly recording its experience.

22. Credit-related Services

90. Peter Bissegger explained the methodology of Swisscontact in developing credit-related business services in Indonesia. After outlining the historical evolution of the two related fields, he set out the Indonesian SME background. Swisscontact had been involved in market development in the past, but its future focus would be on micro-credit-related BS. Effective commercial bank lending

had been less than planned, indicating that SME were still a difficult market segment. Two thirds of the SME had claimed to be in need of credit, but half of those had never even tried bank lending. Swisscontact had been looking for business services that could reduce the risk and cost of SME lending, and thought it had a facilitating role in making the relationship between bank, SME and service provider work. It had mapped the perceptions and expectations of the service providers and the bank, and used them to determine the providers and services that banks were looking for: providers had to be specialised, with access to clusters, with technical know-how, linked within value chains, and reliable and professional. Interesting pre-credit services were feasibility studies, collection of financial data and business planning. Interesting post-credit services were monitoring and technical support.

91. How to facilitate such a link? There were two approaches: the institutional and the direct link. The institutional approach implied the formation of a permanent facilitation unit that would operate commercially, linking providers with banks. It required a sufficiently large market potential for credit-related business services, but could reach sustainability for both the unit and the provider. The direct link implied linking specific service providers to particular banks and was only sustainable at the provider level. The institutional approach was therefore more desirable. Focusing on the institutional approach, he outlined the facilitation tasks at both provider and bank levels. Providers' cooperation with banks could be facilitated by sharing information, training, certification, business linkages and networking. Banks could be aided by identifying suitable providers, providing information on potential SME sectors, training credit officers and providing SME with information.
92. The pilot project in Bandung illustrated the model and the certification process for service providers. After one year, 21 providers had been accredited, 8 banks had participated, 12 providers had signed contracts with banks, small business credit had increased by 4% and group lending by 96%. The final questions for discussion were whether linking BDS and FS was an effective way to improve lending, whether facilitation could become sustainable, whether facilitation was helping or hindering market entry, and whether there was a conflict between the bank and the SME in service provision.

23. Low-income Women

93. Linda Jones from MEDA presented the conclusions from a Listserv discussion on reaching low-income women with enterprise development services. It had taken place in July and August 2004 as an initiative by the SEEP network BDS workgroup. However, its "Thinkpiece"¹² had been relatively low in BDS jargon as its focus was broader. It had had 75 participants from 18 countries, with Africa and South Asia strongly represented. Its objective had been to share experience across development fields, facilitate dialogue and set the scene for a global research agenda. There had been three initial topics: the existing situation

¹² www.seepnetwork.org: Reaching Low-Income Women with Enterprise Development Services

of low-income women in SME, the possibilities and impossibilities of applying best practice, and whether and how enterprise development could address issues other than economic development.

94. Six themes had come to the fore: a lack of information, the affordability of services, how socio-cultural constraints affect women's entrepreneurship, the typical problem of saturated markets in which women entrepreneurs are concentrated, group cooperative approaches, and, finally, training and technical constraints. These issues were not gender-specific but the constraints and solutions were. Eight case studies from different parts of the world further highlighted those emerging themes and clarified the BDS issues concerning low-income women.
95. The conclusions of the discussion were that more research needed to be done, that BDS theory and practice needed to include gender issues, and that there were still more questions than answers. To finish, some fundamental issues were raised. Was the market development approach viable for non-economic development issues? How can services be customized for low-income women with a heavy workload and strong traditional culture? Is it realistic to expect low-income women to integrate into more profitable value chains, since women's income is not always owned by women themselves?

24. Culture and Social Systems

96. Since development is about change, Karin Reinprecht discussed the underlying systems that really enhance the desired change, and pleaded for BDS practitioners to become more aware of social context and systems. She began by questioning the values rooted in the market development approach. The built-in market development assumptions concerned entrepreneurial motivation, the value of economic success, the work ethic and price systems. Each assumption was called into question by cases that contradicted the conventional rationale. For example, the motive for entrepreneurial behaviour might be a desire for respect rather than economic prosperity. And what were the causes of economic success? Perhaps networks were more important than hard work. In some societies hard work did not pay, so how did that society reward people? Also, prices did not always reflect real price, which included transaction costs and opportunity costs.
97. She then presented the "cultural iceberg", with its four layers, of which the top layer was the most visible one. At the bottom lay the unconscious cultural and social institutions like values, beliefs and ideologies. The second layer consisted of expectations of life, norms, habits and social roles, which were still mostly invisible. The third layer, where intervention normally starts, was a more tangible and observable layer, consisting of laws, regulation and transaction processes. The top layer was most visible, where most interventions took place, and was made up of conscious, observable cultural institutions like knowledge, technology and human resources. Tacit knowledge was formed from the bottom to the top. In-built tacit and "quiet" knowledge, of which one is not aware, influenced and shaped the visible knowledge. If there was change only at the top level, it was not sustainable, because the informal values would not change. Change was slow. People at the fringes of society, like the young and artists,

knew best which values were already being questioned, and one could start there.

