
MAXWELL STAMP PLC

FINAL REPORT

**DEVELOPMENT OF A
BUSINESS DEVELOPMENT
SERVICES PROGRAMME
FOR MSMES**

**Part of the Proposed
Private Sector
Competitiveness Project II**

**Prepared for the
Government of Uganda**

July 04

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GLOSSARY

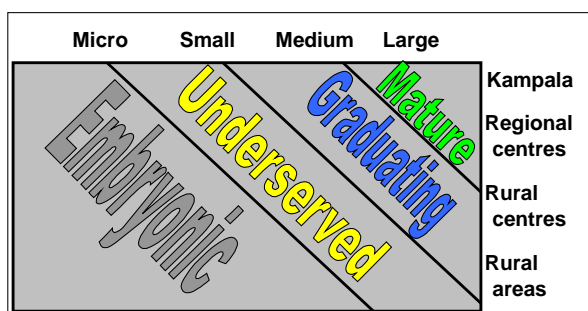
AMFIU	Association of Micro Finance Institutions in Uganda
APDF	Africa Project Development Facility
APEP	Uganda Agricultural Productivity Enhancement Program
BDS	Business Development Services
BDSP	Business Development Services Provider
BUDS	Business Uganda Development Services project
BUDS-EDS	BUDS – Enterprise Development Scheme
BUDS-SSE	BUDS – Small Scale Enterprises
BSMD	Business Services Market Development Project Uganda
DBDSP	Development of a Business Development Services Programme for MSMEs
EU	European Union
FM	Financial Management
GEM	Global Entrepreneurship Monitor
IDEA	Investment In Developing Export Agriculture
IDBTP	Issia Business Development Training Programme
IFC	International Finance Corporation
ILO	International Labour Organisation
IPB	Investment Promotion Bureau Uganda
MG	Matching Grant
ME	Micro Enterprise
MFI	Micro Finance Institution
MTCP	Medium Term Competitiveness Project
MSE	Medium Scale Enterprise
LSE	Large Scale Enterprise
OJT	On The Job training
PEVOT	Promotion of Employment-oriented Vocational and Technical Training
PTMS	Performance Tracking and Monitoring System (of BUDS)
PSCP	Private Sector Competitiveness Project
PSFU	Private Sector Foundation Uganda
SCOPE	Strengthening the Competitiveness of Private Enterprise
SEs	Small Enterprises
SEMA	Small Enterprise Media in Africa
SME	Small and Medium Enterprises
SPEED	Support to Private Enterprise Expansion and Development
SSFF	Small Scale Fish Farming project
SUFFICE	EU project to strengthen capacity of micro finance institutions in Uganda
TVET	Technical and Vocational Education and Training
UGIETA	Uganda Importers Exporters and Traders Association
UMA	Uganda Manufacturers Association
USAID	US Assistance for International Development
WB	World Bank

EXECUTIVE SUMMARY

Review of BUDS in the context of the BDS market in Uganda

According to a recent study, Uganda has the highest “Entrepreneurship Activity” index among all countries in which the surveys were held. In stark contrast to this, the BDS market for MSMEs is still poorly developed. Almost one in every three Ugandans is involved in business. In comparison, in the USA the score is only 12%.

Figure 1: Development stages of the BDS market

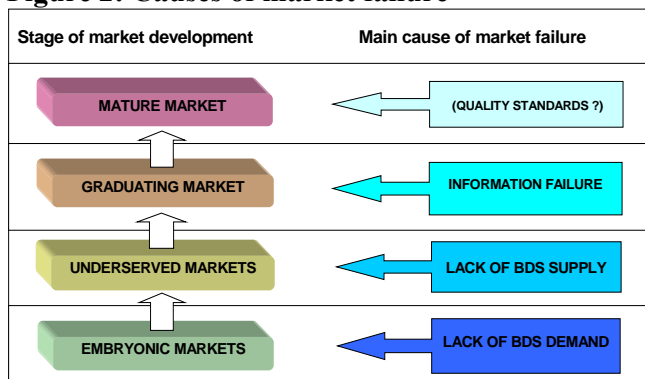


The market for the fully commercial BDS providers, which could be described as the ‘mature’ segment of the BDS market, is largely concentrated in or around Kampala, and dealing with larger enterprises. BDS for

smaller scale enterprise and services offered up-country cannot yet be characterized as a mature market, as transactions are either not done commercially or transaction volumes are low relative to the size of the market. In fact in a large part of the up-country business economy the BDS sector must be characterized as ‘*embryonic*’, since virtually no demand for BDS exist and consequently hardly any BDS takes place. Furthermore, even in market segments up-country where BDS exist, the market is generally ‘*underserved*’. There may be demand, but there are very few BDS providers, or the services offered are not appropriate for the type of enterprises concerned.

In view of the above observations, the implications for the BUDS program are to be reviewed. Market interventions will have to be based upon an understanding of the nature of ‘*market failure*’ in the market-segment concerned. A clear recognition of the fact that part of the market is affected by ‘demand failure’ has major implications for the way a program like BUDS must operate, at least when it intends to create outreach towards the rural areas and the lower brackets of MSEs.

Figure 2: Causes of market failure



It means, for instance that a demand-led approach, as practiced for the retail BUDS program is not likely to be effective in these markets. Likewise, general publicity for BUDS (advertising) will not generate response from these

market segments, as people do not recognize the need for BDS. And for the same reason self-diagnostic tools are not effective. In embryonic markets sensitisation is needed to create awareness and to turn potential demand into *effective* demand.

The existence of “*underserved*” market segments points at deficiencies in BDS supply; either BDS services are not appropriate for the type of MSEs, they are not affordable (not cost-effective), or not ‘packaged’ or delivered in the desired manner. These types of deficiencies in both demand and supply cannot be addressed by transaction subsidies only. Specific interventions, like sensitisation, product development and capacity building for BDS providers will be required. In “*graduating*” markets effective demand and BDS supply exist, but the market is characterized by ‘information failure’; clients still have doubts about the effectiveness of BDS, and providers may still doubt MSMEs readiness to pay. In such markets, transaction based subsidies are particularly effective, as they help both MSMEs and providers to gain experience. Finally, even in *mature markets*, certain deficiencies may exist that might justify intervention. For instance, when it is observed that in a particular export sector the product standards are not meeting international specifications, there may be justification for assistance in BDS product development or BDS capacity building to overcome the deficiencies in that sector.

Design framework

With the formulation of a new World Bank funding program for BUDS (as part of PSCP-II) the BUDS operations will be refocused and scaled up. Meanwhile, ongoing international consultations have led to the emergence of a high degree of consensus among donors on a new BDS paradigm. In this connection the BDS donor-coordination group active in Uganda has expressed some concerns about the current operation. It is against this background that the design framework has been formulated, and policy issues were addressed.

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General objective

BUDS aims to stimulate a process of innovation and increased outreach in the market of Business Development Services (BDS), to enhance access to quality services and to increase access in underserved market segments.

Specific goals

In line with international best practice, in particular the new BDS market paradigm, the following specific goals are to be distinguished;

- a. Development of the BDS market, so as to enhance outreach and competitiveness
- b. Improvement in institutional performance on provider level, to enhance sustainability of service delivery under commercial conditions
- c. Improvement of efficiency and cost-effectiveness of BUDS itself, and
- d. Client satisfaction and impact

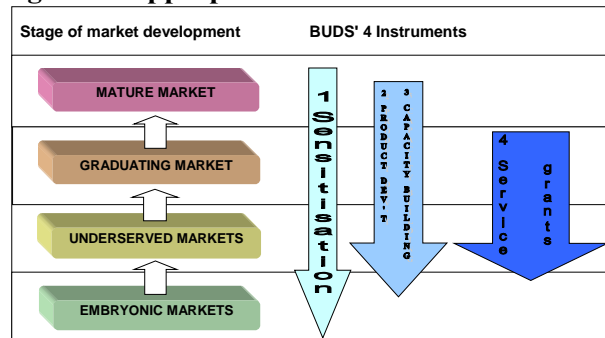
For each of these objectives measurable indicators are defined, which can be accounted for through adjustments in project tracking and monitoring system.

The new BUDS program will start off with two main financiers (EU, WB) and four different funding programs;

- BUDS-EDS; Business Development Services (EU, WB).
- BUDS-FM; Building MSMEs ability to access finance (WB)
- BUDS-Export; Raising skills, standards and quality for exporters (WB)
- BUDS-OTJ Training; linking MSMEs and TVET training institutions for On The Job (OTJ) Training (WB)

While these programs have different eligibility criteria, what they have in common is that they all work with matching grants and hence the basic operating modalities are the same. The new framework is formulated in such a way that these and future program components can be integrated in a consistent framework of objectives and measures of achievement that apply to them all. BUDS will have to work with delivery mechanisms that can deal with the diversity of program components. It is envisaged that this can be done through the two products currently used; the client-led approach (retail model) and intermediary-led approach (wholesale model). It will be necessary however to distinguish within the intermediary-led approach a diversity of sub-products or delivery mechanisms, according to the type of intermediary. Thus, there will be various delivery mechanisms such as Association-led, Exporter-led, Trainer-led, Financier-led etc. In the context of this study specific intermediary-led programs have been worked out for Associations and for Financial Management BDS, executed through certified trainers and accredited MFIs.

Figure 3: Appropriate instruments for intervention in the BDS market



BUDS has four instruments available for intervention in the market; sensitisation, BDS product development, BDS capacity building and service grants for BDS transactions. The diagram shows that

embryonic markets need to be approached first with sensitisation. Once sensitisation is resulting in effective demand supply oriented interventions become possible (i.e. development of appropriate BDS products and BDS delivery capacity). These two instruments may also be necessary in underserved markets, before transaction based subsidies (i.e. service grants) can be effectively used. BUDS need not to perform all these functions on its own. When other players have programmes in place for sensitisation, product development or capacity building, BUDS can come in with the service grant instrument to complement their efforts.

Based upon the market analysis, and the new objectives, various policy observations can be made;

- For graduating markets a *reactive* approach (demand-led) is appropriate and effective. For embryonic and underserved markets a *proactive* approach is required, in which cost effective BDS is developed and offered, together with a matching grant facility.
- More emphasis is needed on *wholesale* delivery, especially in embryonic and underserved markets. Collaboration with intermediaries creates a potential for greater outreach and outsourcing of tasks and responsibilities. This entails a move from emphasis on retail facilitation to wholesale facilitation wherever possible and appropriate.
- Assessment of the *cost effectiveness* is needed of various approaches practiced in that market which lead to the identification of the '*winning strategies*' for BDS delivery.
- *Broker linkages*. Turn potential intermediary institutions into *collaborating partners* by identifying the mutual interest of sustained collaboration and by formalizing it through a framework agreement or Memorandum of Understanding (MoU).
- Engage *sensitisation agents* like lead-firms, banks, MFIs, associations – especially for embryonic markets. Collaborate in sensitisation programs together with other organizations (incl. government and donor programs).

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- BUDS should not limit itself to the traditional BDS providers. It should open up to include *embedded BDS delivery* through existing trade relations, finance relations or membership organizations. Collaborating organizations could be associations, lead-firms in a commodity chain, exporters, MFIs etc.
- Market interventions should be *temporary* - a clear exit strategy should exist.

The *exit strategy* should present the mirror image of the intervention logic. If justification for intervention ceases to exist, exit is mandatory. In principle in a mature market segment the matching grant for BDS transactions should be reduced to zero. Continuation of subsidy would constitute a market distortion. Hence the following rates could be considered:

Table 1: Matching grant contributions

	Sensitisation	Capacity building	Product development	BDS transactions
Embryonic markets	100%	50%	50%	50%
Underserved markets	100%	50%	50%	50%
Graduating markets	-	50%	50%	25%
Mature markets	-	25%	25%	0%

Under current procedures the client is supposed to pay the remaining part. While this is a good principle for the retail transactions in graduating markets (client-led approach), it creates problems in the intermediary-led approaches in underserved markets, e.g. for associations when it comes to product development or capacity building. Most associations will not be capable of paying the complementary part to the matching grant. For associations this would mean that they should be allowed to scout for the remaining 50% of capacity building and product development from other subsidy sources (e.g. Ignition Fund).

It should be noted that market development is a slow process and hence 'exit' is related to specific market segments and sub-sectors. Total 'exit' may be a long way off.

Delivery through intermediaries (wholesale model)

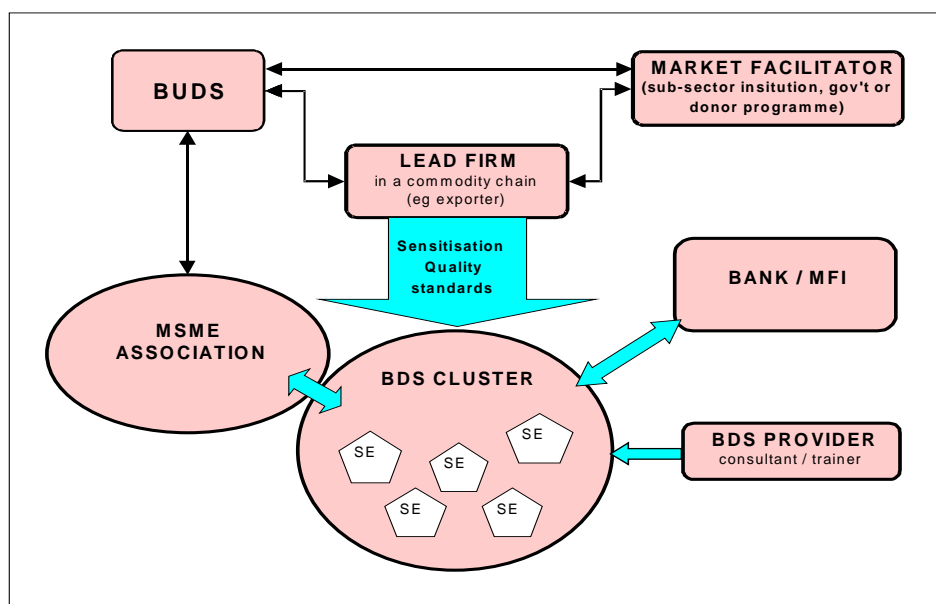
In order to achieve the objectives of the new program (greater outreach, better efficiency, cost-effective delivery methods) it is desirable that BUDS also turns these indirect delivery models into true 'wholesale' approaches, in the

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sense that the dealings with the ultimate beneficiaries are left to the intermediary as much as possible. In this delivery model, as illustrated in the diagram below, there can be up to 4 parties that can act as leading intermediary;

1. A business association involved in clustering SE-participants in the BDS event.
2. The lead firm in the commodity chain (e.g. an exporter) taking an interest in the BDS event (for instance by paying part of it).
3. A BDS institution arranging for training
4. A market facilitator; like specialized sub-sector programs

Figure 4: Partners in BDS delivery



Association-led delivery

In this model the association takes the lead, after going through the initial steps leading to a collaboration contract. The association organizes its members to participate in a BDS event and it arranges for a BDS provider. To get there, BUDS has to undertake a number of preparatory steps, which include;

- Screening of associations (with partner selection tool) and select those with highest ranking
- Assessment of their capacity building and product development requirements

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- Approval of work plans submitted, and conclusion of collaboration agreements (including the commission to be paid for various tasks undertaken).
- Start off products development (e.g. diagnostic tools) and capacity building (if necessary)
- Implementation of a trial BDS program, to assess capabilities in practice
- Monitoring and evaluation of trial BDS events.

While the ultimate aim is that BUDS could outsource a program entirely to an association, in practice this may require a process of gradual handing over of tasks. It starts with support for BUDS in client recruitment and follow up, through steps of gradually increased outsourcing (steps A to C in the table below). Associations with high ranking, may start immediately with partial outsourcing.

A. Support for BUDS	B. Partial outsourcing	C. Complete outsourcing
<ul style="list-style-type: none"> ▪ Sensitisation of members ▪ Client recruitment ▪ Disseminate information on BUDS ▪ Train members in proposal writing 	<ul style="list-style-type: none"> ▪ All under A. . ▪ Link to rural associations ▪ Organize clusters ▪ Manage promotional programs on behalf of BUDS 	<ul style="list-style-type: none"> ▪ All under A. and B. ▪ Manage program on behalf of BUDS ▪ Appraise proposals ▪ Review deliverables ▪ Monitor performance

It is envisaged that BUDS will collaborate with 5-8 associations, especially those that represent MSMEs and those with regional/district representation. The functions that associations do will have to be paid on commission basis.

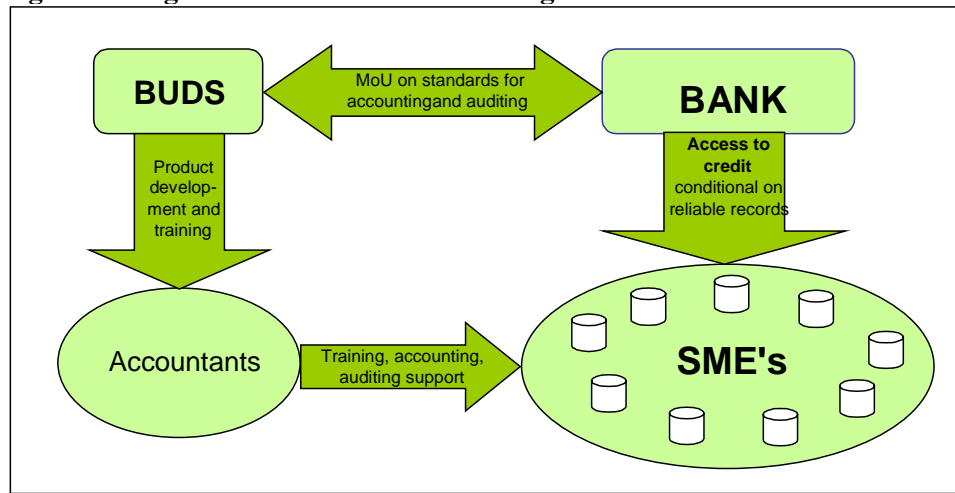
Development of FM-BDS for Small and Medium Scale Enterprises

It is envisaged that BUDS will give special attention to the development of a dedicated program for improvement of *financial management* (FM) practices. BUDS will provide funding for product development to a provider (consulting/accounting firm) to carry out research and develop a FM-product for SMEs on an individual basis. Consultation with the ICPAU has not resulted in an expression of willingness to cost-share product development.

A cadre of accountants and a group of accounting firms interested in working with SMEs would be trained and certified in the delivery of this FM-product to the SMEs. Through this accreditation procedure, and related framework contract, the parties should be able to apply for matching grants. While initially the program may start along the lines of the retail approach (current procedures), ideally a degree of outsourcing to an intermediary (e.g. accounting firm) should be aimed at. The firm or institution acting as intermediary, should not at the same time be also a provider. Banks would be

brought on board as linkage partners for purposes of referring their clients who are in need of BDS to BUDS. BUDS (or the intermediary on behalf of BUDS) on its part under the linkage partnership would refer eligible SMEs (whose FM practices has been improved) to the Banks for access to finance. The diagram below shows the relationships between the various players in this model.

Figure 5: Organization of Financial Management Services for SMEs



In order to arrive at this collaboration, BUDS will have to create a *network arrangement* with the parties involved. This would involve;

- Conclusion of an arrangement with relies on minimum requirements for accounting, FM and auditing, as well as referral of bank clients.
- Detailed design of the scheme (contracted out);
 - the FM training and accounting product
 - a training program for young accountants
 - selection of an intermediary (tender)
 - the BUDS matching grants support for accounting services provided (framework contract with intermediary concerned)
 - the publicity required to launch the scheme
- Implementation of the training program (contracted out)
- Implementation of the FM-BDS services program for SME by trained accountants under a framework contract with BUDS.

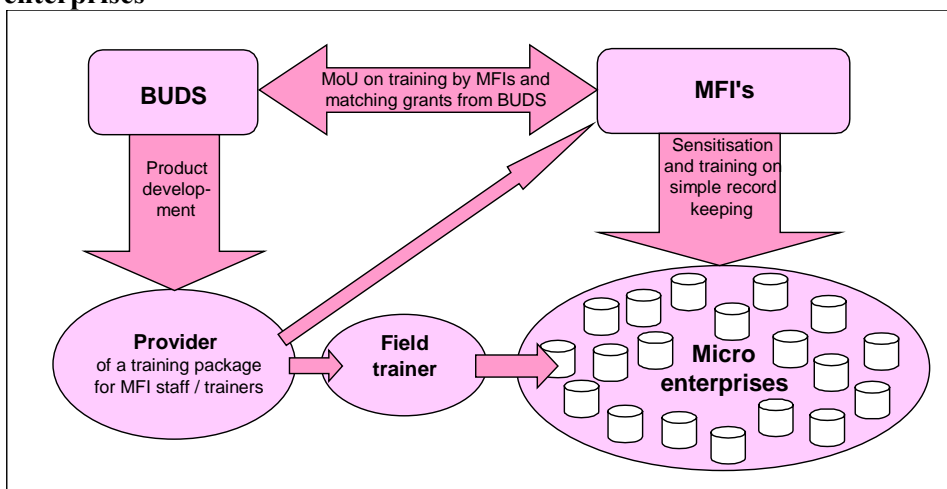
Development of FM-BDS for Micro-Enterprises

BUDS would provide funding for product development to a capable institution to carry out research and develop an FM-product for micro-enterprises on a cluster or group basis. A cadre of Accountants interested in working with Micro-enterprises would be trained and certified in the delivery of this FM-product to the micro-enterprises (MEs). Through an accreditation procedure as

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described above, and related framework contract, the parties should be able to apply for matching grants. Again, the accounting firm acting as intermediary, should not at the same time also act as a provider or trainer. The economies of scale of servicing a group of many MEs would make it commercially viable for the BDS provider on the one hand, and make it affordable to the MEs on the other hand. The MEs might make a small contribution each into the financial pool for paying for the group BDS service. MFIs would also be brought on board as linkage partners with BUDS for purposes of referring their clients who are in need of BDS to BUDS, and possibly as co-sponsors of the training. BUDS on its part under the linkage partnership would refer eligible Micro-enterprises (whose FM practices have been improved) to the MFI (or bank) for access to finance. Figure 6 below shows how this model would work.

Figure 6: Organization of Financial Management Services for micro enterprises



Similarly to the SME program, a networking arrangement needs to be worked out for this component. It would involve;

- Conclusion of an arrangement (MoU) with Micro finance Institutions, on minimum an appropriate training product for record keeping and financial management by micro enterprises. MFIs will have to decide whether to leave the training of micro-entrepreneurs to their own staff (in-house capacity) or to contract it out to independent field trainers. An important feature of this contract is the willingness of the MFIs to co-finance the fee for the field trainers, or to allocate their own staff for this function.
- Detailed design of the scheme (contracted out);
 - Development of the training product
 - Design of a training-for-trainer program for MFI staff or independent field trainers

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- Design of an arrangement for the BUDS matching grants in support of training services provided to micro-enterprises (framework contract with accountants concerned)
- the publicity required to launch the scheme
- Implementation of the training program (contracted out)
- Implementation of the FM-BDS services program for MEs by trained accountants under a framework contract with BUDS.

Implications for BUDS organization and management

The new approach has major implications for the way BUDS operates. It should be noted that the intermediary-led approach is not entirely new – BUDS has worked already with and through associations – and neither will there be an abrupt break in the operating modalities. The current demand-led approach will be continued for graduating markets. The transition will be gradual as the new delivery mechanisms are being developed. Thus it is envisaged that the current BUDS project management unit will be able to gradually adjust its operations. Yet the implications of the new approach need to be considered. These include;

- Procedures and operating manual
- Performance monitoring and evaluation
- Organization – staff capacity
- Planning of Operations and budgeting
- Planning of a base line survey and mid term review

As part of the current assignment some aspects are covered (procedures manual, performance monitoring); others are not. In respect of the latter, it was agreed that the team would attempt to outline what it sees as the next steps to be taken.

Procedures and operating manual

In order to create a unified framework of operations, it is desirable to devise a new Operating Manual with a modular framework for policies and procedures. Within this framework, some policies and procedures are generic, where others must be specific for the funding component or the delivery system concerned. Much of the content of the new manual can be taken over from the existing BUDS manual, but especially for the procedures related to each step in the BUDS process cycle (spanning from application to payment) are to be described more systematically. Thus a modular structure for the Operations Manual is proposed that logically follows the process cycle (chapter 7 of the report).

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Performance monitoring and evaluation

In line with the new framework of objectives, a comprehensive set of measurable indicators has been formulated. It is envisaged that with minor adjustments to the current Performance Tracking and Monitoring System the indicators required can be produced. This will create a wealth of ratios and indicators, on the basis of which management decisions on market intervention can be improved, and monitoring of performance is greatly enhanced. A framework for performance monitoring and evaluation has been worked out.

Planning of Operations and budgeting

In the inception phase of the new BUDS, a Plan of Operations needs to be worked out, which includes;

- Activity planning; refinement of the framework of objectives and goals, to include targets and timeframe for each of the program components (EDS, FM, Export, OTJ) and for the four program instruments (sensitisation, capacity building, product development). Completion of logical framework.
- Assessment of workload and manpower requirements - division of work
- Financial projections – budgeting – target setting
- Adjustments in operating procedures
- Marketing and communication work plan
- Adjustments to PTMS - planning of base line study and mid-term review

While it is vital that management plays an active role in the planning of operations, it is envisaged that consultancy support shall be required.

As part of the inception phase of the new BUDS program it seems desirable that a human resources assessment be done against (a) the projected increase in workload from retail and wholesale transactions and (b) the new functions that are introduced, especially related to the wholesale approach and the capabilities required.

Baseline study and mid term review

It seems desirable that prior to the start of the new phase a base-line survey is carried out, so as to create a frame of reference for future reviews and evaluations. This can be limited to what BUDS staff can do internally (BUDS survey), or it can be a more comprehensive base line survey that is contracted out (comprehensive survey). With some adjustments the current data base programme (PTMS) and a rapid rural appraisal, BUDS could produce a market baseline study. If a more comprehensive survey is required that covers

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the BDS market on both the supply and demand side, a statistically valid sample survey would be required. This would have to be contracted out.

The mid term review could use the same methodology and PTMS analysis as adopted for the base line study.

1. INTRODUCTION

As part of the formulation of a new phase for the Private Sector Competitiveness Project, the Government of Uganda has contracted Maxwell Stamp Plc (GB) for the component called “Development of a Business Development Services Programme for MSMEs” (hereinafter abbreviated as the DBDSP mission). The programme is implemented and managed by the Private Sector Foundation Uganda (PSFU).

The assignment was executed by Maxwell Stamp with three consultants; Joost de la Rive Box (team leader), Sarah Kitakule and David Kimoino, in the period 23rd April – 11th June. The study was done in three stages; (i) an inception stage for interviews and production of the Inception Report, (ii) field research and (iii) team analysis, PSFU workshop and report writing. The first phase was completed with the submission of an Inception report, which outlined the focus and approach of the study. It specifically described how the Terms of Reference for the assignment was interpreted, and how the various issues highlighted would be covered in the final report. The Inception Report was approved by PSFU and thus is the structure and contents of the current report following what was agreed upon.

The inception phase of the DBDSP mission coincided with the World Bank appraisal mission for the Private Sector Competitiveness Project II (PSCP-II). On request of PSFU the team consulted with the World Bank team, to see how best the BDS component could be structured within the framework of the PSCP-II. In consultation with the World Bank team the focus of the mission was discussed and conclusions were drawn in respect of the approach to be taken. First, in view of the fact that the appraisal of the programme is already almost completed, the review of the previous BUDS projects, as foreseen in the Terms of Reference, could focus on the ‘lessons learned’. Secondly, the mission could take the World Bank appraisal note as a starting point; especially the “Annex 4; for Project Component 2 – “Enhancing Enterprise Competitiveness”¹. Finally, the output of the DBDSP mission should primarily be helpful in the implementation of the new project. Hence it should focus, within its Terms of Reference, on the ‘translation’ of the above project outline in a more detailed project design framework that would be helpful to PSFU in implementation of the new programme.

¹ Annex 4: Detailed Project Description – Uganda: Private Sector Export Competitiveness II – 5th June 2004 – Especially sub-Component 2.1: Matching grants for Productivity Enhancement, Financial Management and Export Growth.

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In executing the assignment, the following principles and guidelines were taken into consideration:

- International best practice standards (new BDS paradigm²)
- The new programme as outlined by the World Bank and the translation of the explicit and implicit aims and objectives into a more detailed design framework.
- The aim to create unified framework of objectives, policies and procedures that are workable and efficient for BUDS management.
- Highlight the policy issues to be decided on by PSFU, together with options and recommendations to be considered.
- Outline important steps in implementation, especially those that may need to be outsourced.
- Consultation with the main stakeholders (PSFU, BUDS) so as to incorporate their considerations and lessons of experience.

Towards the end of the assignment a workshop was held at PSFU with the direct stakeholders of PSU and MTCS. All comments and suggestions have as much as possible been incorporated in this report.

² BDS for Small Enterprises – Guiding Principles for donor intervention – 2001 – Committee of Donor Agencies for Small Enterprise Development

2. BDS IN UGANDA - LESSONS LEARNED

2.1 OVERVIEW OF THE BDS SECTOR IN UGANDA

2.1.1 ENTREPRENEURSHIP IN UGANDA

According to the GEM Uganda 2003 report³, Uganda has the highest Total Entrepreneurship Activity (TEA) index among all countries in which GEM surveys were held. Almost every third Ugandan (29%) is engaged in some kind of entrepreneurial activity. In comparison the USA has a score of only 12%. Not only is the score in Uganda extraordinarily high, also its characteristics are remarkable. Generally in developing countries the “entrepreneurship by necessity” is higher than in the developed countries; while for “entrepreneurship by opportunity” it is generally lower. Uganda however has the highest rates for both “necessity” and “opportunity” entrepreneurship.

2.1.2 INVESTMENT CLIMATE

Uganda has implemented a programme of Economic reform aimed at maintaining macroeconomic stability and stimulating economic growth by promoting fiscal discipline, private sector activity, export diversification, institution building and liberalization of the financial sector. During the 1990s Uganda benefited from relatively high levels of growth (6.9 % average), but is currently experiencing an economic slow down, with growth rates below 5 %.

Uganda has initiated a number of measures aimed at improving the business environment. These include the Medium Term Competitiveness Project (MTCP) for private sector development, the Deregulation Project and the Support for Private Enterprise Expansion & Development (SPEED) project. They are carried out by the GoU with the support of various donors such as DFID, USAID, EU and World Bank.

According to the Investment Promotion Bureau (IPB) the greatest obstacles to growth reported in 2001 by private enterprises are:

- Access to finance
- Tax and administration
- Bureaucracy and corruption

³ Global Entrepreneurship Monitor - GEM Uganda 2003 Executive Report, Makerere University Business School, 2003.

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The registration of a new firm takes in Uganda some 36 days, as compared 4 in the US. In Kenya it takes 67 days, in Tanzania 37. On this indicator Uganda scores average for regional standards, but low in comparison to international best practice standards.

2.1.3 CHARACTERISTICS OF THE BDS MARKET IN UGANDA

Relative to the remarkable record in respect to entrepreneurship, the BDS sector is still underdeveloped. As no BDS survey has been executed in Uganda, no detailed data are available. According to the Uganda Business Inquiry of 2000/2001 a total of 1947 businesses were counted in the Business Service Sector, which includes all businesses engaged in real estate, renting of machinery and equipment, ITC firms, Research and Development and “Other” related activities. In Research and Development, Market research and Management Consultancy 143 businesses are counted, out of which 103 in Central Region. Accounting has 97 businesses out of which 70 in Central Region. Computer related services are 146 (125 in Central). Private consultants and training institutes do exist, but their market share is relatively small.

Table 2.1: Development stages of the BDS market

Micro	Small	Medium	Large	
				Kampala
				Regional centres
				Rural centres
				Rural areas

The market for the commercial providers, which could be described as the ‘*mature*’ segment of the BDS market, is largely concentrated in or around Kampala, and dealing with larger enterprises. BDS Services for smaller scale enterprises and services

offered up-country cannot yet be considered mature, as transactions are either not done commercially or transaction volumes are low relative to the size of the size of the market. As illustrated in table 2.1, in fact a large part of the BDS component within the up-country business economy can be characterised as ‘*embryonic*’, in view of the fact that hardly any BDS transactions take place. Furthermore, most observers agree that even in market segments where BDS exist, up-country and for smaller enterprises the market is underserved. There are very few BDS providers, or the services offered are not appropriate for the type of enterprises concerned. SNV conducted a BDS Market Assessment in the West Nile region, which sheds light on the lower strata of

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the market. Despite the fact that the region has vibrant business community, it observes that the market is characterised by “weak demand – weak supply” [4].

Quote from SNV West Nile Study;

“The study recognises the existence of weak or extremely weak markets, market failures and inadequate enabling environment that would need increased external or public facilitation in the provision of business development services. “

“Micro and small entrepreneurs are not always recognising the need for a solution or are not always willing to pay for a particular business development service. Suppliers offer often services that are not favourably priced or conveniently available or packaged in a form that is directly useable by micro and small enterprises. “

“If either recognition of a need to solve a problem and willingness to pay are very low or absent, then demand is latent or not-existent and market opportunities are limited (or need specific approaches in case of latent demand). A weak demand situation might be when recognition of a need to solve a problem is well established, but willingness to pay is low or conversely when there is willingness to pay but little or no recognition of a problem. The market opportunity in a weak demand situation is limited, unless the BDS provider can overcome the willingness to pay or assist MSE to increase awareness of business problems and the availability (and value) of relevant solutions.”

The study gives a number of reasons for low or absent demand:

1. Limited access to information sources;
2. Lack of awareness of BDS benefits
3. Lack of exposure to opportunities (no knowledge of available BDS)
4. Distance from the BDS suppliers
5. Language barriers
6. Tax differential (between districts)
7. High cost of training
8. Negative perception (e.g. for training to be paid for – expectation of seating allowances)
9. Insecurity

Whatever the cause, when potential MSE needs are not expressed as effective demand, BDS transactions do not take place and the BDS market in that case could best be described as ‘embryonic’. In other areas, often as a result of (previous) government initiatives or donor programmes, training and other BDS is offered at some cost and hence there is a beginning of a BDS market with supply and demand. These markets could best be characterised as ‘*underserved*’ (limited providers, limited service variety) or ‘*graduating*’. The latter qualification would be merited in situations where commercial BDS has

⁴ SNV/Netherlands Development Organisation Uganda – BDS Market Assessment for West Nile Region 2003

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taken root, but transactions are either subsidized or low in volume relative to the market in which the enterprises operate.

2.2 OVERVIEW OF DONOR FUNDED BDS PROGRAMMES

The donor community in Uganda is very active in the field of enterprise development. A specific donor coordination group was established for Business Development Services. As many of these programmes are complementary to the operations of BUDS, and may offer interesting opportunities for collaboration, a brief over view is presented. The overview is partly based on information made available by the donor coordination group. A more elaborate description of the major BDS donor programmes is provided in Appendix 2.1 and 2.2.

AMFIU

AMFIU is a National Network and Umbrella Organisation for MFIs throughout Uganda and its major activities are lobbying and advocacy, coordination of capacity building, performance monitoring and Information dissemination. All these lead to BDS. It seeks collaboration with others mainly for lobbying and advocacy.

APDF

The Africa Project Development Facility is financed by IFC to support the development of competitive SME's through Business Advisory Services, Enterprise Support Services and Skills Development (Training). APDF aims to collaborate with those donor programmes that have funds for technical assistance but do not have the capacity to implement the program on the ground. One such service may be the APDF diagnostic business evaluation.

APEP

The Uganda Agricultural Productivity Enhancement Program (APEP) is a 5-year project funded by USAID (up to November 2008). It aims at expanding economic opportunities in the agricultural sector, by catalysing transformation from subsistence to commercial agriculture. It identifies market-driven opportunities in commodity chains, especially for the sub-sectors of coffee, cotton, bananas (matoke), spices (vanilla, cardamom), grains and oil seeds maize, rice, sesame, sunflower, soya and floriculture. APEP works with producer organisations to develop linkages, management systems and revenue streams.

BSMD

The Business Services Market Development Project Uganda (BSMD), financed by DFID, aims to enhance the competitiveness of businesses in key

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sectors of the Ugandan economy where there are opportunities for pro-poor growth. These sectors include the agro-business and tourist sectors amongst others. BSMD facilitates the development of more effective markets for business services in terms of size, diversity, demand, access, etc. The activities undertaken are a series of strategically focused interventions that aim to leverage market-based solutions to key business constraints, such as information, skills, technology, access to markets for inputs and outputs. This will be done at the micro- or sectoral level.

FIT Uganda

FIT Uganda is a private company, which benefited from support by ILO. The programme aimed to test the approach of using venture capital to stimulate service delivery. It has now changed to focus on testing models for stimulating service delivery without equity stake in the ventures. The programme has focussed on supporting the development of newspaper supplements on small business in collaboration with the Monitor Newspaper Group and supporting an organic dried fruit exporter to develop a business start up package for small business organic fruit drying that is licensed to companies that will act as suppliers to the exporter.

Investment In Developing Export Agriculture (IDEA)

This USAID financed project aims to provide technical and/or management consultancies in various areas of production, post-harvest handling, management and marketing to individual producers/exporters in the area of Non-Traditional Agricultural Exports.

IBDTP

The Issia Business Development Training Programme organizes training courses aimed at training change agents to become trainers of clients in various parts of the country in business skills. The Change Agents are located all over Uganda and would thus form a network to bring new skills into the societies.

SCOPE

The project “Strengthening the Competitiveness of Private Enterprise” is a USAID funded project (3 years) and aims at strengthening the private sector in selected sub-sectors. It does so by technical assistance for capacity building, networking and advocacy. The latter two functions are aimed at a private-public dialogue and the creation of a more enabling environment for business growth. The sub-sectors selected are coffee, cotton, oil seed, grains, fisheries, dairy, cut-flowers and tourism. In view of the fact that SCOPE has no grant funds available to support initiatives, collaboration with other programmes could create synergies.

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SPEED

The Support to Private Enterprise Expansion and Development (SPEED) project is financed by USAID and implemented since March 2001. It is designed to meet the needs of MSMEs and it focuses on access to finance and business skills development. It seeks to increase, create and expand agricultural and non – agricultural enterprises, and strengthen legal and regulatory frameworks for business development. SPEED implements activities focused on SME finance, micro finance, Business Development Services (BDS), and legal and institutional environment to support its goals.

SSFF

This DFID funded Small Scale Fish farming project works with both service providers and farmers in the aquaculture sub-sector. The project initially provided technical training to local government extension staff. It has revised its strategy to target private sector service providers; i.e. specialist advisory service providers and fish fry producers who provide advice as a means of promoting sales.

SUFFICE

The SUFFICE programme, which is financed by the EU, aims to strengthen the capacity of micro finance institutions in Uganda. The Programme also supports linkages to and interaction with cost-effective BDS for micro-, small and medium scale entrepreneurs to meet their needs for capital, better market access, new technologies, input supply and appropriate training, as well as the development and diversification of the financial products on offer. The Programme makes most of its capacity building support available through demand-led and declining *matching grants* to MFIs and other organisations seeking capacity building services from suppliers with good track records.

Small Enterprise Media in Africa (SEMA)

A two year project funded by SIDA will work with the Ugandan media to enhance access and exposure of micro and small enterprises (MSEs) to relevant and valuable information, platforms for public debate on business issues and forums for public dialogue on policy formulation for business. These services will be provided through the commercial media with a particular focus on the radio industry as a commercial service provider.

An overview of all interventions is given in table 2.2 below.