98. The influence of the cultural iceberg on BDS markets had implications for intervention. These were described and illustrated per phase of the project cycle, starting with pre-programming. Pre-programming was generally about fact-finding, but one should also research tacit values. Values, attitudes and norms among different target groups on entrepreneurial issues such as success and fairness should be depicted and fed into programme design. The second phase, market assessment, should grasp the processes and real transaction costs of decision-making, reasoning, the organisation of production and the consumption of services. Only a few decisions were “rational”, systematically based on information. In the third phase, identification, it was important to get input from all interest groups. The formulation phase should be explicit about goals and assumptions regarding values, norms and attitudes. The influence of the iceberg in the fifth phase, implementation, required that the timetable should fit the target region’s decision-making processes and notion of time. Information needed to be shared between foreign and local staff, using existing communication systems. In the monitoring and evaluation phase, local values needed to be taken into account, and it had to be realised that change was incremental. It was important to allow for trial and error, because development required trial and error. A background paper, work in progress, suggested practical tools with which to integrate the notion of cultural systems into rural service market development. She closed the session by inviting participants to join her in thinking about the applicability of tools and methods.

25. FM Radio

99. Gavin Anderson from FIT SEMA in Uganda put information at the core of private sector development, introducing mass media as a BDS. He gave the example of a Ugandan businesswoman who had been cut off from business information by the lack of it in her own language. Today, she could tune into three weekly radio programmes on small business that were run on a commercial basis. Owen Kibenge, also from FIT SEMA, showed that in Uganda, radio was the only mass medium that really reached the majority of people. Radio, in contrast to newspapers and television, reached almost ninety percent of the population and was an even more important information source than word of mouth. Since the ILO had campaigned for SME radio programmes, the number of stations had grown vastly over the past five years. There were 22 programmes running on 19 different stations, broadcast in 12 local languages, and increasingly copied and mainstreamed into programmes. A map showed that coverage today was nearly nation-wide.
100. The approach taken had really been a facilitating role with no financial support, only technical support and training, and input to remove bottlenecks in the information flow. An explanation of the business model showed that there were four players: the radio, the audience (SME), media research companies, and commercial advertisers, who were the sponsors. The audience profile and number of listeners, determined by the media research companies, were the

critical factors for sponsorship. MSE were now seen as commercially viable consumers of radio programmes.

101. The radio format was a magazine style with advocacy, information, business tips and advice. The emphasis was on interactive programmes that focused on discussions and solutions, and built a network of resource people. They were currently trying out town-level business debates, drama and market updates using freelance reporters. The participants were treated to some minutes of radio listening, after which Owen Kibenge asked them to recall what had been said, ending his part by wondering whether listeners were really listening. Gavin Anderson took over and showed that indeed, SME were listening. Some of the figures he showed were that there was 91 percent awareness of the small business programmes, 74 percent listenership in the middle to low income brackets, it was gender-neutral, and the same in rural as in urban areas. Although listenership among the poorest of the poor was lowest, it was still more than two thirds. Moreover, research had pointed out that satisfaction levels were high, especially with information on how to run an SME, and on markets and business opportunities, and with the tips and advice.
102. There were still challenges in developing the SME radio programme market in Uganda. There was weak management within the radio stations, the stations were not audience-driven, B2B advertising was difficult, and information sources like government, researchers and development agents were still sceptical.

26. Radio, Internet and Newspapers

103. Tapera Muzira from the ILO gave another presentation on using multimedia for development. BDS Zambia aimed to increase access to BDS, and did so through radio, newspapers and the Internet. After giving some facts and figures on Zambia, he explained that the radio model had been adapted from the Ugandan experience. Two examples were given, an English and a local-language programme. Because Zambia was a mountainous country, FM radio had limited reach and they used other signals as well. BDS Zambia was currently working on radio marketing through other media. Since media usage was different in different areas, they had chosen a multiple media strategy and were also working with newspapers. As in Zimbabwe, they had facilitated an SME's development of a small business directory, which had been profitable from its first edition onwards, and they were currently trying to convince Zambia's largest independent newspaper to include a small business supplement. The third mass medium was the Internet. They were working on a business portal with information, marketing opportunities and business contacts. In Zimbabwe, the portal was already up and running¹³, and a trading-house-like initiative¹⁴ with expo-properties served the SME as well. He finished his presentation by stressing that HIV/AIDS had a large impact on Zambian SME, and part of their

¹³ www.businesszimbabwe.co.zw

¹⁴ www.expoproperties.com

work was to encourage the mass media to deal with HIV/AIDS workplace issues.