**Table 2.2: Mapping of Business Development Services (BDS) in Uganda
(BDS segments and approaches of donor funded programmes)**

BDS SEGMENTS ⇒		Training				Consultancy and Advisory				Information and ICT			Market Access and business linkages					Infrastructure and Technology			Miscellaneous			
0 = BUDS	7 = FIT UG.	SERVICE	Technical training for existing businesses	Management training for existing businesses	Technical training for start-up businesses	Management training for start-up businesses	Consultancy, counselling and advisory services	Legal advisory services	Financial and taxation advisory services	Business and Market Research	Information through mass media.	Information through other channels	ICT and internet services	Exchange visits and business tours	Firm to firm linkages	Trade fairs and exhibitions	Showrooms	Franchising and licensing	Business incubators and industrial zones.	Technology transfer	Equipment leasing and rental	Advocacy	Certification and standardization services	Other
1 = AMFIU	8 = SBSU																							
2 = APDF	9 = IDEA	BDS DELIVERY APPROACH																						
3 = BMSD	10 = SEMA	Direct delivery of BDS through donor project or NGO (with no aim for commercialisation of the service)	5	5	5		5				5	5		1, 5								1, 5	1	
4 = SPEED	11 = IBDTP	Direct delivery of BDS through donor project or NGO (with aim for commercialisation of the service within the life of the project)	11	11			13	13	13	13														13
5 = Fisheries	12 = APEP	Providing (matching) grants and subsidies to MSEs to purchase services.	0, 2 4, 9	0, 2 4, 9	0, 2 9	0, 2 9	0, 2 4, 9		0, 2	0, 2 4, 9		2	0, 2 4	0	0, 2	0		0, 2				4	0, 4	
6 = SUFFICE	13 = SCOPE	Providing technical support ⁵ to existing private sector (commercial) companies to offer BDS without subsidy.	3, 4 11	3, 4 11	3	3	3, 4 10	3, 10	3, 10		10			3, 13	3, 13	3	3	3, 13	3, 13	3, 13	3, 13	10	3, 13	13
		Financial support to private sector (commercial) companies to test and develop new services	11	11	7, 8				6		7, 8	6				6		7, 8		7, 8			6, 7, 8	
		Supporting membership organisations, associations, chambers of commerce etc., to deliver services.	2, 11	2, 4, 11	2, 7, 8	2	13		2	13	7, 8, 13	2, 13	13		2	6		2, 7, 8	2	2, 7, 8		13	6, 7, 8, 13	4, 13
		BDS provided by financial institutions (MFIs Banks etc.)	4	4, 6			4													6				
		Other	2, 4	2, 4	2	2	2, 4		2	2		2			4		2	2	2			2		

Source: Compiled from data of the Donor Coordination Committee on BDS in Uganda of 2003 updated as per May 2004

⁵ Technical assistance refers to non-financial support.

2.3 ANALYSIS OF CURRENT DONOR PROGRAMMES IN BDS

In table 2.2 the above described donor programmes are analysed in terms of BDS segments covered and the delivery approach adopted.

The five most frequently supported BDS segments are (ranked according to importance):

- Management training for existing businesses;
- Technical training for existing businesses;
- Consultancy, counselling and advisory services;
- Technical training for start-up businesses; and
- Franchising and licensing.

This shows that currently the focus is on training, consultancy and market access and business linkages.

In terms of delivery instruments the top five approaches in Uganda are:

- Providing (matching) grants and subsidies to MSMEs to purchase BDS services;
- Providing technical support to existing private sector (commercial) companies to offer BDS without subsidy;
- Supporting membership organisations, associations, chambers of commerce etc., to deliver services;
- Financial support to private sector (commercial) companies to test and develop new services; and
- Direct delivery of BDS through donor project or NGO - with no aim for commercialisation of the service.

It can be concluded that grant and matching grant (or subsidy) systems are still the most popular means of intervention in the BDS market, followed by capacity building for BDS providers and intermediary organisations.

2.4 BRIEF REVIEW OF EXISTING AND PAST BUDS PROGRAMMES

Three programmes to support increased access of business development services have so far been implemented by the Private Sector Foundation Uganda (PSFU). At the core of all the schemes was a cost sharing grant scheme in which firms were to receive up to 50 percent of the costs of consultants and other service suppliers.

The first scheme named the “Business Uganda Development Scheme” (BUDS) was the second component of the 1st Private Sector Competitiveness

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Project (PSCP) financed by the World Bank. The project ended in 2000. It was designed to inject know-how and expertise into Ugandan firms. The component cost was US\$ 7.5 million with the IDA providing US\$ 4.5 million. BUDS was designed to be temporary and to wind up with the expiry of PSCP. The scheme made allocations for 1429 activities valued at US\$ 3.8 million, exceeding the original estimate by US\$ 858,000. Of these 1,208 activities did actually take place and were reimbursed to the value of US\$ 2,877,223 equivalent to 96 percent of the grant pool.

Early 2001 a new program code named BUDS-SSE (Business Uganda Development Scheme – Support to Small Enterprises) to replace BUDS was launched. It was designed to support the acquisition of know-how through business training programs in order to increase the capacity and performance of the Ugandan private sector with specific emphasis on micro and small enterprises employing less than 10 people. The European Union provided Euros 700,000.

Overall the scheme was able to meet and in some cases supercede the targeted results. The scheme recorded a total of 350 approved activities of which 308 were successfully completed and reimbursed. The gross allocations over the period were Uganda Shillings 609 million and net reimbursement were about Uganda shillings 481 million representing over 85% of the total scheme budget on “ acquisition of Know-how “

The Business Uganda Development (BUDS) reported significant successes⁶, with companies that collaborated in this component achieving significant increases in output and/or sales. In general, all but one of the BUDS benchmarks were met or surpassed. BUDS-SSE also reported highly satisfactory results. According to the independent studies on both schemes the majority (over 85 percent) of firms that collaborated with BUDS reported positive impressions about BUDS, its services and staff.

The overall assessment of BUDS showed that sales growth was reported among 73 percent of the BUDS clientele, with the average growth at 42 percent over a 2-year period after the BUDS sponsored activity however, for BUDS-SSE⁷ only 27 firms out of a sample of 126 were able to state the change in sales after six months and twelve months respectively. This could be an indication of the weaknesses most MSE's face in bookkeeping. What is important to note is that the few who reported increased sales attribute this to BUDS-SSE Support. Other indicators used to measure performance however showed that firms were able to access new markets, improve management, customer service and institute systems in their businesses.

⁶ Implementation Completion Report - PSFU

⁷ Draft Impact Assessment report – BUDS-SSE

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Both schemes had their main beneficiaries located around the Kampala business district. BUDS-SSE made a lot of effort to reach upcountry clients. This involved the scheme implementers conducting direct marketing of the program through workshops and visits to enterprises up country locations. Contacts with districts outside Kampala showed that there was a reasonable market for business development service, at the moment with expansion possible in the provinces with promotion and sensitisation.

At the expiry of the BUDS-SSE in 2003, a new expanded program BUDS-EDS (Business Uganda Development Scheme – Enterprise Development Support) was launched. The scope of activities was broadened to not only cover training but also other BDS services. This is because the firms indicated need for other services that were critical to the growth of their small firms. The scheme covers small, medium and large enterprises. It does recognize the need to build the capacity of associations that can now apply for the matching grant facility to improve service delivery to their members.

The three schemes were designed to operate as independent units within the PSFU. This was for operational ease and flexibility. It also meant that since they were project based the sustainability issue did not arise. The problem with this model is that the units remained quite divorced from the mainstream activities of the PSFU and did not utilize the linkages with the member associations of PSFU

Based upon these evaluations and additional field research, a number of observations can be made that are relevant to the structuring of future BUDS activities.

2.4.1 OBSERVATIONS ON SUPPLY

- The quality of consultants remains poor with many of them lacking the necessary skills to help enterprises solve their problems. Those with the capacity find the micro, small enterprises sectors less attractive because of their inability to pay commercial market rates.
- Existing business associations are weak and in dire need of capacity building. It is difficult for the scheme managers to locate collaborative partners with the capacity to market the programmes on their behalf.
- Outreach to enterprises remains a challenge. The Scheme managers, past and present had to spend a lot of time sensitising enterprises directly, which is not cost effective. The enterprises in turn have to submit their application in Kampala because there are no receiving centres outside Kampala. This may negate the matching grant depending on the cost of the activity.

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- Associations active in the MSME field are generally willing to collaborate with BUDS for marketing of its services, but not without a degree of support. Generally the associations are very weak, and need capacity building support before they can be effective vehicles for BDS promotion/implementation.
- Interviews with other institutions and donor programmes active in the BDS sector indicate that generally there appears to be good scope for collaboration on the basis of mutual benefit. This enhances the prospect for wholesale approaches.

2.4.2 OBSERVATIONS ON DEMAND

- For all market segments affected by ‘demand failure’ the demand-led approach, as adopted by BUDS for its retail operations, is not effective. This may partly explain why BUDS needs to put in much effort to ‘scout’ for clients.
- In the retail model the workload for BUDS is considerable, as a lot of ‘handholding’ is required to guide the client through the procedure. Even in the stages in which the client or the provider are supposed to take the lead, in practice BUDS will still be involved in order to maintain momentum and avoid delays or transaction-failure. This has drawn BUDS more into direct interaction with the client than was foreseen.
- BDS providers observe that the scope for ‘self diagnosis’ is limited. Especially small entrepreneurs are often unaware of their own weaknesses, both as an entrepreneur and as a business.
- A common complaint is the ‘forms to be filled’ and ‘coming to Kampala to find out something is missing’. The ‘retail’ approach of BUDS does not work for micro enterprises and does not work well for SEs far from Kampala.
- Interviews with clients and providers have revealed that prior to application usually there has been consultation between the two about the expenditure and the matching grant. This means that whether the MG is paid to the client-beneficiary or to the provider is immaterial for the structuring of the transaction. The regulation practiced until now that the payment is made to the client in order to avoid market distortion, does not seem to be necessary. The question whether or not market distortion takes place is not dependent upon the method of disbursement.

2.4.3 OBSERVATIONS ON PROGRAMME DESIGN

- The traditional modes of BDS (consulting type) are usually not cost-effective and/or appropriate for micro enterprises.

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- The current ‘retail’ approach of BUDS cannot be maintained when the programme is substantially expanded and when outreach to the rural areas is aimed at. A move towards ‘wholesaling’ through intermediary organisations appears to be necessary.
- The programme lacks indicators (performance monitoring) and benchmark data on provider level and on market-development level.
- The value of the criteria of ‘improved sales’ for impact assessment is limited in practice. Since enterprises keep no records or, if they do, will not reveal them to assessors, the sales figures quoted cannot be checked against the facts. Moreover, when sales did increase substantially, it is impossible to attribute how much of this growth is due to the BDS received.
- From a point of view of market development, the client impact criteria are inadequate to assess programme performance. A positive client impact assessment does not imply that the service provided has a good chance of becoming commercially viable. The hypothetical question ‘would you be prepared to pay the full amount next time’ is hard to substantiate. It is therefore recommended to eliminate this criteria as a measure of effectiveness.

2.4.4 DONOR CONCERNS

In a recent meeting of donors in Uganda (including the EU) a number of issues were tabled in respect of BUDS that are worth noting:

- The limitation in current regional and sectoral outreach.
- The apparent existence of a ‘size bias’ with the current delivery mechanism against the smaller enterprises.
- Doubts about the ‘additionality’ of the matching grants, together with concern about the risk of market distortion.
- Questions about the cost-effectiveness / sustainability of matching grants mechanisms.
- Lack of an exit strategy.

As this group of donor includes actual and potential financiers, its concerns are to be addressed in the overall programme design framework.

2.5 INTERNATIONAL BEST PRACTICE GUIDELINES

2.5.1 DONOR GUIDELINES

After successfully formulating principles for selecting and supporting micro- and small enterprise finance institutions in the mid-90s, the Donor Committee

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for Small Enterprise Development turned to Business Development Services (BDS). This resulted in 2001 in the “BDS for Small Enterprises - Guiding Principles for Donor Intervention”. This document, formulated under the auspices of World Bank and ILO, describes a ‘new paradigm’ for BDS.

While in the past, donors would typically provide funding for programmes that were directly retailing BDS to the target-group of MSMEs, the new BDS paradigm works within a market development framework. It is based upon the principle that ultimately private providers should be able to deliver quality BDS in a sustainable manner. Thus the Guiding Principles describe how interventions in the sector can be structured in such a way that the development of a vibrant and competitive BDS sector is stimulated. It highlights the need for achieving outreach and sustainability.

Subsidies are considered justified in the short term as an investment in the development of BDS markets. At the same time it observes the risk that even temporary subsidies can create market distortions and are justified only if the market development effects outweigh the distortionary effects. It also stresses the need for a clear exit strategy, in line with the temporary nature of the intervention.

2.5.2 TEN PRINCIPLES OF BDS MARKET DEVELOPMENT

Building upon the emerging principles of good practice in BDS market development that have come out of the Donor Committee conferences, the ILO developed the “BDS Primer”. It is a Reader for annual Turin BDS Seminars focussing on “Developing Commercial Markets for Business Development Services”. It describes the following ten principles of BDS market development:

- 1) *Facilitate market development* rather than providing services. Donors should support market facilitating functions (second tier) rather than directly supporting BDS retail (first tier).
- 2) Start with *market assessment*. To effectively intervene in a market, it is mandatory to first understand it. One should know for instance;
 - What BDS are being offered?
 - Who is supplying them?
 - Are SEs paying for the services or does (cross-) subsidization exist?
 - What are the market weaknesses and opportunities?
- 3) Fit the intervention to the specific *market issue*. As intervention is justified by a degree of market failure, the intervention should address the specific problem that hampers development, in a focussed and limited manner (rather than making available blanket subsidy arrangements).

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- 4) Use subsidies *primarily for pre- and post-service* delivery activities. Transaction based subsidies are to be considered more distortionary than pre- and post transactional subsidies (like sensitisation, product development and capacity building).
- 5) Work toward a clear picture of a sustainable market and have an *exit strategy*. The challenge is to assess the market objectively to determine when it has reached a sustainable level. Program design should explicitly formulate the exit criteria.
- 6) *Separate the roles* of provider and facilitator. The same organisation should not combine (retail) BDS delivery and (wholesale) facilitation functions, as this could present conflicts of interest for competitors.
- 7) *Promote competition and efficiency* in the market. A facilitator must be careful to promote, not to stifle competition, by avoiding support for only one or a happy few providers.
- 8) Develop a *transactional relationship* with suppliers. The instruments used by the facilitator should allow for a transactional and businesslike relationship.
- 9) *Tread lightly* in markets. ‘Spending pressure’ and ‘visible donor involvement’ are two factors that tend to distort markets, hence both should be avoided. Preferably the ‘products’ of the local facilitating institution should be de-linked from a particular donor funding programme.
- 10) Make programs *flexible and responsive* to the market. Experience worldwide shows that the more flexible and entrepreneurial programmes yield better results. Markets are changing rapidly and may respond to the facilitator’s intervention in an unexpected manner. Facilitators must take advantage of opportunities and change strategies as appropriate.

These principles are not ‘cast in stone’; they may be modified as the field gains more experience with the market development approach.

Relevant experience from Kenya

A recent evaluation of a BDS programme in Kenya⁸, deals with the type of market failure that the project aimed to address. It is characterised as an *information failure*; uncertainty and high perceived risks at the side of both the client and the provider. Transaction based subsidies are justified as a means to facilitate exposure of the two parties to a BDS event at reduced cost (and risk) so as to overcome their doubts and negative perceptions. The reasoning is that after that experience, both parties will be more inclined to value the service as a commercially justified transaction. This line of reasoning appears to apply also to the BUDS programme in Uganda.

⁸ Evaluating the Development Impact of Demand-side Interventions for BDS Markets: Kenya Voucher Program – Small Enterprise Development, Vol. 14, No. 4, December 2003).

2.6 CONCLUSIONS FOR THE NEW BUDS

In view of the above observations in respect to the BDS market in Uganda and abroad, the implications for the BUDS programme are to be reviewed.

First, the concept of BDS market development needs to be translated into operational strategies and instruments. The distinction of stages of market development, will be necessary both for structuring adequate interventions, as for monitoring of progress and for the formulation of an exit strategy. As shown in table 2.3, the process of market development can be described as a gradual stepping up of market segments from the embryonic stage, through intermediate stages to become a mature commercial market. Secondly, market interventions will have to be based upon an understanding of the nature of ‘market failure’ in the market-segment concerned. The table also indicates the principle causes of market-failure. They are:

- Demand deficiency – lack of effective demand for BDS
- Supply deficiency – lack of appropriate BDS delivery
- Information failure
- Deficiencies in quality standards for BDS

Table 2.3: Causes of market failure

Stage of market development	Main cause of market failure
MATURE MARKET	(QUALITY STANDARDS ?)
GRADUATING MARKET	INFORMATION FAILURE
UNDERSERVED MARKETS	LACK OF BDS SUPPLY
EMBRYONIC MARKETS	LACK OF BDS DEMAND

For embryonic markets all four deficiencies apply, while demand failure is the most prominent feature. As described for West Nile region, in embryonic markets effective demand for BDS is very weak. It is

generally observed in those markets that MSMEs have doubts about BDS. They are often unaware that (a) there may be a need to improve business performance, (b) that BDS could be effective and (c) that the cost of BDS may well be worth it. It is only after some form of *sensitisation* or *awareness creation* that this deficiency in demand can be overcome. Likewise the study points at deficiencies in BDS supply; either BDS services are not appropriate for the type of MSEs, they are not affordable (not cost-effective), or not ‘packaged’ or delivered in the desired manner. *These types of deficiencies in both demand and supply cannot be addressed by transaction subsidies (like*

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matching service grants) only. Specific interventions, like sensitisation, product development and capacity building for BDS providers will be required.

In graduating markets, as described for Kenya, the principle problem is 'information failure'. This is the type of markets in which the matching grant system has worked very well, as both demand and supply exist, but the problem is only to match them in a mutually attractive transaction. Finally, even in mature markets, certain deficiencies may exist that might justify intervention. For instance, when it is observed that in a particular export sector the product standards are not meeting international specifications, there may be justification for assistance in BDS product development or BDS capacity building to overcome the deficiencies in that sector.

Thus, the following conclusions can be drawn in respect of the design framework for BUDS:

- If BUDS aims to deepen its outreach towards rural areas and smaller (micro) enterprises, there is a need;
 - To address demand deficiency in embryonic markets, BUDS needs to support *sensitisation*, in collaboration with others.
 - To work through intermediaries that are close to the target clientele in order to create *effective delivery mechanisms*; i.e. in trade links and business associations. This highlights the need for *capacity building* of associations and possibly other intermediaries.
 - To develop more *cost effective BDS* for micro enterprises and for the rural areas. This highlights the need for support to *BDS product development*.
- BUDS is to change from a traditional BDS facilitation approach to a market development approach.
- BUDS needs to collaborate with other parties, to achieve market development objectives.
- Activities undertaken by others (donor programmes, market intermediaries) in the BDS sector offer excellent opportunities for collaboration and intermediation, but also highlight the need avoid duplication or 'double-funding'.
- BUDS is to formulate a clear strategy to avoid market distortion, in connection with an exit strategy. However, market development is a slow process and hence some form of intervention may be needed for many years to come (as experience in industrialised nations has shown).
- Intervention in the BDS market requires knowledge of the market. BUDS is to build up its market intelligence, together with market stratification (distinguishing relevant market segments), and criteria for stages of market development.

3. FRAMEWORK OF PROGRAMME OBJECTIVES AND POLICIES

3.1 POLICY ISSUES TO BE ADDRESSED

With the formulation of a new World Bank funding program for BUDS (part of PSCP-II) the BUDS operations will be refocused and be scaled up. Meanwhile, ongoing international consultations have led to the emergence of a high degree of consensus among donors on a new BDS paradigm. In this connection the BDS donor-coordination group active in Uganda has expressed some concerns about the current operation. It is against this background that six major policy issues need to be addressed:

- I. How can BUDS objectives and policies be formulated in such a way that they are in line with the new donor BDS guidelines and provide a consistent framework for the various funding components?
- II. How could BUDS, faced with a diversity of funding programmes, maintain unified management and reporting systems?
- III. What are the appropriate interventions in various stages of market development?
- IV. In what way could BUDS achieve increased outreach and efficient delivery?
- V. How can BUDS ensure its interventions are justified and are not creating market distortion?
- VI. And finally, how could BUDS improve its market intelligence?

In subsequent paragraphs each of these questions will be discussed and the framework of objectives and policies is presented together with the underlying arguments and considerations.

Reference is made to the Project Memorandum in respect to PSCP-II⁹ and to the donor BDS guidelines.

3.2 FRAMEWORK OF PROGRAM OBJECTIVES

3.2.1 IMPLICATIONS OF THE NEW BD PARADIGM

Application of the new BDS paradigm, together with the main policy principles of the new PSCP-II poses a number of challenges to BUDS. It

⁹ Annex 4: Detailed Project Description – Uganda: Private Sector Export Competitiveness II – 5th June 2004 – Especially sub-Component 2.1: Matching grants for Productivity Enhancement, Financial Management and Export Growth.

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requires the transition from a traditional BDS facilitation approach to a market development approach, as described in paragraph 2.5. This has implications on three levels:

- ***The general objective.***

Under previous programmes BUDS aimed (implicitly) at the provision of affordable BDS of good quality to MSMEs. The new BDS paradigm approaches BDS interventions in the framework of a market development approach, with special reference to the need to identify and focus on segments in the market that are underserved in terms of BDS providers, BDS quality or access (affordability).

- ***Specific goals.***

The previous BUDS programmes all specified ‘increased sales’ or turnover as a specific goal for the enterprises to be assisted. Program assessments therefore focused mainly on the aspect of client-impact. A sector development approach takes a broader view and looks at three aspects:

- Development of the market, in terms of transaction volume, competition, outreach and ‘deepening’ (i.e. reaching underserved populations).
- Institutional performance of the providers in respect of the cost effectiveness of their delivery methods and the sustainability of their operations.
- Client impact

- ***Measurable indicators.***

Until now the main measure of success was the number of transactions and the increase in sales that resulted from it. A market development approach works with a diversity of quantitative indicator on the three levels distinguished above.

3.2.2 IMPLICATIONS OF PSCP-II

Currently the BUDS project staff execute the BUDS-EDS program, financed by the EU. The new BUDS program will start off with two main financiers (EU, WB) and four different funding programmes:

- BUDS-EDS; Business Development Services (EU, WB).
- BUDS-FM; Building MSMEs ability to access finance (WB)
- BUDS-Export; Raising skills, standards and quality for exporters (WB)
- BUDS-OTJ Training; On The Job Training; linking MSMEs and TVET training institutions (WB)

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While these programmes have different operating modalities, what they have in common is that they all work with matching grants. The new framework will have to be formulated in such a way that these and future program components can be integrated in a consistent framework of objectives and indicators of achievement that apply to them all.

3.2.3 PROPOSED FRAMEWORK OF OBJECTIVES

General objective

BUDS aims to stimulate a process of innovation and increased outreach in the market of Business Development Services (BDS) throughout Uganda, to enhance access to quality services and to increase access in underserved market segments.

Specific goals

In line with international best practice, in particular the new BDS market paradigm (as described in paragraph 2.5), the following specific goals are to be distinguished:

- e. Development of the BDS market, so as to enhance outreach and competitiveness
- f. Improvement in institutional performance on provider level, to enhance sustainability of service delivery under commercial conditions
- g. Improvement of efficiency and cost-effectiveness of BUDS itself, and
- h. Client satisfaction and impact

Measures of achievement

In the past the BUDS program achievements were assessed predominantly on the basis of client impact. Through application of the new BDS paradigm, a wider array of assessment criteria are to be used:

- a. Development of the BDS market

Outreach: Expanding the BDS market for MSME clientele

Competitiveness: Developing a high quality, competitive BDS market

Deepening the market: reaching out to underserved market segments especially rural enterprises and micro enterprises

- b. Improvement in institutional performance on provider level

Innovation: Appropriate product development for various market segments, especially those that are underserved.

Cost effectiveness of BDS delivery is improved

Supplier sustainability is enhanced

Quality and appropriateness of services provided is improved

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- c. Improvement of efficiency and cost-effectiveness of BUDS itself
 - Reduction* of BUDS *workload* (cost) per ultimate beneficiary
 - Reduction* of overall BUDS *transaction cost*
- d. Client satisfaction and client impact
 - Increased acquisition* of BDS
 - High level of satisfaction* with BDS received through BUDS
 - Impact* on the business of the client (increased turnover)

An advantage of this method of performance monitoring is that most of it can be done as part and parcel of ongoing program operations. The details of quantitative indicators and the method of data acquisition and processing, is worked out in Chapter 8. An overview of program objectives and measurable indicators is provided in Appendix 3.1 and 8.1

3.3 HOW CAN BUDS, FACED WITH A DIVERSITY OF FUNDING PROGRAMMES, MAINTAIN UNIFIED MANAGEMENT AND REPORTING SYSTEMS?

Currently four different funding programmes exist. More may be added when new financiers are identified. The main characteristics of these four components are described in table 3.1 below:

Table 3.1: Current funding programmes of the BUDS program

	EDS	FM	Export	OTJ
Purpose	BDS market development through increasing range of products, marketing efforts, greater involvement of SE associations, with increased outreach to rural enterprises	To improve the standard of accounting and financial management, so as to enhance cash flow management and improve access to finance	To better exploit export potential by enhancing product quality standards, procurement, storage, transport and production.	To facilitate better linkages between enterprises and TVET training institutions.
Eligible beneficiaries	Companies (no size ceiling), or groups of firms Providers Associations	Companies (no size ceiling), or groups of firms Providers Associations	Firms in export supply chains	TVET training institutions
Eligible activities	Any activity that leads to increased sales or productivity, better quality, less waste	Audits, improvement in financial accounting systems, development of appropriate FM products	<ul style="list-style-type: none"> • patents • prototypes • technology transfer • product development • quality control equipment • staff training • cost in meeting ISO standards • on the job training 	Short term skills upgrading training
Eligible expenses	Training Consulting fees (local and foreign) Travel expenditure	Audit services MF consulting services Product development		Wages paid by firms to TVET students

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BUDS will have to develop a delivery mechanism that can deal with the diversity of programme components. It is envisaged that this can be done through the two products currently used (i.e. client-led and intermediary-led). It may be necessary however to distinguish within the intermediary-led approach a diversity of sub-products or delivery mechanisms, according to the type if intermediary.

- Association-led delivery
- Lead-firm driven delivery (within the commodity chain)
- Trainer-led delivery
- Financier-led (e.g. MFIs)
- Facilitator-led

Each of these four programme components may be served with one or more mechanisms, as shown in table 3.2 below:

Table 3.2: Delivery mechanisms for the four BUDS components

	BUDS-EDS	BUDS-FM	BUDS-Export	BUDS-OTJ
Client-led	x	x		
Association-led	x	x	x	
Market-linkage-led	x		x	
Facilitator-led	x	x	x	
Trainer-led	x	x		x
Financier-led	x	x		

A more detailed overview of delivery mechanisms is provided in chapter 4.

3.4 STAGES OF MARKET DEVELOPMENT AND APPROPRIATE INTERVENTIONS

All valid arguments for subsidization, in one way or another refer to a market failure, either on the demand side or on the supply side, or both. As described in chapter 2, the most dominant causes of market failure change with the gradual maturing of the market. Hence the justification for transaction based subsidies must also be related to the *stages of market development*. As pointed out in chapter 2, market-interventions will have to be based upon an understanding of the nature of '*market failure*' in the market-segment concerned.

In *mature markets* there are a great number of providers and BDS is commercially transacted. In such market there is no more need to intervene.

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As soon as several BDS providers serve a market segment commercially and on the basis of open competition, the market should be defined as mature. Continuation of subsidy in such market segment for BDS transactions would amount to market distortion and would be damaging for the development of the sector. One exception may be the support of product development and capacity building for segments where (international) quality standards cannot be met. This is elaborated in the attached conceptual framework for market interventions (appendix 3.2)

In *graduating markets* effective demand for BDS exists, and there are at least a number of BDS providers active in the market. However the market is characterized by 'information failure'. Clients have doubts about the effectiveness of BDS, and providers doubt the MSMEs appreciation of their services and their readiness to pay. In such markets, transaction based subsidies are particularly effective, as they help both MSMEs and providers to gain experience.

Subsidies also help providers to build up capacity and to build up a sufficiently large portfolio of clients to achieve economies of scale. Hence, in judging whether a graduating market is becoming mature, another factor to be taken in consideration is the number of years a market has been subsidized.

Principal interventions for graduating markets:

- Transaction based subsidies (like matching grants) to facilitate a learning process of both users and providers to overcome their doubts and prove that BDS can be mutually attractive.
- Collaboration with intermediaries with sub-sector expertise (incl. donor programmes) to identify opportunities for embedded BDS in commodity chains, especially in the export sectors.

In view of the various donor programmes that operate with matching grants, it would be desirable to aim at a degree of consensus on market segments that are to be considered "graduating" and "mature".

Underserved markets are characterized by the fact that existing BDS demand is not satisfied, as there are no or few providers, services are not yet adequate (in terms of quality, cost effectiveness or range), and/or they are far from full cost recovery (e.g. only NGO pilot projects). Principal interventions for underserved markets are:

- Need for development of BDS products that are appropriate for the type of SEs served and delivered in a cost-effective manner
- Capacity development of providers or market intermediaries (e.g. associations) to facilitate effective delivery of new BDS products to hitherto underserved segments of the market.

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- Collaborate with parties that can build capacity (incl. donor programmes)
In order to get things moving in an underserved market, BUDS will have to collaborate with other players in the market to facilitate the development of cost-effective BDS delivery methods. BUDS could consult sub-sector organizations to identify possibilities for embedded BDS delivery in collaboration with larger companies in the commodity chain. Or BUDS could consult with donor programmes that have already developed cost effective BDS products, how these could be replicated on a larger scale. This way the synergy of forces can be realized that is needed to operate in underserved or infancy markets.

Embryonic markets are defined for the purpose of this study as BDS markets where apart from the above described market failures (supply, information) also serious demand deficiency exists. On the side of MSEs there is no awareness of weaknesses in business practices, neither of the potential benefit in curing them with BDS. It is characterized by virtual absence of BDS transactions (apart from fully subsidized training courses), despite the fact that a vibrant MSE sector exists. This has major implications. For instance, the demand-led approach as practiced by BUDS until now is not effective in these market segments. Likewise, advertising and general publicity for BUDS will not generate response, and self-diagnostic tools, for use by MSEs will be largely ineffective. This is because a basic awareness on good business practice is lacking. Thus, the intervention policy for embryonic markets gives priority for sensitisation (awareness creation and education), and pilot projects that demonstrate the attractiveness to users and their feasibility to potential providers. Sensitisation is most effective on this level when it is embedded day to day trade relations. Hence BUDS could identify sensitisation agents such as financial institutions, MFIs, lead-firms in the commodity chain and governmental bodies. Also associations and sub-sector programmes with an extension component could be effective.

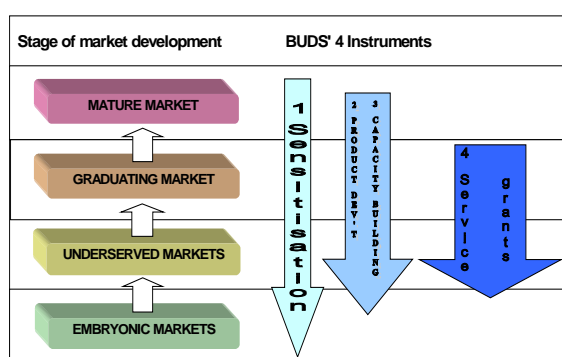
From a theoretical point of view it will be difficult to provide solid criteria and methods to distinguish one stag of market development from the other. From an operational management standpoint however, this conceptual framework can help to substantiate decisions that anyhow will have to be made, such as:

- Where to support sensitisation?
- Where to invest in product development and capacity building?
- What rate to apply for matching grants?
- When to exit markets?
- How to conduct BUDS marketing?

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While inevitably these types of decisions do require an element of (subjective) judgment, the application of a conceptual framework may help to create a degree of consistency and to allow for a substantive discussion within forums of decision making (e.g. BUDS Steering Committee, donor consultation). The proposals in respect of building up ‘market intelligence’ (chapter 8) are also meant to enable BUDS Management and Steering Committee to support these decisions with market analysis and objective criteria.

Diagram 3.3: Appropriate instruments for intervention in the BDS market



The new program aims at greater outreach and better access to BDS for underserved groups. As pointed out in chapter 2, the use of only transaction based subsidies (matching grants, would not be effective in embryonic and underserved markets.

BUDS will have to make effective use of the complementary instruments:

- 1) Grants for sensitisation – possibly in collaboration with other organizations
- 2) Support for development of cost effective BDS products
- 3) Support for capacity building of intermediaries (associations) that have regional outreach.

Diagram 3.3. above shows the four instruments that BUDS has available for intervention in the market; sensitization, BDS product development, BDS capacity building and service grants for BDS transactions. It illustrates that embryonic markets need to be approached first with sensitization. Once sensitization is resulting in effective demand supply oriented interventions become possible (i.e. development of appropriate BDS products and BDS delivery capacity). These two instruments may also be necessary in underserved markets, before transaction based subsidies can be effectively used.

Embryonic markets need to be approached first with sensitisation. Once sensitisation is resulting in effective demand for BDS, supply oriented interventions become possible (i.e. development of appropriate BDS products and delivery mechanisms). BUDS need not to perform all these functions on its own. When other players have programmes in place for sensitisation,

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product development or capacity building, BUDS can come in with the service grant instrument to complement their efforts.

A more detailed description of the stages of market development is provided in Appendix 3.2

In order to reach throughout the country, BUDS will have to link up with intermediaries with effective BDS delivery capacity. Only this way BUDS will be able to decentralize operations to the districts, and create mechanisms to reach out to rural enterprises and micro-enterprises. Thus a number of policy issues emerge that together could be described as BUDS outreach strategy:

- For graduating markets a **reactive approach** is appropriate and effective (i.e. the current demand-led approach). However for underserved and embryonic markets a **proactive** approach is required, where, in collaboration with other players, cost effective BDS is offered together with a matching grant facility.
- More emphasis is needed on **wholesale** delivery, especially in embryonic and underserved markets. Collaboration with intermediaries creates a potential for greater outreach and outsourcing of tasks and responsibilities. This entails a move from emphasis on retail facilitation to wholesale facilitation wherever possible and appropriate.
- Assessment of the **cost effectiveness** is needed of various approaches practiced in that market and identification of the '**winning strategies**' for BDS delivery.
- **Broker linkages**. Turn potential intermediary institutions into **collaborating partners** by identifying the mutual interest of sustained collaboration and by formalizing it through a framework agreement or Memorandum of Understanding (MoU).
- Engage **sensitization agents** like lead-firms, banks, MFIs, associations – especially for embryonic markets. Collaborate in sensitization programs together with other organizations (incl. government and donor programs).
- BUDS should not limit itself to the traditional BDS providers. It should open up to include **embedded BDS delivery** through existing trade relations, finance relations or membership organizations. Collaborating organizations could be associations, lead-firms in a commodity chain, exporters, MFIs etc.
- Market interventions should be **temporary** – a clear exit strategy should exist.

Each of these tasks requires knowledge about the BDS market. For each market segment there are different players and different delivery strategies (as

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illustrated in table 3.4 below). In order to assess the cost-effectiveness of a particular approach (or BUDS application) it is not good enough to have average indicators for the BDS market as a whole. One must have specific information for each market segment. In order to link up with the most promising BDS strategies in each market segment, it is important to know the essential benchmark figures in that segment (such as BDS cost per client; cost per training day, cost per consultancy day etc).

Table 3.4: Examples of appropriate strategies for specific market segments

	Urban Micro <5	Rural Micro <5	Urban SSE 5-20	Rural SSE 5-20	MSE 21-100	LSE >100
Training	Embedded training (e.g. by or through MFIs)	Some embedded training in agricultural programmes	Subsidized training /BDS programmes	Subsidized training/BDS programmes	Some (semi) commercial BDS	Commercial BDS
Consultancy Business Plans	Micro-entrepreneurs trained as consultants per micro-sub-sector	Some embedded BDS in commodity chain (traders, exporters etc)	Some commercial BDSP (very limited)			
ITC, media	-	-				
FM, Accounting, Auditing	Some MFIs client training	-	Limited commercial auditing (non-CPA)	-	Partial commercial FM and auditing	
Marketing	Handicraft marketing	Agricultural programmes and extension	-	-	Some (semi) commercial BDS	
Technology	Appropriate technology programmes		Appropriate technology programmes	Appropriate technology programmes		

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The so called ‘*embedded*’ methods of BDS delivery have good prospects for cost-effective and affordable delivery for micro enterprises and rural SSEs. Hence BUDS should not limit itself to the traditional BDS providers. It should open up to include embedded BDS delivery through existing trade relations, finance relations or membership organizations. Collaborating organizations could be:

- Associations
- Traders
- Sub-contracting for MSEs or LSEs
- Exporters
- MFIs

Embedded BDS in the commodity chain, provided by parties in the sub-sector, is probably the most cost effective means of BDS delivery, especially in rural areas and especially for micro enterprises. This means that the provider needs not necessarily be a recognized consultant or training institute. If employees of a pineapple processing plant can instruct farmers on quality control, they are probably better placed than any outside consultant to undertake this job. And if the expenditure of farmer group-formation, transport expenses, trial demonstration expenses etc prevent the pineapple processing plant from providing this sort of ‘training’; a matching grant could be very beneficial in exploiting an otherwise unused BDS vehicle.

In rural trade two different product chains may provide a potential for embedded BDS. The first is the chain of agricultural produce to traders and processors. Processors can be interested to have BDS provided to their traders or even to their primary producers. They could be the intermediary of BUDS, organizing the BDS to be provided to their middlemen or primary producers. The second chain is that of farm inputs coming from wholesalers through distributors to the farmers. In this chain the wholesaler might attract BDS for the various distributors. Collaboration with donor programmes (such as APEP and SCOPE) can be helpful to BUDS in identifying promising BDS opportunities, especially those embedded in the agricultural commodity chains.

BUDS management should focus the program as much as possible on the most cost effective delivery mechanisms for BDS in each market segment, so as to avoid subsidizing BDS activities that have little prospect of reaching commercial sustainability.

3.5 HOW CAN BUDS ENSURE ITS INTERVENTIONS ARE JUSTIFIED AND ARE NOT CREATING MARKET DISTORTIONS?

3.5.1 REASONS FOR SUBSIDIZING BDS IN EARLY STAGES OF MARKET DEVELOPMENT

The BUDS program uses matching grants to support the client of a BDS service. It is a transaction based subsidy. There are various reasons why subsidies might be justified. In table 3.5 the justification is reviewed for different stages of market development, together with an assessment of the risk of market distortion.

Table 3.5: Justification for the use of matching grants

Market failure	Justification for subsidy	Risk of market distortion
Demand deficiency (embryonic markets)	Cost of sensitisation – these expenses can never be recouped from beneficiaries	No risk
Supply deficiencies (underserved markets)	<ul style="list-style-type: none"> ▪ BDS product development ▪ BDS capacity building ▪ Support to creation of capacity for intermediation (associations) 	Low risk, provided that developed products become ‘shareware’. available to all providers.
Information deficiency (graduating market)	Matching grants on BDS transactions to help client and provider overcome their doubts and to help providers to establish a sustainable enterprise (reach full cost-recovery)	Risk of distortion exists when; a) subsidies would continue in market segments where other providers are already working commercially; b) when transactions are subsidized that also would have take place without, and c) when BDS is supported (‘kept alive’) that is not cost effective and has no chance of becoming commercially viable.

3.5.2 EXIT STRATEGY

The exit strategy should present the mirror image of the intervention logic. If justification for intervention ceases to exist, exit is mandatory. In principle in a mature market segment the matching grant for replication of normal BDS transaction should be reduced to zero, as no more substantive justification for subsidy exists. Continuation of subsidy would constitute a market distortion. Continued subsidization would inevitably slow the normal corrective function of the market to weed out the inefficient and unviable producers. Hence the net result would be negative.

An exception to this rule could exist when it is observed that national or international product standards are not met, and hence potential market share cannot be realized. When the BDS required still needs to be developed or to be perfected, there can be justification for capacity building of BDS providers. Subsequently they can work with lead-producers (exporters) to effectively deal with quality standards and efficiency standards. Hence the following rates could be considered:

Table 3.6: Matching grant contributions

	Sensitisation	Capacity building	Product development	BDS transactions
Embryonic markets	100%	50%	50%	50%
Underserved markets	100%	50%	50%	50%
Graduating markets	-	50%	50%	25%
Mature markets	-	25%	25%	0%

The difference with the current schedule is the reduction to 25% for service grants in graduating markets and to 0% in mature markets. The 25% step is made to move more gradually towards total exit. The disadvantage of this step is that the current 50/50 ratio that is well known for BUDS does not universally apply. This disadvantage is to be assessed against the exit-argument. It seems that in a new programme the latter might carry more weight.

Under current procedures the client is supposed to pay the remaining part. While this is a good principle for the retail transactions in graduating markets (client-led approach), it creates problems in the intermediary-led approaches in underserved markets, e.g. for associations when it comes to product

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development or capacity building. Most associations will not be capable of paying the complementary part to the matching grant. Thus in table 3.7 the proposed minimum contributions are indicated. To the extent that the beneficiary's contribution and BUDS contribution do not add up to 100%, the beneficiary should be allowed to identify other subsidy sources for the gap. For associations this would mean that they could scout for the remaining 50% of capacity building and product development from other subsidy sources (e.g. Ignition Fund).

Table 3.7: Minimum beneficiary contributions for capacity building and product development

Contribution by:	Capacity building		Product development		
	Association	BDS provider	Intermediary or association	BDS Provider's own product	BDS Provider shareware
Non-mature markets	0%	25%	0%	50%	0%
Mature markets	25%	50%	25%	75%	0%

In view of the far reaching implications for BUDS of the qualification of a market segment as 'graduating' or 'mature', the essential question is who will decide about it and how. It is envisaged that this is a decision for the BUDS Steering Committee upon recommendation of PSFU/BUDS. The question 'how?' refers to the vital importance of market intelligence.