27. Comedy

104. Hom Chhorn from FIT Cambodia gave a third example of targeting SME through alternative media, and presented an experience involving comedy. Radio, TV and newspapers did not reach rural communities, but production houses did, mainly by distributing karaoke and movies. There were about 10, all with their strengths and weaknesses, and for various reasons FIT had decided to work with RSK production. FIT partly convinced the production house of the idea that comedy for small businesses was a viable market, and agreed that FIT would produce the comedy while RSK production would take care of distribution. There were several advantages to comedy. One was that the market for comedy was already large, and reached into very rural areas. In their experience, the middlemen were important because they would bring the material to the most remote areas. FIT worked with famous comedians, which made SME willing to pay. Another advantage was that development issues became fun, and the visual content enhanced learning. FIT would give the comedians the themes, but the content of the programmes was to a large extent decided by the comedians on condition that they refrained from infringing ILO practice.
105. The results of the first comedy were promising. It had sold about 10,000 legal copies, there were more illegal copies circulating, and the audience was willing to purchase the next episode. It had introduced SME themes into entertainment, using commercial distribution channels, thereby making a double impact. The SME audience benefited from the information the comedy held on customer, staff and management issues, and the SME distributors benefited from a new product.
106. Lessons learned were that if the market environment is right, the BDS approach can indeed reach sustainability, as long as the comedy addressed contemporary themes; cultural issues could have their drawbacks, as there were differences within a culture; also, the private sector should not be expected to change the world with its own money. There were cultural differences between rural and urban viewers, but those could be overcome.
107. FIT was planning to put “I, the Boss” on cable TV and develop other distribution channels in an attempt to reach out to a wider audience, including the diaspora. Other issues were the development of effective audience feedback mechanisms and working on other subjects such as HIV/AIDS and child labour.

28. Delivery Systems

108. Karl-Oskar Olming of the ILO in Sri Lanka presented the results of action research into more sustainable delivery systems for SIYB. They had been looking to improve cost recovery rates of the management training package SIYB for rural customers. Their hypothesis was that poor SME could pay if

services offered what they needed. Since the satisfaction rate with SIYB content was good, it was decided to invest in better distribution channels, more flexible promotion strategies and cost-saving structures.

109. As an entry point, they chose saving societies: these had low-income clients and literate members, and were accessible. Logistical activities were delegated to the savings society and the trainer could concentrate on marketing and content. The format was chosen in a participatory manner during group meetings. The training was offered in small bits of one module per day, and on idle days. Information was spread during monthly meeting of the savings society. Since they sold per module instead of per set of modules, the costs were lower. Of the 245 members at the monthly meeting, 66 had enrolled for the training, and revenue had covered the costs. Satisfaction was high, but retention was low. A closer look showed that it was the less poor entrepreneurs who were asking for more. The conclusions were that distribution channels had been crucial; trust was built by delegation and local ownership; and direct contact with the customer had been important. There was a difficult trade-off between reaching the poorest and being commercially viable.

29. Personal Overview

110. As in the previous Seminar, Katherine McKee, USAID's Director of Micro-enterprise Development, gave her personal overview of the issues that had emerged during the Seminar. Her presentation focused on light bulbs, pyramids and icebergs. The light bulbs presented the good ideas that came up in the Seminar, and the pyramids and icebergs had been recurring shapes. She had four themes: (1) weak markets; (2) developing value chains and embedded services; (3) advancing market assessment and performance and impact measurement; and the new focus, (4) "mainstreaming".
111. As to weak markets, she stressed the differences between poorer places and poorer people. The Seminar had by and large been about poorer places. Rural markets and their defective delivering systems had been discussed, and solutions such as piggybacking on other services and bundling services suggested. On payment systems, using embedded BDS providers in a more prevalent and sustainable way had been brought up. There had been much discussion on involving rural producers in value chains. There had been many examples of how to work in poorer places, but how to serve poorer people? Gender was a powerful dimension of that concern and households were probably more useful as decision-making units than firms were. As had been stressed in the Seminar, reaching poorer people had both economic and cultural aspects. It was important to understand the driving goal of the households. The first pyramid she introduced was that of households: from surviving households at the bottom to households motivated by stabilisation, then by diversification, and at the top were households in search of specialisation. BDS should have a role in moving households up, influencing their risk and cost behaviour. The question was how BDS could enable more households to specialise. A light bulb here had been the issue of early versus late adopters, brought up in the presentation on intervention in rural technology supply chains. It raised the question of whether the people who were buying the new products that were brought on to the market by donor