3.6 HOW CAN BUDS IMPROVE ITS MARKET INTELLIGENCE?

Building up market intelligence is important for a number of reasons:

- To establish the justification for intervention with matching grants and to update this information regularly for all relevant market segments.
- To guide 'proactive' identification of promising BDS strategies for certain market segments and to identify potential BDS opportunities
- To determine the stage of development of each market segment in which BUDS is active, and to update matching grant contributions accordingly (part of the exit strategy).
- To appraise individual applications and to assess their cost effectiveness.

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Hence for each market segment, BUDS must be able to answer basic questions such as:

- Who are the players?
- Is BDS commercially transacted? What type? With what methods?
- Statistics of current BUDS outreach in numbers and value
- What are the cost-effectiveness ratios?
- What is currently the most cost-effective delivery strategy for this segment?
- What are the 'winning' BDS delivery strategies?
- In what stage of development is this market segment?

Based upon the basic information collected for each transaction, BUDS should be able to calculate benchmark ratios for each separate market segment:

- BDS cost per client served
- BDS cost per type of BDS service
- BDS cost per provider person-day
- BDS cost per provider person-day/client
- BDS cost as % of sales of the beneficiary

Obviously, these ratios are different for micro enterprises and medium scale enterprises, and they are even different for BDS provided by MFIs to urban micros and BDS provided by a cotton ginnery to rural cotton farmers. This is why these benchmark ratios must be specific for each market segment. But once a database is built up for each market segment, gradually a reliable basis is created for the normal average values and the spread around it. This way, over time reliable benchmark figures are generated for appraisal. In Chapter 8 this subject is worked out in more detail.

3.7 CONCLUSIONS IN RESPECT TO OPERATIONAL POLICY AND PROCEDURES

Apart from the general way of working, there are a number of procedural implications that need to be considered.

- The applicant for BUDS could be either the ultimate beneficiary, or any intermediary with which BUDS has come to an agreement
- It has been argued that by paying the ultimate beneficiary (rather than the BDS provider), market distortion is prevented. This argument is not convincing, in view of the fact that the beneficiary and the provider are

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both aware of the grant, and hence both parties consider it “part of the equation”. The payment modality is immaterial in this respect. If for practical reasons disbursement of the grant to the provider (or to an intermediary) is more efficient, this should be possible. The question whether market distortion takes place is mainly dependent upon the stage of development of the market segment in which the transaction takes place.

- Farmers should also be recognized as beneficiaries, because otherwise rural outreach is limited. Farmers can well be reached with BDS embedded within normal trade relationships and or agricultural programmes.
- Donor programmes should not be excluded as collaborating partners, because BUDS could fund replication activities that might not be part of there program budget. It is a matter of sound collaboration and reporting agreements to eliminate the possibility of double funding.
- Embedded BDS within the commodity chain as part of normal trade relationships should well be eligible under BUDS, as it provides unique opportunities for cost effective BDS delivery. For this modality specific eligibility criteria and payment conditions are to be worked out to eliminate the possibility of financing ordinary lead firm expenses.
- Through an accreditation type of procedure BUDS should aim to build up long term business relations with collaboration partners, based upon mutual interest and benefit. The terms of collaboration are to be spelled out in n agreement or Memorandum of Understanding, which forms the framework in which individual transactions can be efficiently concluded.

4. DELIVERY MECHANISMS

4.1 RETAIL AND WHOLESALE DELIVERY MECHANISMS

BUDS has applied two different delivery mechanisms for matching grants; the client-led modality, which is essentially a retail model, and the association-led modality, which has features of a wholesale model. The retail model has been practiced right from the start of the BUDS. With the start of BUDS-EDS the second model was introduced specifically to work with associations. For the new BUDS program framework it is proposed that the second modality is widened and reinforced. This involves a number of adaptations:

- A widening of the criteria for eligible intermediaries;
- A move from transaction based contracts to open ended ‘umbrella’ agreements;
- Active scouting by BUDS for possible collaboration partners;
- A shift towards a ‘wholesale’ approach; outsourcing of BUDS tasks to the intermediary; and
- A review of current procedures and criteria for the various indirect delivery mechanisms.

In the new program a total of five indirect delivery models can be developed:

- **Model A:** Association-led
- **Model B:** Lead-firm driven (a lead-firm in the market chain, e.g. exporter)
- **Model C:** Facilitator-led (a private company, sub-sector institution or donor programme)
- **Model D:** Trainer-led (training institutions with which a framework agreement has been concluded)
- **Model E:** Financier-led (MFIs or banks with which a framework agreement has been concluded).

In order to achieve the objectives of the new program (greater outreach, better efficiency, cost-effective delivery methods) it is desirable that BUDS also turns these indirect delivery models into true ‘wholesale’ approaches, in the sense that the dealings with the ultimate beneficiaries are left to the intermediary as much as possible. BUDS should maintain however the instruments to monitor the proper use of funds, e.g. the right of ‘inspection’ of BDS events and their participants on sample basis.

In this delivery model there can be up to six parties involved:

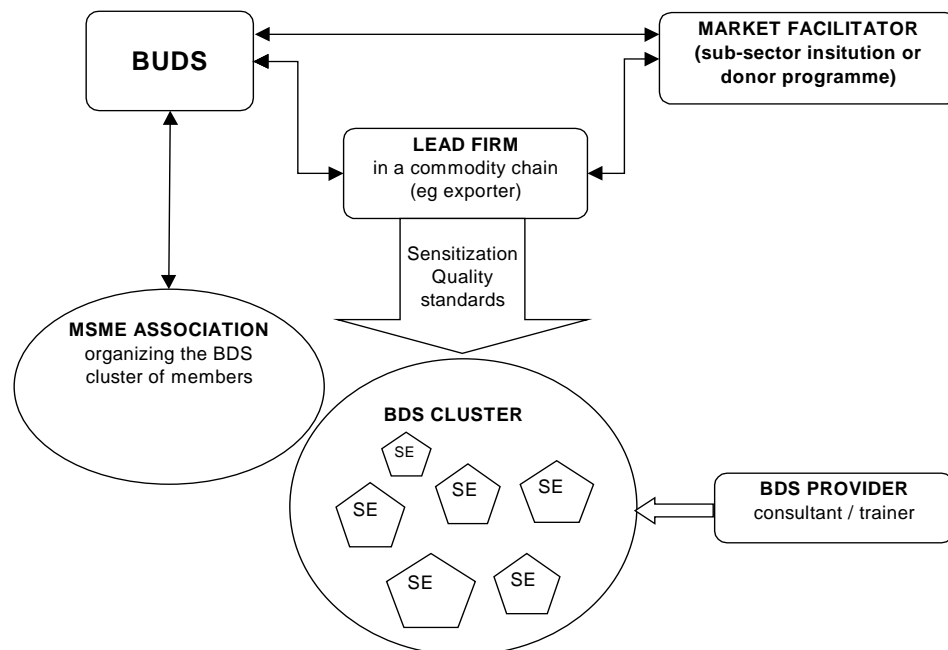
1. BUDS
2. The BDS recipients or ‘beneficiaries’ (SEs clustered for a BDS event)
3. A BDS provider performing the training or the consultancy

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4. A Business Association involved in clustering SE-participants in the BDS event
5. The lead firm in the business-linkage (e.g. an exporter) taking an interest in the BDS event (for instance by paying part of it).
6. A market facilitator; these can be specialized sub-sector programmes or institutions, that can assist BUDS in a number of functions such as:
 - Identification of promising cluster or BDS opportunities
 - Pre-screening of applications or enquiries that BUDS has received
 - Assessment of the quality and appropriateness of the BDS provided
 - Assessment of the cost effectiveness of the BDS event proposed.
 - Check upon implementation of the event and the actual participation of SEs registered in the application.

Whether or not all or some of these parties are actually involved depends upon the specific situation and the delivery model chosen. BUDS will engage in creating *network arrangements* for specific market segments and specific sub-sectors. Such arrangements should ideally be formalised in a framework agreement that governs the various BDS events that may take place within that network.

Figure 4.1: Potential players in the BUDS indirect delivery mechanism



4.2 ELIGIBLE DELIVERY MECHANISMS FOR EACH PROGRAMME COMPONENT

In the past only associations have been used as intermediaries, and the experience has revealed both the strengths and weaknesses of this concept. Among the weakness observed are lack of capacity within the association to perform the intermediary functions professionally, risk of mismanagement and risk of misuse of grant funds. Hence, the wholesale option can only work if a number of measures are put in place to address these weaknesses and risks. This may include:

- Formulation of eligibility criteria for intermediaries;
- Thorough appraisal of the intermediary;
- ‘Accreditation’ procedure, concluded with a framework agreement/ MoU;
- Improved M&E system;
- Reporting system for the intermediary;
- Spot checking by BUDS (or its agent).

A clear difference should be made between the eligibility criteria for intermediaries and approval criteria. The eligibility criteria should be non restrictive. The include general criteria such as:

- Legal entity, registered in Uganda;
- Previous expertise/exposure in the sub-sector;
- Demonstrated capability in BDS intermediation.

For the rest there should not be too many pre-set eligibility criteria. The spirit of our proposal is that through open invitations to the players in the sector (supported by pro-active scouting/networking by BUDS) providers and intermediaries should be challenged to come up with proposals in a competitive environment. BUDS will simply select the most promising and cost-effective proposals.

Approval criteria for a specific proposal are more restrictive as they include:

- Quality, consistency and feasibility of the proposal;
- Cost effectiveness of the BDS interventions proposed;
- Prospect of becoming a commercially sustainable BDS intervention;
- Institutional credibility based upon track record (references);
- Evidence of capability for the specific functions to be executed;
- Accountability - ability to handle and account for BUDS funds received.

Not all delivery mechanisms can be used for all four programme components. Table 4.1 below shows which mechanism could be used for which component:

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Table 4.1 – Funding Components and Delivery Mechanisms

Funding components →	EDS	FM	Export	OTJ
Delivery mechanisms ↓				
1. Retail	x	x		
2A: Association led	x	x	x	
2B: Market linkage led	x		x	
2C: Facilitator led		x		
2D: Trainer led		x		x
2E: Financier led		x		

For each of these delivery models a standard type of collaboration contract should be designed that serves as a framework agreement for individual BUDS matching grant transactions (covered by a simple sub-agreement or contract letter). The framework agreement spells out:

- Purpose of the collaboration (mutual interest)
- Responsibilities of each party
- Modalities of collaboration
- Marketing of BUDS (dissemination of brochures, workshops)
- Financial responsibility of the intermediary
- Reporting/accounting obligation of the intermediary
- Inspection rights for BUDS
- Sanctions upon mismanagement or misuse of funds.

4.3 THE RETAIL MODEL

In the retail model the client-beneficiary applies for a matching grant in order to procure BDS of some kind. It is a retail model as BUDS deals with the ultimate clients directly. In this delivery model there are just three parties: the client-beneficiary, the BDS provider and BUDS.

Table 4.2

	BUDS	BDS recipient (SEs)	BDS provider
BDS preparation	x	x	x
Application		x	
Screening	x		
Approval	x		
Contract	x	x	
Implementation		x	x
Client satisfaction statement		x	
Completion report		x	x
Payment	x	x	

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The above table 4.2 shows that the client is supposed to take initiatives in most steps of the cycle (indicated by capital X). In the retail model the workload for BUDS is considerable, as a lot of 'handholding' is required to guide the client through the procedure. Even in the stages in which the client or the provider are supposed to take the lead, in practice BUDS will still be involved in order to maintain momentum and avoid delays or transaction-failure. This makes the 'retail' model very labour intensive.

4.4 ASSOCIATION-LED MODEL:

In this model the association takes the lead, after going through the initial steps leading to a collaboration contract. The association organizes its members to participate in a BDS event and it arranges for a BDS provider. Various associations could be considered for this purpose, as described in more detail in Chapter 5.

Ideally the larger part of BUDS tasks should be contracted out to the association. The Association applies with BUDS, organises the BDS event, contracts the provider and deals with the finance. The Association pays the BDS provider and subsequently claims the matching grant from BUDS. Alternatively BUDS could pay the matching grant directly to the provider. It is up to the association to decide what part of the net BDS cost it charges to the participating members.

Table 4.3

	BUDS	BDS recipient (SEs)	BDS provider	Association	Business Link Exporter	Market facilitator
BDS preparation				X		
Application				X		
Screening				X		(X)
Approval	X					
Contract	X			X		
Implementation			X	X		
Client satisfaction statement		X				
Completion report				X		
Payment	X		X	X		

4.5 BUSINESS-LINK MODEL

In this model a ‘lead firm’ or exporter acts as the intermediary. It organizes one or more SMEs that supply goods or services, in order to provide them with BDS. The lead-firm is well placed to identify specific business related weaknesses and sensitises its MSE suppliers on the need for remedial action. It can very well act as a sensitisation agent, especially when the collaboration arrangement stimulates them to do so. The lead firm selects the BDS provider or organizes the BDS event with its own staff (in the latter case only the cost of the staff cannot be covered under BUDS).

This form of ‘*embedded BDS delivery*’ offers a cost effective alternative to the traditional delivery methods. It is particularly useful in embryonic and underserved markets, as the lead firm organises both demand (sensitisation) and supply simultaneously. The lead firm applies with BUDS and claims the matching grant after full implementation. In case a market facilitator with sub-sector expertise is available, this party should preferably be involved so as to assess the usefulness of the proposed BDS event and the effectiveness of implementation.

Table 4.4

	BUDS	BDS recipient	BDS provider	Association	Business Link (exporter)	Market facilitator
BDS preparation				(x)	x	
Application					x	
Screening	(x)					x
Approval	x					
Contract	x				x	
Implementation			x		x	
Client satisfaction statement		x			x	
Completion report					x	
Payment	x				x	

Under current procedures this would only be possible when the lead-firm engages an independent BDS provider for the service. This policy may need to be reviewed, as pointed out in chapter 7. In many instances staff of the lead-firm may be in a better position to instruct suppliers than outside consultants. Obviously what needs to be assessed are questions such as:

- Can salaries of staff engaged for the BDS be part of the Matching Grant transaction, or should they be excluded?

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- How to ensure that BDS events are serious, and not occasional arrangements to acquire Matching Grants?
- What inspection regime can BUDS devise to oversee these transactions?

It is envisaged that the final answers to these questions will be the outcome of negotiations between management and parties involved, and subject to final approval by the BUDS Steering Committee.

4.6 FACILITATOR-LED MODEL

A great many institutions exist that could act as market facilitator for BUDS; usually donor programmes or institutions with sub-sector expertise. Collaboration with these institutions can be most beneficial since they have acquired in-depth knowledge on the sub-sector concerned, the players in the market and the opportunities for cost-effective BDS delivery. Especially for underserved BDS markets (rural, micro) these institutions may have developed pilot BDS products that are ready for replication. In such cases the BUDS Matching Grants could be very effective.

The following list provides just an example of organizations to be considered¹⁰:

- SCOPE
- SPEED
- APEP
- ILO-FIT / FIT SEMA
- BMDS
- UNIDO MSE Program
- UNDP Promotion Centres /SNV
- Suffice Program
- Uganda Export Promotion Board
- Uganda Investment Authority

Some facilitators may limit their involvement to client referral or advisory functions. Other may take the lead in organizing a BDS event for MSEs, within or without a business linkage. The Facilitator applies and makes the participating SE's pay in advance for their share in the BDS expenses. As part of the collaboration contract it could be agreed that BUDS pays the matching grant directly to the BDS provider.

¹⁰ Some of these organisations are described in Chapter 2 and in Appendix

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A special variation of this model could exist, when BUDS contracts out the intermediary function to a private company (a consultancy firm, an accounting firm etc.). This model is to be proposed in chapter 6 for the financial management programme.

Table 4.5

	BUDS	BDS recipient	BDS provider	Association	Business Link	Market facilitator
BDS preparation						x
Application						x
Screening						x
Approval	x					
Contract	x					x
Implementation			x			x
Client satisfaction statement		x				
Completion report						x
Payment	x					x

Whether these market facilitator programmes or institutions can assume a lead responsibility remains to be tested in practice. It is also unclear whether they can assume financial responsibility for organizing the BDS event. If not, another intermediary (association, trader) may be identified that can perform these roles. Still, the sector specialists can perform an important role in putting together an effective BDS package and delivery system.

4.7 TRAINER-LED MODEL

The facilitator (PEVOT, TVET) designs cooperative training programs and organizes the apprenticeship or training arrangements with MSEs. Individual applications will be processed within the framework arrangement between BUDS and the training institution concerned, in which the remuneration standards have been agreed upon. Hence in individual applications only the number of trainees and the duration of the training needs to be specified. The facilitator collects the matching grant from BUDS in accordance to the agreed procedures.

It is envisaged that the OTJ Training component is executed under the PSCP-II Enterprise Skills and Linkages (ESL) programme. The Memorandum states:

“This component is intended to facilitate better linkages between enterprises and TVET institutions for more practical employment-oriented training, and the upgrading of worker skills through short modules. Skills training will also focus on promoting technical skills development for women in areas that have traditionally been male-dominated fields.

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The project team will work with the program for Promotion of Employment-oriented Vocational and Technical Training (PEVOT) to identify critical skills in demand, develop skill-specific modules that TVET institutions (or others with the needed skills) can provide based on UVQF standards, and design cooperative training programs between TVET institutions and enterprises.

The BUDS matching grant approach will be extended to cover wages paid by firms to TVET students during short-term industrial attachments and for tuition and expenses of sending their own workers for short-term skills upgrading in TVET institutions. In addition, a system will be put in place to ensure that an appropriate proportion of students and workers sent for skills training will include women. The appropriate number will be determined based on results from studies undertaken on promotion of women workers.”

After completion of this programme, trainees/participants will seek employment or establish their own business. The latter may wish to have assistance to start up their enterprise. The new BUDS programme set-up creates ample possibilities for initiatives in this direction. Would be entrepreneurs could apply either as (a) individual clients of BUDS, just as any other individual MSME, or (b) as part of a clustered BDS approach. The current proposal leaves abundant opportunities for parties with initiative to play an intermediary role and to create a tailor-made BDS programme for a particular clustered target group such as PIVOT trainees. However, the design of such programme should be left to the sector specialists and the clients concerned. Training institutions, or any other intermediary, can apply to BUDS for a product development grant, in order to develop a tool specifically for their target group of ex-PIVOT trainees. BUDS could even go one step further, and proactively approach institutions that might be interested to develop a BDS tool for this target-group.

Table 4.6

	BUDS	BDS recipient	BDS provider	Association	Business Link	Training institution
BDS preparation						x
Application						x
Screening						x
Approval	x					
Contract	x					x
Implementation						x
Client satisfaction statement		(x)				x
Completion report						x
Payment	x					x

4.8 FINANCIER-LED MODEL

With MFIs it may well be possible to enter into agreements about BDS training events for micro-enterprises. Especially for practical training related to basic record keeping and simple financial management tools, MFIs may recognize a mutual interest. BDS events could be organized in connection with the Micro finance Competence Centre. It indicated to be interested in the development of tailor-made training tools and simple workbooks that could be used for this purpose. Hence a step of ‘product development’ would logically precede actual training.

While it is not very likely that banks will take the lead in organizing BDS events, they may well refer clients in connection to linked BDS programmes. Barclays Bank has opened a special Small Business program, in which it goes as far as offering collateral free loans, provided that clients have successfully participated in certain affiliated BDS programmes (e.g. from Enterprise Uganda). Financial institutions that should be considered for further consultations include:

- Barclays Bank
- Standard Bank
- Centenary Bank
- Orient Bank
- FINCA
- Uganda Micro finance Union
- PRIDE
- Faulu Uganda
- Uganda Women Finance Trust

The modalities of financier led initiatives may differ for banks and MFIs. In the latter case the following procedure might be feasible:

Table 4.7

	BUDS	BDS recipient	BDS provider	Association	Business Link	Financial institution (MFI)
BDS preparation			x			x
Application						x
Screening						x
Approval	x					
Contract	x					x
Implementation						x
Client satisfaction statement		(x)				x
Completion report			x			x
Payment	x					x

4.9 MARKETING STRATEGY FOR BUDS SERVICES

4.9.1 GENERAL POLICIES

BUDS' marketing policy is logically derived from its general market development policy. Moreover, the same market stratification used for choosing the appropriate BUDS instruments of intervention, can be applied for designing the marketing strategy. As observed in paragraph 3.4, the existence of demand failure has implications as well for marketing. General publicity and advertising will not create response in such markets, as MSEs are not aware that their business may have a problem. And even if they do, they may not think of outside consultants or trainers as a possible solution. Thus, in markets affected by demand failure, general publicity is likely to be ineffective.

Therefore the following marketing policies are recommended:

1. A wide spectrum of publicity (newspaper advertising, radio, TV, trade fairs, etc.), as practiced by BUDS in the past is mainly appropriate for **graduating** markets. In these markets MSME are aware that they need business support services, and hence the BUDS program is recognized as a tool to improve their business.
2. For **underserved** markets general publicity is likely to be less effective, as MSMEs may not know of successful BDS experience in their environment. Hence it is more effective to market BUDS through intermediaries and associations that have representation in the area or in the market segment concerned. For intermediaries with which BUDS has entered into a framework contract, referral or intermediation of clients could be paid for by means of a commission. This is a networking strategy, more than a publicity approach.
3. For **embryonic** markets, faced with a severe demand deficiency (micro enterprises, rural business, farmers) the 'marketing' of BUDS can best be undertaken as part of a sensitisation campaign. When BUDS has entered into collaboration agreements with sensitisation agents (lead-firms, exporters, associations, banks, MFIs) the identification of clients for BUDS support is part and parcel of the program. Also this is a networking strategy.

In line with these policies, it follows that general publicity, focused mainly on graduating markets, works primarily for the retail transactions (demand-led approach). As BUDS will increasingly aim at 'wholesale' interventions, the importance of general publicity relative to the implementation of networking

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arrangements is key. As more experience is obtained with the networking strategy, it will probably be demonstrated that this approach is more cost-effective than general publicity. However, this should be subject of analysis based upon a comparison of costs and benefits for the two approaches.

Elements of the marketing strategy

The new marketing strategy will apply both general publicity and networking arrangements. It will guide BUDS through the process of presenting its work, communicating its goals to stakeholders, partners and final consumers of its services. This includes:

- Information management, including the creation of clear and consistent messages to all stakeholders involved in, or benefiting from, BUDS.
- The key groups to be targeted for the marketing message; identification of the relevant approaches and the internal processes for optimising communication with such target groups; outlining the mechanisms for delivering information and messages;
- A time frame for carrying out the plan and the budget, in the overall context of making the best use of resources allocated to marketing.
- The strategy should be effective in both dissemination and collection of information, knowledge, ideas and periodic updates and ensure that high-impact cost-effective communication tools are selected and used for the promotion of BUDS work program.

Key marketing messages

In the past BUDS has relied upon dissemination of the 'functional' information on the program. While this is important, it can be made part of a more *holistic* presentation, which includes:

- Services being offered by BUDS.
- Benefits of these services.
- Success stories of beneficiaries of BUDS.
- Reports to the key stakeholders.

In the new approach special attention needs to be given to the 'wholesale' delivery models, so that potential parties involved recognize the opportunities.

4.9.2 MARKETING BY NETWORKING

It is envisaged that BUDS could enhance its marketing effort when it is combined with the necessary networking in the market. The first step in proactive marketing is the identification of the major players in the market, a selection of which were referred to above. It would be appropriate for BUDS

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to engage in consultations with these and similar parties to see whether and how collaboration could be structured. Rather than dealing with each party on an ad hoc basis, it would be preferable to engage in framework agreements in which the terms of engagement are spelled out. Subsequently these contacts could be refreshed on a regular basis so as to keep them 'alive'.

Some of the donor programmes would be quite interested in collaboration with BUDS, to engage in replication of BDS activities beyond the boundaries of their own budget mandate. They indicated to be quite prepared to collaborate 'free of charge' as they recognize that the collaboration furthers their own institutional objectives.

Indirect marketing can be conducted through a variety of organizations:

- Associations
- Private Enterprises
- BDS facilitators
- BDS Providers
- Financial Organizations: Banks and Micro Finance Institutions
- Donor programmes
- NGOs
- Media Companies (sensitisation)
- Governmental institutions

In the context of a networking approach, marketing of BUDS can be conducted by various means:

- Incidental dissemination of brochures and other info materials to partners in the network;
- Agreement in respect to client referral (for retail approach);
- Agreement to disseminate materials to their clients or members;
- Collaboration agreement on organization of BDS events (intermediary-led approach);
- Regular consultation to discuss new opportunities for intermediary-led BDS (e.g. embedded BDS in specific commodity chains);
- Mentioning BUDS as part of their own marketing/publicity (e.g. associations); and
- Organization of a conference with all stakeholders to discuss market development and sensitisation strategies (strengthening the network).

4.9.3 MEANS OF MARKETING THROUGH GENERAL PUBLICITY

The following components of general publicity are envisaged:

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- **Television Appearances:** TV is the most preferred form of communication in Kampala and can be used to communicate BUDS activities. These can be established as stand alone magazines or incorporated in established business magazines like
 - Business forum on WBS TV
 - Economic Desk on UTV
 - TV talk shows where there are live discussions with discussants fielding questions from the Public or Audience
- **PSFU web site** can be used to communicate and exchange information with interested parties who have access to Internet. It should feature detailed information on the BUDS program, details on the application procedures, with a possibility of downloading application forms.
- **Newsletters.** Articles can be published in newsletters of associations and adverts placed.
- **Info-pack.** The info pack can be used as a handout at workshops and meetings, answer media requests plus outreach programs. Its contents should be updated regularly.
- **Radio stations:** Radio enjoys the highest penetration of any media in Uganda. BUDS could sponsor programmes with various stations or have a quarterly question and answer session where the public can call in to get information and get clarifications.
- **Newspapers:** Newspapers ensure a wider audience and most important if it's a pull out supplement interested parties can keep it for future reference. This can be used to introduce BUDS services to the public and also share the achievements so far.
- **Posters for conferences, seminars and symposiums and also for general public:** These to be used for dissemination, public relations, and public acceptance and outreach program.
- **Other means**
 - Workshops
 - Business subject seminars
 - Publicity of tours of beneficiaries businesses
 - Participation in trade fairs and exhibitions
 - Press Conferences and releases
 - Association and other networks events/meeting
 - Media background briefings
 - Special awards for beneficiaries and intermediary associations

5. THE POTENTIAL ROLE OF ASSOCIATIONS

5.1 OVERVIEW OF MSME ASSOCIATIONS

Business Associations have become a necessary element in improving the economic environment. With the increased private – public partnership in all aspects of development, their role has become even more important than in the past. The variety of associations in Uganda includes industry specifics, cooperatives or associations of small scale enterprises, trade associations, women organisations and professional organisations.

Table 5.1 summarises the services most commonly offered by associations in Uganda.

The current membership of PSFU totals 60 associations. There are however many other associations falling outside the membership of the PSFU.

Table 5.1: Services provided by the associations

Service	Examples
A. Training	<ul style="list-style-type: none">- Management training- Workshops and seminars- Quality certification
B. Information and net working	<ul style="list-style-type: none">- Newsletters and publications- Conferences- Public /private dialogues- Business meetings
C. Trade and Market development	<ul style="list-style-type: none">- Trade delegations- Matchmaking- Information on business opportunities- Organising trade fairs and exhibitions
D. Policy Advocacy and monitoring	<ul style="list-style-type: none">- Public/Private dialogue meetings- Lobbying legislators- Monitoring policy implementation

Below the main Associations with BUDS could possibly collaborate are briefly described.

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Uganda Manufacturers Association (UMA)

UMA brings together a variety of private sector practitioners. The main objectives are to promote, protect and coordinate the interests of industrialist in Uganda, act as a watchdog and an effective mouth piece for its members; initiate and facilitate discussions and exchange of information amongst members and advise government on key policies affecting industry. Revived in 1987, UMA provides a number of services to its membership. These include training, provision of information, organization of trade missions, and organisation of the Uganda International Trade Fair, quality certification, advocacy programmes and conference and meeting facilities. It has well established governance structures, a functional secretariat, trained personnel and physical facilities.

Uganda Importers, Exporters and Traders Association (UGIETA)

Started in 1992 as a company limited by guarantee, membership is mainly for traders engaged in export and import activities. Its objectives range from the promotion of trade, advocating for the development of trade and representing the trading community at various forums. It has a functioning secretariat and a board of 5 executives and 11 committee members.

Uganda Federation of Farmers Association

It is an umbrella organisation of farmers associations across the country. The association provides agricultural advisory services, training, marketing, provision of information and serves as a link between the farmers and the government. It has a well established governance structure. The organisation has a head quarter with physical facilities and has received considerable support from the Danish government over the years to build its capacity to organise and support farmers.

Uganda Small Scale Industries Association (USSIA)

USSIA is a registered business organisation open to all registered firms operating a small scale industry. Their main objective is to advocate for favourable industrial policies especially those promoting the growth of small scale industries. It provides business and technical information, assists in procurement of raw materials and inputs and conducts training for the members. The governance structures are well established with a physical secretariat constructed with the help of the Austrian government.

Uganda National Chamber of Commerce and Industry (UNCCI)

The UNCCI is managed under the same principals as those of other international chambers. Membership is diverse, consisting of both traders and industrialists. It has established governance structures nationwide. For many years, the chamber did not perform well and did not enjoy the trust of the private sector. Restructuring has recently taken place and efforts are being

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made to raise its profile and build the capacity for it to provide a better service to its membership. It operates branch offices in all districts and has regional offices. The main objective is to promote trade and industrial development in Uganda by supporting the improved performance of its members.

Uganda Association of Private Vocational Institutions (UGAPRIVI)

UGAPRIVI was established in 1989 with a mission to enhance unity, development and collaboration within the Private Vocational Institutions in Uganda. It receives support from the German government to enhance service delivery to its members. A National Secretariat exists through which advisory services are offered to the membership.

Uganda Micro enterprises Association (UMEA)

UMEA was established as a response to the need to have a forum for the micro enterprises to articulate their needs to government. Through UMEA, micro enterprise are mobilised and sensitised on strategies to improve the performance of their businesses. It has established governance structures and a small secretariat staff responsible for the daily activities.

Uganda Women Entrepreneurs Associations Ltd (UWEAL)

UWEAL was started in 1987 as a company limited by guarantee and a Non government organization. With a mission to empower women in business to create wealth, membership is open to women in business and professional women aspiring to become businesswomen. It facilitates training for its membership, advocates for policy change, provides networking opportunities and runs a mentoring programme. Governance structures are in place with a functional secretariat. It operates seven branches in up country locations.

5.2 PROGRAMMES IN SUPPORT OF ASSOCIATION

Recently the Ignition Fund has been launched with support from the European Union as part of its programme of assistance to the private sector in Uganda. Resources from other donor partners are likely to be contributed to the fund in due course. The fund is administered by the Private Sector Foundation Uganda. The Ignition Fund is an initiative of the Government's Medium Term Competitiveness Strategy for the Private Sector (MTCS). It will operate as a challenge fund. This means that proposals are gathered together periodically (every quarter) and, based upon set criteria, are ranked, with only the best proposals being funded.

The aim of the Ignition Fund is to finance a wide range of topics that will firstly, strengthen the capacity of private sector business associations to support the work of their members. Successful initiatives should also make these associations more sustainable organizations. It is envisaged that the Fund

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ill support projects that will strengthen the capacity of business associations, as well as projects that will provide services and benefits to an association's membership on a general basis.

As the Ignition Fund is a sister-programme of BUDS under PSFU, it is envisaged that the two will closely collaborate in their joint effort to strengthen Associations as a means to deliver BDS services to their members.

5.3 OVERALL ASSESSMENT OF STRENGTH AND WEAKNESSES

Business Associations in Uganda suffer from organisational weaknesses, low membership, limited financial sustainability, bad management practices, lack of technical capacity to carry out their mandates and are concentrated in the main Kampala business district.

Discussions with the staff of associations indicated that their members are not always able to participate in the availed BDS programmes because of capacity to pay. This is more exaggerated for associations serving micro and small enterprises. In most cases they are not able to take their services outside Kampala because of the inability of the upcountry clients to meet the full costs of providing such a service. Where this has been possible, associations have solicited support from donors to subsidize the activity. Attempts have been made by associations to facilitate their members to access the matching grant scheme but the eligibility requirements for group access have often proved difficult to attain. Most of them have informed their membership about the programmes and have distributed pamphlets on behalf of PSFU. Their observation is that most of the micro and small enterprises are not in position to prepare the proposal and meet the supporting documentation required by the scheme management.

Most of the associations have no in house capacity to provide business development services and have to hire outside help which makes some of the services even more expensive and therefore inaccessible to their members.

Table 5.2: Summary of weaknesses and strengths

Strengths	Weaknesses
<ul style="list-style-type: none"> • A variety of member organisations representing different groups of enterprises 	<ul style="list-style-type: none"> • Weak institutional structures
<ul style="list-style-type: none"> • Some have Regional and district representation 	<ul style="list-style-type: none"> • Most of them not financially sustainable
<ul style="list-style-type: none"> • Democratic governance in some of them 	<ul style="list-style-type: none"> • No technical capacity because of lack of finances to hire competent staff
<ul style="list-style-type: none"> • Providing some business development services 	<ul style="list-style-type: none"> • Limited capacity of the membership to pay for services
<ul style="list-style-type: none"> • Committed leadership in many cases 	<ul style="list-style-type: none"> • No strong analytical capacity of issues
<ul style="list-style-type: none"> • Knowledge of the needs of their membership 	

Although some of the associations have upcountry branch offices. Most of these are managed by volunteers; operate either out of rented facilities or member offices. They do not have proper office facilities and have no capacity to handle heavy workloads. Table 5.3 below indicates the branch network of selected associations.

Despite the current challenges, associations have a potential role in ensuring that current and future BUDS programmes are utilised by their memberships. The associations will in turn be seen by their members as providing a tangible service.

Table 5.3: Selected Offices with up country branches

	Regional Offices	District Offices
UNCCI	10 regional offices with physical facilities	39 offices
USSIA	-	25 offices, 5 including head quarter have physical facilities
UWEAL	-	7 District branches, planning expansion
UMA	2 regional Offices	-
UMEA		1

5.4 THE POTENTIAL ROLE OF ASSOCIATIONS

Table 5.4 shows the various roles associations could play in the management and implementation of BUDS programmes.

Table 5.4: Potential Roles of Associations

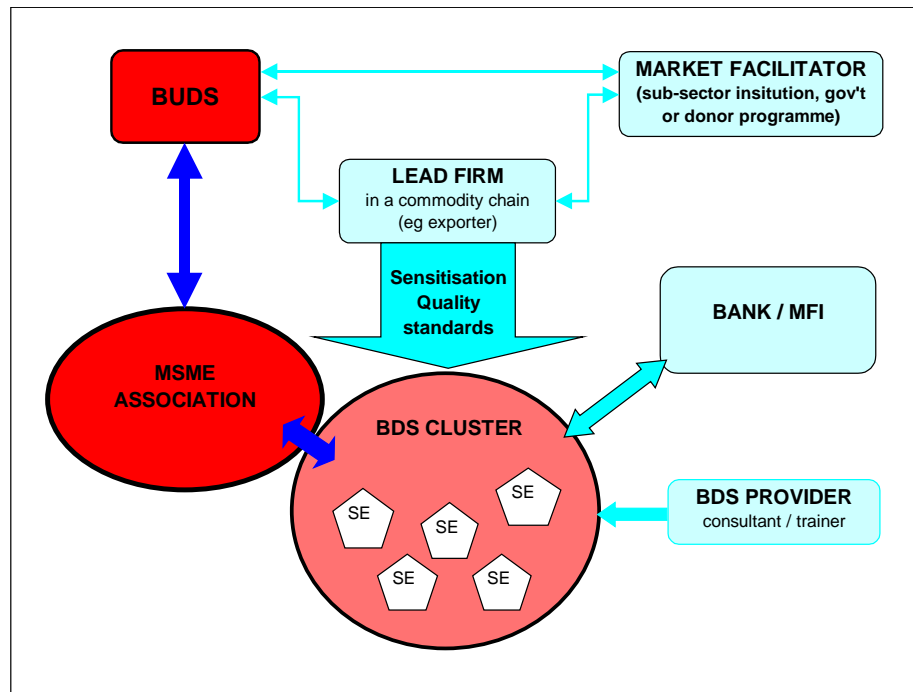
	Function	Activities
1	Marketing	<ul style="list-style-type: none">➤ Sensitisation on BUDS services➤ Distribution of marketing materials➤ Running promotional programmes on local radios and TV stations for their memberships➤ Recruitment of clients
2	Management	<ul style="list-style-type: none">➤ Distribution of application forms➤ Training clients in proposal preparation➤ Reviewing and verifying proposals➤ Submitting proposals to BUDS on behalf of clients➤ Disseminating information on status of applications to clients➤ Organising clusters for specific delivery of a BDS
3	Monitoring and Evaluation	<ul style="list-style-type: none">➤ Follow up of clients➤ Maintaining a data base on clients➤ Providing BUDS with initial impact data and information➤ Providing feed back to the scheme managers on the appropriateness of tools being used

The roles are not mutually exclusive. Associations are at different levels of development and have different strength and weaknesses. The determination of what role an association is able to play will depend on its capacity to manage one, two or all the roles detailed below.

There will be cost implications to the associations for some of the activities to be performed on behalf of any BUDS activities. Some activities will have to be financed 100% by the scheme but others can be cost shared if they form part of the work plan of the association.

It should be noted that the associations-led model can be used in combination with other players in the BUDS network. For instance, a farmers association could collaborate with an exporter or lead-firm in the commodity chain to create 'embedded' BDS delivery for the participating farmers. Likewise, an association could collaborate with a bank, to prepare their members better for credit applications.

Diagram 5.1: Interaction with other players in the association-led model



5.5 CAPACITY BUILDING NEEDS OF ASSOCIATIONS

In order for the associations to play a role in the delivery of the BUDS programmes, their capacities must be beefed up. Capacity building requirements will include although not be limited to the following:

- Short –term technical support and management assistance
- Needs assessment for the BDS requirements especially for associations representing micro enterprises.
- Training in delivery methodology, preparation, review of proposals
- Monitoring and evaluation skills
- Data base management
- Strengthening of operating structures and facilities
- Logistical support – provision of computers, communication equipment and in some cases office furniture
- Development of marketing strategies

Provision of some of the mentioned needs may not fall within the eligibility criteria of BUDS. Collaboration with other capacity building programme will

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therefore be necessary for example, the ignition fund. Given that some of these associations do not have human resource capacity, BUDS staff might be required to be proactive and assist in proposal writing and identification of capacity needs whenever necessary.

5.6 ELIGIBILITY CRITERIA FOR SELECTION OF PARTNERS

Table 5.5 presents procedures that could be used to select associations. Each of the potential partners will be evaluated with respect to the eight characteristics, which are marked on a three point scale (higher values indicating better performance). Given the diversity of associations, it may be necessary to build in flexibilities within the partner selection tool.

Table 5.5: A Tool for Partner Selection

Criteria for partner selection	Weighing (example)	BMO A	BMO B	BMO C	BMO D
Democratic governance	10 %	3	2	1	1
Number of SME members	20%	1	2	2	3
Commitment and vision of leadership	25%	2	3	3	3
Geographic coverage	10%	2	3	1	2
Number and quality of staff	5%	2	1	2	3
Office, equipment	5%	1	2	1	3
Advocacy and services for SMEs	10%	2	3	2	2
Financial sustainability	5%	1	1	1	1
Total	100%	1.65	2.05	1.75	2.15
Ranking		4	2	3	1

Adopted from the “Building the capacity of Business Membership Organizations” World Bank, Small and Medium Enterprise Department

The tool has been slightly adjusted to fit the association environment in Uganda. After application of the above tool, the selected partners will then have to go through various stages of the application process. Table 5.6 outlines the ten likely steps before a partner starts implementing an agreed program with the BUDS scheme.