facilitation were really the people that donors wanted to be serve. If not, what could one do to involve late adopters in market systems? Market systems had an upward drift and the challenge was to keep innovations targeted at those who needed them most. She suggested that innovative payment arrangements and cash flows over time might be needed to encourage more households to specialise. However, more thinking was needed to get to grips with what worked to serve poor people.

112. A second theme had been value chains. Experience had shown that many SME would get their services from smaller providers. Value chains included service chains, and providers were often SME themselves: producer-providers. She suggested that it might not be too difficult or too expensive to make those business-to-business delivery systems sustainable. A key topic in the value chains discussion had been the identification of market opportunities, ensuring that there were sufficient driving factors to make an intervention sustainable. The challenge was to pinpoint the factors which would be attractive to larger firms, and, as had been stressed in the presentation on cultural and social systems, these could include non-economic motives. Willingness and capacity were essential. The sequence of value chain interventions had been discussed, too. Then she posed the question of whether it was legitimate to support certain larger firms in exchange for their pioneering role in extending BDS coverage to SME and for taking up the extra risks of supporting SME as part of the value chain. Donors also wanted a level playing field. In the ideal case, more than one large firm would get involved, but if not, how could you balance market distortions and market development in the long run? Models had to be demonstrated by lead firms before early adopters would pick them up. The first stage cost-sharing between donors and lead firms had to be transparent and opened up at the right moment. Memorandums of understanding had facilitated risk management and trust. Culture again had an influence, and power relations between large and small enterprises should be handled with care, as the objective was to influence the bargaining power of SME. More exploration and discussion was needed. For example, gender was a big issue in value chains, enforcing power relations and weakening bargaining power.
113. Another issue related to value chains was the role of transnational corporations. These had become more pro-active in poverty alleviation. Donors were in between the corporate social responsibility (CSR) motivation and the plain objective of doing business. Since most corporations involved were driven by CSR, the donor role was to accelerate the movement towards the other end of the spectrum, which was more sustainable. Donors should assist them in their SME supplier development work, and encourage them to build BDS markets through backward and forward linkages, instead of up-front community development work. One of the great challenges in value chain development was scale, how the still small number of interventions could have a multiplier effect. Despite the many questions still open, there were already many encouraging examples.
114. The third issue was performance and impact measurement. She stressed the difficulty of establishing baselines on BDS markets and measuring impact, which required willing and available BDS suppliers. Attribution, too, remained a troublesome issue, as did identifying control groups. There were still plenty of challenges in value chain development, linkages and embedded services. The

focus on embedded services had provided many openings, but they were not the only way to make value chains work. It was important to be clear about the roles and functions of BDS markets. For this, performance and impact measurement were essential.

115. The fourth and last issue was mainstreaming. She explained that within USAID, 75 country programmes were relevant to BDS and that mainstreaming was their number one job. Their BDS practitioners faced three barriers. First, there was the possibility of being written off as service freaks. Selling BDS was not always easy. Then, doing micro-enterprise development within the poverty box required explanation of the function of survivalist business within economic growth. And thirdly, being the headquarters also set limits to the influence they could have on fieldworkers. Although one felt like a chameleon at times, it was part of the nature of mainstreaming. And it was a necessary part in order to spread the knowledge gained in market development. It was important, too, to be more open-minded about subsidies and the public-private debate. Sometimes there were good arguments for using subsidies to link poor people and places to value markets. Less than five years had passed since the first BDS meeting in Hanoi. The definition of BDS had developed and broadened since. The whole service iceberg was becoming more clearly delineated, and now included agri-businesses and technology.
116. Among the opportunities and challenges, she again listed mainstreaming. The field had reached a certain level of confidence regarding tools for generating economic growth, and needed to mainstream into other fields. The term BDS was likely to recede, but it remained to be seen what came next. She concluded by saying that the work on value chains had shown potential for moving poorer people and places upmarket. There was a general move towards a focus on opportunities and assets, rather than redressing the weaknesses of poorer people and places. However, next year's BDS Seminar needed to discuss the systems that actually reduced poverty, and should bring the assumptions about making an impact on poverty out on to the table.