Table 5.6: Ten Steps for partner selection

Step	Activity	Responsibility
1	Send out invitations for expressions of interest	PSFU/BUDS
2	Preparation and submission of expressions of interest	Associations
3	Evaluation of received expressions	PSFU/BUDS
4	Ranking using the partners selection tool	PSFU/BUDS
5	Selection of partners	PSFU/BUDS
6	Invitation to selected partners to apply for specific partner roles and submit work plans	PSFU/BUDS and Associations
7	Negotiations	PSFU/BUDS and Associations
8	Signing of Memorandums of understanding with successful ones	PSFU/BUDS and Associations
9	Implementation of agreed plans (including Capacity Building and Product Development);	PSFU/BUDS and Associations
10	Monitoring and Evaluation of BDS event	PSFU/BUDS

The Memorandum of Understanding (or framework agreement) with the association describes the way BUDS and the Association collaborate. This includes:

- a. Purpose of the collaboration
- b. Responsibilities of each party
- c. Capacity building requirements and support by BUDS
- d. Diagnostic tools to be used for members – support by BUDS for Product development
- e. Modalities of collaboration for recurrent BDS events
- f. Marketing of BUDS (dissemination of brochures, workshops)
- g. Financial responsibility of the intermediary
- h. Reporting/accounting obligation of the intermediary
- i. Inspection rights for BUDS
- j. Sanctions upon mismanagement or misuse of funds

It is envisaged that in the coming years 5-8 associations could become eligible as BUDS intermediaries.

5.7 STAGES FOR SELECTION OF LEVEL OF SERVICE

Associations to work in partnership with BUDS will have different levels of capabilities and various comparative advantages. Using the partner selection tool ranking shown in Table 5.5, below is an example of the services that could be provided by associations according to their ranking. For example, association ranked one will be retained for sensitisation, recruitment of clients

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and distribution of promotional materials. Associations can graduate to other service levels during the lifetime of the programme depending on the speed at which capacity is built.

Table 5.7: Steps in gradually increased outsourcing to associations

Ranking	Activities
1. Support for BUDS only	<ul style="list-style-type: none">• Sensitisation• Recruitment of clients for BUDS retail)• Distribution of BUDS information
2. Some outsourcing	<ul style="list-style-type: none">• Sensitisation of potential clients• Serve as a link with small rural associations• Train clients in proposal writing• Support clients in proposal writing• Disseminate information on application status• Organise Clusters or networks
3. Medium outsourcing	<ul style="list-style-type: none">• Sensitisation of potential clients• Manage promotional programmes on behalf of BUDS• Train clients in proposal writing• Support clients in proposal writing• Disseminate information on application status• Organise Clusters or networks
4. Substantial outsourcing	<ul style="list-style-type: none">• Sensitisation of potential clients• Organise Clusters or networks• Manage promotional programmes on behalf of BUDS• Review and verify proposals• Submit and follow up applications on behalf of BUDS.• Disseminate information on application status.• Review Deliverables• Monitor Performance of beneficiaries
5. Full outsourcing	Association in position to be subcontracted as managers of a sub-BUDS Scheme.

5.8 REMUNERATION OF THE ASSOCIATION

Depending upon the degree of outsourcing, a proper remuneration for the association is to be negotiated. It seems most appropriate to fix the remuneration as a commission over the value of BDS transactions organised. For full sub-contracting the commission might be negotiated anywhere between the 10% - 20% range. It may be preferable to keep reimbursable expenses separate, as these may vary depending upon the circumstances of specific BDS events (e.g. travel expenses for remote sub-associations).

6. FINANCIAL MANAGEMENT TOOLS FOR MSMEs

6.1 FINANCIAL MANAGEMENT PRACTICES AMONG MSMEs

MSMEs as a group constitutes micro-enterprises which are small retail proprietorships, small enterprises which are family businesses with physical location and tending to incorporated entities and the medium scale enterprises which are limited companies with duly constituted directorships and with visible business operations in the local economy and often extending into export markets. Each of these has unique features, obligations and hence a variant in financial management practices. Some business establishments be transitioning from one category to another and hence may possess the characteristics of both categories.

6.1.1 MICRO-ENTERPRISES

Micro-enterprises are basically small proprietor business with the owner as the key staff and one or two assistants who may be relatives not formally employed with the small business but often just paid a daily allowance. Their annual turnover is normally less than US\$ 50m. They are of a retail nature, may not have a fixed physical address and tend to be maintained small over their life. Some may have a daily purchases, sales and accounting cycle making it possible for the owners to keep track of their profitability on a day to day basis.

They therefore do not see the necessity for adopting formal financial management practices. Key features of their FM practices include:

- Absence of accounts records except for an exercise book to records debtors for future follow up. Some may have totals of sale and purchases made on a day to day basis.
- Lack of documentation of sales or purchases by way of receipts.
- May not maintain a bank account for the business or it may be a personal account on which other non-business effects are banked.
- Business operations are on a cash basis

Most of the promoters of micro-enterprises carry on a trade for purposes of earning a livelihood. They have no intention of growing the business and their customer perspective is “walk-up customers” in the locality. They owe financial accountability to themselves and nobody else. The entrepreneurs have low education and often with little appreciation of the significance of financial management in business prosperity.

6.1.2 SMALL ENTERPRISES

Small enterprises (SEs), are often family businesses with employees ranging between 5 – 20, with turnover in excess of Shs 50m, and with a fixed physical address. They are usually businesses licensed by the Local Authorities and may attain incorporation status and tax registration for purposes of accessing public sector business and bank financial facilities. Some of them tend to expand in medium scale enterprises especially when they adopt an export orientation. The statutory, business access and financial credit access requirements imposed on them conditions them to develop systems, policies and procedures for managing their business in the long run. Some see adoption of financial management practices as an obligation other than a necessity. This in extreme cases conditions some of them to maintain multiple accounts records to ensure minimum compliance to each of the requirements.

There is a general lack of good book keeping practices on the part of the SEs. This translates into absence or in the least, poor financial reporting both for external stakeholder purposes and for management control. Budgets are therefore not prepared and financial planning is not a normal practice. Most of the key features of the micro-enterprises described above apply, however:

- I. There could be some effort to maintain accounts records especially the cashbook and debtors on a memoranda basis. However the accounts records are largely incomplete.
- II. Expenditure, sales and purchases documentation would normally be available but not systematically kept.
- III. They would normally maintain a bank account for the business but it may not be consistently reconciled with the cashbook.
- IV. Expenditure operations would largely be on a cash basis, though purchases and sales may begin to pass through the banking system due to development of business relationships with corporate and public sector customers.

6.1.3 MEDIUM AND LARGE ENTERPRISES

Medium enterprises are well established incorporated companies with between 21-100 employees. Their business activities normally extend countrywide, regionally and in some cases have an export orientation. They are licensed by the Local Authorities and are visible taxpayers, carrying out business in both private and public sector with active financial relationships with financial institutions. Some of them grow organically from small to medium scale enterprises over a long time. They would normally have developed systems, policies and procedures for managing their business at this point in time.

Medium enterprises are normally incorporated companies, registered by the Registrar of Companies. They normally maintain books of accounts and undertake annual audit of accounts. This is because they are statutorily required to file income tax returns with Uganda Revenue Authority and to file their annual accounts with the Registrar of companies. They also tend to have bank relationships and business relationships with their clients, which often compel them to provide audited accounts as a credit rating criterion.

6.2 NEEDS ASSESSMENT FOR FM SERVICES BY MSMEs

It is generally observed by BDS providers that MSMEs normally have low appreciation of FM-BDS. They are often unaware that (a) financial management is a key tool for improving business performance, (b) that FM-BDS could be effective and (c) that the cost of FM-BDS may well be worth it. There is a great need for sensitisation. Demand does not come spontaneously.

Just like for other BDS, the scope for ‘self diagnosis’ for the need for FM-BDS is limited. Small entrepreneurs especially, are often unaware of their own weaknesses, both as an entrepreneur and as a business.

6.2.1 TRAINING ON BASIC RECORD KEEPING

Group training initiatives have been carried out through associations, which seek financial support on behalf of their members for capacity building. The members often pay participation fees as their contribution to the cost of the training, which amounts to about 10 –20% of the cost. Examples of such training arrangements include; PSFU Association Governance course series. Individual training has also been carried out to a limited extent. Institutions like Enterprise Uganda have supported some MSMEs to access business counselling services from their accredited business consultants on a one to one basis.

Some financial institutions have provided group training for their MSME clients. Centenary Rural Development Bank has for example provided “Grow Your Business” training to some of its MSME clients through a joint-funding arrangement with SPEED Project. Some MFIs like FAULU, MedNet and FINCA provide basic business and accounting skills pre-loaning training for the purposes of proper management of their loans by the MSME clients. While no formal FM training needs assessments have been carried out, these various programmes indicate the institutions concerned considered it important.

Relevancy of training to help solve business problems such as basic record keeping: The SME's judgment in respect to this type of training is quite clear and more or less the same for all training/consultation on record keeping. Only 40% of the respondents have the impression that the training/consultation really helped them solve business problems. The rest of the 60% feel that there was no immediate benefit on profitability arising from the provision of basic training other than improve the business efficiency.

Willingness of SMEs to pay for basic training: Overall, about 40% of the respondents express their readiness to pay full fees for practical training. A closer look indicates that this willingness is significantly higher among SMEs that have undergone training before, compared to those who have never had any such training. Readiness to pay seems to be highest for skill development services and hands on guidance of basic book keeping.

6.2.2 ACCOUNTING SUPPORT

Demand for accounting support is usually derived from obligations imposed on the MSMEs. Financial institutions may impose this as a requirement for the purposes of proper management of their loans. Tax authorities who demand final accounts and accounts records for tax assessment purposes also sometimes condition the MSMEs to hire accounting support services retrospectively from incomplete records. The MSMEs do generally not perceive value for the costs involved in seeking this service. While part-time accounting support could lower the cost of the service, protection of the confidentiality of their business operations is also another factor that limits the demand for accounting support.

6.2.3 AUDITING

Only medium scale enterprises have demand for auditing services. Even this demand is derived either as a requirement to access bank loans or business from public sector or international clients who often demand audited accounts a business capacity rating criteria.

Small enterprises have the inheritance inadequacy of basic accounts records and yet have tax filing obligations to fulfil. Consequently, their final accounts are prepared based on incomplete records and reasonable financial estimates. Given the questionable reliability of these records and estimates and the low financial capacity of the SEs, Professional Accountants are reluctant to provide accountancy services in this circumstance in the bid not to compromise their professional code of conduct. The un-licensed firms tend to provide auditing services to these SEs.

6.2.4 TAX RETURNS

Small and medium enterprises are normally required to register with the Uganda Revenue Authority (URA) for Value Added Tax (VAT) and for Income Tax. Monthly VAT Returns are supposed to be prepared and filed with URA before the 15 day of the following month. Income Tax self-assessment is supposed to be carried out by the taxpayers and the self-assessment filed with URA on a quarterly basis. VAT and Income Tax registration therefore call for systematic accounts records, and management to have adequate documentation and financial information to substantiate compliance. Tax Investigation Audits are also carried out from time to time to verify the reliability of the VAT and Income tax returns filed. Given these circumstances, most MSMEs that maintain financial records to satisfy tax authorities and not to aid business decision making.

Most MSMEs therefore derive demand for accounting services from the obligation to file accounts for tax assessment.

6.2.5 COSTING AND BUDGETING

Medium scale enterprises tend to have formalized costing and budgeting systems, policies and procedures borne again more out of compliance to statutory obligations like tax compliance. Micro and small enterprises do not normally have costing and budgeting systems, policies and procedures in place. Costing is informally done piecemeal, on a lot or consignment basis.

6.2.6 CASH FLOW PLANNING

This service is only demanded by MSMEs as a due diligence requirement by Banks when accessing bank loans. MSMEs would normally not ask for this service for business management control purposes.

6.2.7 BUSINESS PLANNING

Many small enterprises do not have well-written business plans to guide the management of their businesses. The entrepreneurs often started these enterprises as informal businesses and only prepare business plans as the business expands or when the enterprise plans to acquire additional finance from the commercial banks. Many of the business plans are not put into use due to several factors:

- The enterprises conducted the exercise only to meet only external requirements;

- The business plans are prepared without participation of the entrepreneurs hence lack ownership and will to implement them;
- The finance plans are at times developed by non-finance consultants, where the finance assumptions are inappropriate and some business plans have been rejected by the commercial banks; and
- Entrepreneurs think that the plans have to remain static but in reality as the business environment changes the plan remains inappropriate to address the business challenges.

6.3 CONCLUSIONS FROM FIELD RESEARCH

The interviews held with Accounting Firms and Certified Accountants provide a wide consensus that *poor record keeping* and lack of regular accounts, or more generally lack of ‘financial management’ is a big obstacle for MSME development and access to finance. There tends to be a key problem of lack of demand and capacity to pay for FM-services on the part of the micro and small enterprises and lack of appreciation and willingness on the part of medium scale enterprises to perceive FM-services and value-adding to their business operations.

6.3.1 GENERAL LEVEL OF AWARENESS AMONG MS ENTREPRENEURS

Many MSEs are not even aware that they have internal financial management weaknesses that require FM-BDS interventions to address them. This means that they have no demand for FM business development services. In circumstances where the SEs get to know their internal financial management weaknesses, they tend to perceive the cost of the FM-BDS as unjustifiably high and get the temptation to believe that the weaknesses can be sorted out more cost-effectively internally or through adoption of straight jacket solutions made for similar businesses. MSEs also do not perceive FM-BDS (intangible asset) as value adding to a business as compared to procuring a piece of production equipment (a tangible asset).

In other words, the enterprise needs to be able to justify the business service purchase cost as an investment in future profitability. The optimal use of an MSME’s resources is for their core productive/profitable activity.

The following reasons impact on the decisions made by MSMEs:

- Lack of awareness that the service is needed/useful;
- Lack of awareness that providing the service takes skill;
- Over-estimation of internal competence to provide the service;
- Inability to find a business service supplier that offers good quality

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service; and,

- Lack of financial resources for outsourcing the support service.

Any decision to buy is influenced by both the type of business service being considered and the stage of enterprise development. For some services, enterprises typically begin by self-serving and then move to external purchase (e.g., training, accounting). Other enterprises begin with external purchase and then bring the function in-house as demand for it increases (e.g., logistics management). Whether or not an enterprise will buy externally produced business services may also depend on:

- The choices available and the perceived “value for money”;
- The information available on the benefits to expect from the purchase;
- The degree to which the skill is actually possessed internally; and,
- Whether or not the service is seen as critical to competitiveness.

Cultural factors also play a key influence in demand for FM-BDS by SEs. Some SEs are not willing to trust BDS providers with competitive information, and whether or not there is perceived loss of confidence if this external help is sought. These concerns about confidentiality may for example take the form of risk of reporting financial data to URA staff, given the poor tax compliance culture in Uganda.

Very small enterprises (less than ten employees) face human resource constraints in acquiring and analysing information on alternative sources of financial business services. They are also less likely to have formal exposure to analyses of the relative benefits of investing in specialty business services. Even when an FM-BDS is sought, the SE may still face challenges in finding staff time to manage the external business service supplier during the implementation.

In conclusion, *lack of sustainable ‘demand’* for FM expertise on the side of SE’s is a key obstacle to provision of FM-BDS which is a key intervention that needs to be activated to improve MSMEs performance.

6.3.2 GENERAL LEVEL OF AWARENESS AMONG MEDIUM SCALE ENTREPRENEURS

Medium scale enterprises are both local or internationally headquartered companies in manufacturing, bulk trading or service business sectors.

The Medium scale entrepreneurs are well informed about the business services usage for business growth. They use skilled employees to run the enterprises and they prepare strategic plans that clearly define the strategic issues to be

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addressed. However, the multinational firm tends to depend mainly on the external service providers due to the technology requirements and the local availability of the skills. For example manufacturing sector, and telecommunication sector.

The entrepreneurs are aware about use and value of business services to their enterprises. They can pay for the services of highly qualified and skilled service providers. However, they tend to avoid individual consultants or unregistered firms due to corporate policies. The business services to be procured are planned in advance or decisions on its use are quickly arrived at in order to meet the customer's demands and standards. The services demanded are normally of a strategic nature encompassing reviewing or developing strategies, systems and providing work flow solutions generally in the bid to compete effectively in the increasingly private sector-driven economy which demands efficiency. Other consultancy services they may demand may be in the areas of financial management, taxation, audits, Monitoring and Evaluation and secretarial services.

The problem with this category is sheer reluctance to change from their traditional systems and methods of work and having the faith that seeking BDS can ultimately lead to enhanced company performance and profitability. Some of them change their attitude only when they have had testimonies of their contemporaries who have realized the benefits of BDS.

6.4 OVERVIEW OF THE ACCOUNTING PROFESSION AND FM CONSULTANTS

6.4.1 NUMBER AND SIZE OF ACCOUNTING FIRMS AND FM CONSULTANTS

Uganda has about 800 Professional Accountants who are members of the Institute of Certified Public Accountants of Uganda (ICPAU). Eligibility of membership is either; (i) by qualifying examination conducted by Board of the Institute and complete practical training prescribed by the Council or; (ii) by membership of a Society or Institute of Accountants approved by the Council with an equivalent status. ICPAU also licenses a limited number of Associate Accountants who popularly provide auditing services to micro and small enterprises. Kenya on the contrary has over 2,000 Professional Accountants, which in comparison shows that the accounting profession in Uganda is not well developed. The number of Professional Accountants qualifying has however swelled from 10 per year in mid 1990s to about 100 per

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year currently. It is anticipated that the 1,000 Professional Accountants mark should be reached by year 2006.

There are seventy six (76) Certified Public Accounting Firms and ten (10) Associated Accounting Firms currently licensed by ICPAU to practise as Accountants as at December 31, 2003. All the Accounting Firms are based in Kampala. Up-country areas are serviced by diverse Un-licensed Accounting Firms and individuals whose resort to locate up-country is conditioned by being crowded out of Kampala by the licensed firms.

Types of Clients Served Commercially

Accounting firms confirmed that they serve only the two upper categories of clients; the small enterprises and the medium scale enterprises. The micro-enterprises hardly have any demand for financial management services. As already noted above these are small individual proprietorships which do not have enforceable obligations to file tax returns with the Uganda Revenue Authority or final accounts with the Registrar of Companies.

Small enterprises are normally served commercially for accountancy services mainly to write their books of accounts, audit of their final accounts and tax management. The services as provided as a result of external compliance obligations put upon them other than voluntarily. They are often not very keen to pay up for the services and their default rate is high. As a consequence the level of actual transaction is very low.

Medium scale enterprises on their part also tend to have seek financial management services at a point in their life time when they are undergoing a transition either due to business expansion, capital restructuring or emergence of a core investor or financier who requires overhaul of business strategies, review or development of systems, a financial valuation or restructuring of the company as a whole. Commercially demanded BDS may include;

- Market development plan;
- Management consultancy;
- Tax management and planning;
- Investment advisory services;
- Developing accounting systems;
- Computerisation of manual accounting systems;
- Auditing and investigations;
- Developing accounting systems, policies and procedures; and
- Financial valuations.

6.4.2 THE COMMERCIAL “BOTTOM” SCALE OF CLIENTS

MSME practices show that “business to provider” commercial BDS is only worthwhile for small and medium scale enterprises. There is little scope for it at the micro-enterprise level.

The BDS market is based on the notion that BDS providers are professional institutions that offer clearly defined products at a price (that covers at least production costs) to a certain clientele. Reality in Uganda is different. Most BDS providers are "general service providers". In addition, they also offer often ill-defined financial services to SMEs. Most BDS providers are not oriented towards the SME finance demands and the market, but rather towards sponsors and donor funded projects, which are expected to provide funds for their activities.

The question at hand is whether it is still worthwhile for accounting firms to develop FM services that are perceived to add value to the clients to make them appreciate their role in business management.

Demand for business services is expressed through prices clients pay for a product. Research indicates that a large number of SMEs about 50% have taken advantage of BDS to improve business performance. However, only a small number of about 20% have had to pay for the service. In most cases, the fees actually paid did not correspond to the actual cost, as most training activities were supported by donor funded subsidies like BUDS, IDEA, SUFFICE, PRESTO and SPEED project. As a consequence, it is equally premature to assume that the BDS market has developed. This is clearly evidenced by the fact when SMEs experience business constraints or problems, only about 10% of them consider the possibility of consulting a commercial BDS provider. Most of the SMEs prefer to seek counsel from family and friends or seek subsidies to access BDS.

In conclusion, while potential demand for commercial FM-BDS services in Uganda among SMEs appears to exist, there is no indication it is going to rise markedly in the near future without market development initiatives and support programmes. This situation should be stimulated as the economy continues to grow to compel best business management practices as competition increases. The credit/loan culture and the “corporate personality” culture of managing businesses also need to be emphasised to compel SMEs to adopt strategic thinking in business management.

6.5 ACCOUNTING REGULATIONS

The Ugandan company law does not oblige micro and small enterprises that are proprietorships or partnerships to carry out annual audit of accounts and file the same with registrar of companies. Stakeholders like financial institutions and client with whom the enterprises have a business relationship may however demand audited accounts for their specific due diligence purposes.

For incorporated enterprises, company law requires them to carry out annual audit of accounts and file final accounts with the Registrar of Companies. However, in practice, the enforcement of these legal requirements is weak. Many MSMEs are not audited at all. Those audited are often audited by un-qualified Accounting Firms.

The essence of Government instituting and enforce laws requiring MSMEs to keep proper books of accounts and filing of audited accounts needs to be considered MSMEs.

6.6 ICPAU

The Institute of Certified Public Accountants of Uganda was established by The Accountants Statute 1992. It is a corporate body established to carry out two key functions:

- 1) to regulate and maintain the standard of accountancy in the country; and,
- 2) to prescribe or regulate the Conduct of Accountants in Uganda.

The Institute is governed by a Council, which consists of eleven members. This is constituted by the Commissioner Treasury Officer of Accounts, the Auditor General and the Commissioner of Education as ex officio members, five Practicing Accountants and other appointed members.

The functions of the Council that are most relevant to FM-BDS include:

- (a) Issuance of certificates and licences to eligible members to practise accountancy;
- (b) Ensuring the maintenance of professional standards among members of the Institute and to acquaint members with methods and practices necessary to maintain those standards;
- (c) Encourage research in accountancy and allied subjects in Uganda for the advancement of professional accountancy in the country; and,
- (d) Regulate the conduct and promote good ethical standards and discipline of members of the Institute.

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The Institute has made a big impact in the economy increasing the awareness to seek accounting services from licensed Accountants and Accounting firms. The Institute has also been instrumental in providing input on economic policy matters that have financial management and accounting regulatory implications.

Discussions with Accounting Firms and Certified Practising Accountants revealed that they believe the Institute's contribution to FM-BDS development should include:

- (a) participation in initiatives to sensitise MSMEs about best financial management practices; and,
- (b) Tailoring the Institute's examination syllabus to address the needs of the MSMEs

Discussions with the Institute about their possible contribution to the development of appropriate FM-products for MSMEs revealed that they would be keen to review the adequacy of the FM-products developed to regulatory and company law compliance.

6.7 PAST PROGRAMMES UNDERTAKEN IN THE FIELD OF ACCOUNTING

SPEED Project SME Finance Intervention on Grow Your Business with Centenary Rural Development Bank.

The SPEED project strengthened the capacity of two service providers to provide financial management services to the bank customers. The Grow Your Business Program begins with the a one day workshop and later followed up with specific consultancy support services in preparation of business plans for loan, financial planning and auditing services. The two pilot projects were established in Mbarara and Lira districts. In Mbarara district the program was expanded to Nile Bank and Standard Chartered Bank. However, the pilot projects did not achieve great success due to a number of reasons:

- the bank customers were not willing to use the services of the BDS providers because the Loan Officers in some of the banks were already offering the services to access the loans;
- the capacity of the BDS providers to handle the support services was inadequate; and
- the banks were not willing to release confidential information of the client's bank details.

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A number of other BDS intervention have also provided BDS services to some extent as part of their country programme in Uganda. These are tabulated below.

Donor Agency		Implementing Entity	Nature of FM Service
1	UNDP	Enterprise Uganda	Consultancy and counselling
2	ILO	ILO Zimbabwe, overseen by Enterprise Uganda	Expand Your Business – Financial Management Training
3	SNV	SNV Country Project Office	Business Planning
4	ILO	FIT-SEMA	Technical support to existing private sector companies to test and develop financial and tax advisory services
5	EU	SUFFICE	Capacity building to MFI and product development of MFI products
6	DFID	BSMD	financial and tax advisory services
7	APDF	APDF	financial and tax advisory services for Medium Enterprises

6.8 EXPERIENCE AND REQUIREMENTS OF FINANCIAL INSTITUTIONS

Some commercial banks interviewed showed a great deal of interest in the SME market. Barclays Bank, for instance, has established an SME programme, in which it is able to provide unsecured loans to ‘good customers’ in the SME sector. Barclays also works with ‘linkage partners’ such as the Export Promotion Board or Enterprise Uganda, to provide advisory services or training to their clients when this is deemed necessary. Other commercial banks interviewed revealed that the small enterprises are considered risky – Banks have traditionally been very conservative on collateral in order to mitigate risks. The enterprises lack of good upcountry collateral and there are difficulties often associated with liquidating such collateral. There is total lack of business planning and family interferences in running of the businesses, they have a poor credit culture, poor record keeping and too much informality, and limited understanding of banking services. These constraints therefore combine to make small enterprises unattractive for commercial lending and financial services. SPEED intervention, under the Grow Your Business

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Program, was aimed at addressing the above constraints so as to encourage banks to lend to small enterprises.

Despite this adverse background surrounding the MSMEs the financial institutions have of late, found themselves with excess liquidity that cannot be absorbed by the big corporate clients and the money market (Bank of Uganda Treasury bills). Also aware of MSME development as one of the strategies of Government's poverty eradication action plan, they have introduced initiatives for lending to MSMEs and in some cases without collateral.

The banks want the BDS providers to be strengthened to assist the SMEs to develop bankable financial proposals that meet the loan requirements. The banks also want and support the sensitisation of the entrepreneurs on the bank products and services to enhance their understanding of the bank requirements, products and services to promote business growth. The banks are willing to work closely with the BDS providers and the potential customers to reduce the constraints of the SMEs.

6.8.1 EXPERIENCE OF BANKS

The commercial banks especially have been providing financial management services to their customers e.g. DFCU Leasing, Centenary Rural Development Bank and Nile Bank. Barclays has also introduced financial services for MSMEs under their local business unit initiative. However, these banks have been faced with increased workload to support their customers. Therefore, some of the banks have short-listed BDS providers to offer the services to their customers. The initiative has relieved the banks from undertaking the service to increase clientele.

The systematic market failures impede the provision of certain types of services. For example, firms may be unable to capture sufficient benefits from basic record keeping training to justify the costs, resulting in low demand for such training. Similarly, market intermediaries might be reluctant to bear the costs of organizing small producers to link them to product or input markets because their competitors may be just as likely to benefit, without incurring the front-end costs. These types of market failures, if substantiated, provide a rationale for donor funded project support for services that can be justified on the basis of cost-benefit calculations, rather than on the return on investment calculations that individual businesses must make.

6.8.2 MINIMUM REQUIREMENTS

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Banks still require MSMEs seeking loan finance to fulfil a number of eligibility benchmarks. These would normally include several of the following:

- (a) Having an operational bank account based on which a track record of cash flow can be assessed;
- (b) Keeping books of accounts as a measure of good formal business management;
- (c) Having audited accounts; and,
- (d) Having an appreciation of financial statements.

6.8.3 WHAT COMMERCIAL BANKS RECOMMEND TO BE DONE

The Banks' concern in their core business of lending is reduction of the risk in lending to MSMEs. Their credit eligibility benchmarks focus on good financial management practices. Any BDS intervention that strengthens MSMEs financial management practices is therefore in their best interests. Contributions to this intervention without diversion of effort from their core business, is what the banks would go for.

Banks should keep in place credit access mechanisms for MSMEs that provide incentives for them to adopt best business management practices and create effective demand for FM services.

Banks have numerous expectations from any BDS approach in as far as strengthening MSMEs as credible bank clientele is concerned:

- a) The need for the new BDS approach to address the basic knowledge gaps regarding the role of informal sector and commercial suppliers of business development services in access to finance;
- b) The determination of productive ways to improve business linkages between financial institutions, MSEs and larger firms to help overcome input supply and marketing problems and deal with technology supply and financial management training needs;
- c) possibility of replication of successful banking services and products for several MSMEs as a mechanism for cutting down on costs of serving this lower end clientele sustainably;
- d) Establishing prospects for developing sustainable and even profitable financial management training programs or advisory services for micro enterprises to increase access to finance; and
- e) Understanding how new information technologies can be used to improve the effectiveness of businesses and linkages with the financial institutions.

6.8.4 BANKS' PERCEPTIONS ON SENSITISATION OF ENTREPRENEURS

Banks previously had limited information on the SME sector and were not ready to commit their funds to this sector unless they are highly secured. They tended to have strong preference for Kampala based real estate, low margins of lending in relation to valuation of the collateral, high interest rates, and very short loan maturities - are some of the stringent conditions that go with SME loans.

As a result of these stringent bank conditions - SMEs could only access credit from moneylenders, where interest rates as high as 30% per month are not uncommon. Regrettably, these high rates can only lead to business failure and liquidation.

However of late, the banks have found themselves with excess liquidity that cannot be absorbed by the big corporate clients and the money market (Bank of Uganda Treasury bills). Also aware of MSME development as one of the strategies of Government's poverty eradication action plan, Banks have introduced initiatives for lending to MSMEs and in some cases without collateral. Barclays bank has set up a local business unit that gives out small loans to micro and small enterprises without collateral up to a maximum of Ushs 5m.

The banks strongly support the initiative to sensitise entrepreneurs on bank products, services and financial management discipline. However, they are reluctant to get involved in undertaking the responsibility of sensitising the entrepreneurs. The major reasons being to avoid conflict of interest in assessing the loan application and to ensure that the bank staff are not fulltime involved in providing advisory services (non-core business) as opposed to their full time job of banking (core business).

Private service providers could best handle sensitisation as business counselling services that the bank customers can value. An understanding can be reached whereby MSMEs that have received FM-BDS are given preferential access to loans by banks as an incentive to seek FM-BDS. The Banks interviewed on this matter has expressed keen interest in developing this linkage partnership arrangement with the BDS providers.

6.9 THE ROLE MFIS CAN PLAY

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Micro Finance support programs have emphasized the provision of credit. They have paid much less attention to providing business development services—such as financial management assistance, marketing assistance, training, and technology transfer—even though most MSMEs are constrained by these factors. The indication is always that access to credit is only one problem they encounter. In fact, access to growing markets, new technologies, and appropriate training is often more important than financial constraints. Moreover, the transition in the micro finance sub sector shows that improved access to credit alone, without corresponding improvements in financial management, access to new market opportunities and technologies, does little in the long run to improve the well-being of MSMEs.

Currently, there has been an outcry of the high interest rates charged by MFIs, partly because of the cost of borrowing the funds they use for on-lending from commercial banks. When the Micro Deposit-Taking Institutions Bill No.1 of 2002 is enacted, MFIs should be able to accept customer's deposits for on-lending. This should be able to reduce the interest rates on borrowing. The significance of MFIs as a source of finance should increase with this development and this should make them a key catchment point for mobilizing MSMEs.

Therefore, the Micro Finance institutions have a major role to play in stimulating the demand and market for basic BDS. The MFIs can provide embedded services to the micro entrepreneurs in financial management. Mobilize micro enterprises to purchase business services through groups, and provide expanded business service market opportunities to the BDS providers. A linkage partnership with BDS providers can be developed where by the former can refer a non-eligible MSME client to the latter for BDS training, and be able to accept the trained client back for credit access.

6.9.1 EXPERIENCE OF MFIS

The MFIs operations are normally restricted to their core business of providing access to credit. They therefore have inadequate ability to identify client's business management capacity gaps and provide appropriate interventions. They carry out only sensitisation training to the client before giving out loans as a measure to instil a good credit culture in the clients and reduce loan default risk in the MSME credit portfolio.

MFIs use a number of approaches to serve MSMEs. The Micro-enterprises, which require small loans up to a maximum of Shs 500,000 are served as groups. The group arrangement serves to police compliance of members to loan repayment obligation. Working capital loans are provided to small and medium enterprises, which require working capital to expand their business

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operations. There is a growing demand for loans by MSMEs. The interest charged is as high as 50% due to the high costs involved in managing a large portfolio of small borrowers. The high interest costs are not perceived by the MSMEs as a problem, it is access that is perceived as the problem. Of the MSMEs who go to MFIs for financing, as many as 50% do not normally fulfil the minimum requirements. These are either given smaller loans and nurtured to develop track record to access bigger loans or dropped altogether.

The biggest problems of MFIs are poor accounts records management and absence of management information system in their operations to enable them access market and other business information. They also operate short-term and lack strategic thinking due to illiteracy and lack of management skills.

6.9.2 MINIMUM REQUIREMENTS

Eligible MSMEs must have an on-going business whose operations generate cash revenue on a regular basis and must provide security for the loan. The security may be in one or several of the following forms; chattels, guarantees or a mortgage. Clients that have had a good long business relationship with the MFI tend to get waivers on some of the requirements especially security.

6.9.3 WHAT MFIS RECOMMEND TO BE DONE

MFI have developed MSMEs financial products through research. They however acknowledge that research is expensive and have tended to rely on donor financing to support their product development initiatives. In the same vein, development of financial management products by the Accounting Firms would call for funding through similar means.

The grant matching facility needs to be administered in two ways:

1. As a subsidy to MSMEs to access FM-Services that they may not currently afford commercially for example audit of accounts. This is especially more crucial for micro enterprises and to a limited extent the small enterprises. When the matching grant is withdrawn after some time, they should have developed a positive culture and capacity to pay the full commercial price for the services.
2. As a subsidy to FM-BDS suppliers to develop specialized services and service methodologies to provide FM-services on commercially affordable terms to the MSMEs. This approach is considered as more sustainable since tailored affordable FM-products should be available on the market for MSMEs.

MFIs' Perceptions on Sensitisation of Entrepreneurs

The MFI provide training to the borrower MSMEs prior to provision of credit. The purpose of this training is to instil a good credit culture among the borrowers to reduce the risk of default so that their loans can be repaid.

6.10 THE ROLE MSME ASSOCIATIONS CAN PLAY

PSFU matching grant should be beneficial in sensitising MSMEs to appreciate best financial management practices. It could be instrumental in:

- Mobilising external assistance and build capacity of their members
- Providing access to advisory services.
- Carrying out sensitisation and awareness campaign on the value of using the services of Auditors and management service providers.

MSME associations should be able to:

- mobilize MSMEs to address their shortcomings as a group through capacity building and sensitisation workshops;
- mobilize finances to come up with a common stand on issues affecting them and should provide the required services to MSMEs at a subsidized cost;
- play key roles in expanding the market for BDS in the respective sectors. Some of key roles played by of the associations interviewed include;
- assist the development and offering of basic association development services to both member and non-member organizations, for example, through the provision of access to financial advisory services, courses and workshops that are offered on a for-fee basis, with different fee schedules for members and non-members;
- facilitate BDS outreach in the rural areas through expanded services outside of the Kampala area, e.g., through introduction of a commercial course series tailored to farmers groups, producer organizations and farmer associations;
- support the installation of a focused continual productivity improvement and quality within member groups, associations by developing and introducing a certification and accreditation program;
- develop and operate a small grants program that which the MSME association can provide on cost-sharing basis to support members to access financial management services and those other members seeking to carry out targeted enterprise development initiatives;

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- expand its membership base by broadening the range of business services in ways that actively encourage MSMEs to participate as active members;
- lay the foundation for the sustainability through increased business service-generated revenue streams and through development of an Endowment Fund to support the members;
- support the ability of its members to build market-driven, sustainable frameworks at national, regional and international market development activities through business linkages;
- constituting and maintaining the financial policy, legal and regulatory frameworks and environment that will support membership ability to attract private sector partners and operate effectively in its target markets; and
- use the principles of transparency, accountability and full disclosure to govern interactions within and among all institutions, both national and foreign.

6.11 STATE OF READINESS OF THE INDUSTRY TO COST SHARE PRODUCT DEVELOPMENT

Private sector business service suppliers usually work on an hourly or daily billable rate – i.e., what they sell is their time. To at least break-even, they may well target SMEs with higher margins and growth rates. Their willingness to work with clients where margins are lower or the cost of delivery is higher will depend on their perceived ability to recoup additional costs such as redesign (e.g., to meet MSME needs more effectively) or marketing (e.g., to convince MSMEs that the investment in purchased business services is worthwhile).

We asked all of those in the survey that purchased a BDS product, for the main reason they felt compelled to buy it. The responses were interesting. For accounting services as well as legal and technical training the main reason was to comply with government regulations. All of the other services were purchased because the owner managers felt that their business was becoming too complex so they needed help from outside. The second and third most significant reasons for buying out-sourced services were either that the owner managers had been advised by a friend or colleague to buy the service, or they had seen a competitor using the service. Although price was offered as an option for answering this question, it ranked relatively low.

It would be unwise to reach the conclusion that price is not an issue. The Focused Group Discussions for non-users identified price as the main factor behind the decision to buy or not to buy, while the second factor was the

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quality of the service. This tendency is strongest at the lower end of the market where smaller businesses have a lower propensity to spend on BDS. For example, in the accounting and taxation service only 15% of the sample at the lower end was buying while at the upper end this was 66%. The non buyers, at the lower end stated "price' as the main reason behind their decision not to purchase, their second reason was that "government regulations did not yet apply to them". The conclusion to be drawn is that non-buyers and micro businesses are the ones most sensitive to price. But this does not imply that they will only use the service if it is provided for free or cost shared.

The incidence of free purchases was highest in the following three services: Advisory in Business Planning and Management, Advice in Production Processes/Operations and Management Training. In informal price sensitivity interviews with consumers, there were complaints about the prices of management training going up.

An interview with entrepreneurs, who had attended and paid for a VAT training course, revealed that the tax department had already offered the same training to them and others for free. When questioned as to why they had not attended the free training the answer was, that they would rather spend money to attend a course conducted by a private supplier than go to one conducted for free by the Government.

The focus on the BDS users is that price is not the main criteria for many of them to use or not to use a BDS or cost share. What is more important is its immediate relevance to solving an identified business constraint or to saving money to increase profitability. Customers are looking for specific solutions, and as long as the price is reasonable they are prepared to pay or cost share to access the BDS. The suppliers of BDS must therefore understand that there is indeed a market for traditionally sponsored BDS and that subsidies can be reduced, even in a least developed BDS markets.

This analysis suggests that the distortions related to price are felt stronger in the suppliers' market rather than in the consumers' market. The suppliers are more reluctant to charge a full cost price because of the resulting pressure to perform. When they price their products higher they know they have to offer a better product, and this requires greater effort in both product design and in the delivery where the best personnel have to put on the job. As long as some of the suppliers can earn more with less effort selling a low priced product to donors, NGOs and Government, this distortion will be strong. While a cost sharing model is feasible, Government and donors need to play a key role in driving the process.

6.12 STATE OF READINESS OF THE INDUSTRY TO PROVIDE FM SERVICES TO MSMES

The following suggestions and observations have been recorded in respect to the facilitation of expanded FM services to the MSME sector:

- PSFU needs to carry out an awareness campaign.
- Government should put in place incentives that encourage Accounting firms to take services up-country.
- MSMEs currently not able to provide such services may benefit from audit and financial services; thus improving their capacity to produce quality and competitive products and service.
- Financial management and reporting standards need to be set for MSMEs to condition them to embrace best financial management practices and seek FM-services as a result.
- Financial Management capacity building needs to be developed as a service to be provided by Accounting firms but funded by Government.

6.13 CONCLUSIONS

6.13.1 RELEVANCY OF CURRENT BDS PROGRAMMES TO FM-SERVICE PROVISION

The medium of effective sensitisation to access a wide MSME stakeholder-ship needs to be identified. A worthwhile strategy to be explored is to facilitate both *sensitisation* and BDS facilitation through MSME associations and financiers (banks, MFIs). This would require a broad strategy including awareness creation, training, publicity, and development of simple cost effective FM services. It almost requires a cultural change, and hence it is a long term process. But it is a process that should and can be addressed within the BUDS programme through a dedicated effort. The traditional modes of BDS (consulting type) are usually not cost-effective and/or appropriate for micro enterprises.

The current ‘retail’ approach of BUDS cannot be maintained when the programme is substantially expanded and when outreach to the rural areas is aimed at. A move towards ‘wholesaling’ through intermediary organisations appears to be necessary.

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Associations active in the MSME field are generally willing to collaborate with BUDS for marketing of its services, but not without a degree of support. Generally the associations are very weak, and need capacity building support before they can be effective vehicles for BDS promotion/implementation.

6.13.2 MARKET STRUCTURE FOR FM-BDS

The demand side issues identified focus on the financial management practices among MSMEs. These have been identified to include:

- Poor accounts record keeping;
- Lack of appreciation and demand for financial management expertise;
- Lack of appreciation and demand for audit of final accounts;
- Demand for accounting services is derived from the obligation to file accounts for tax assessment;
- Lack of financial capacity or willingness to pay for accounting services by certified accounting firms and preference for un-licensed firms;
- Annual audit of accounts not a legal requirements for micro and small enterprises not incorporated. Banks and business associates require audited accounts as a norm; and
- Lack of financial capacity to recruit qualified staff to maintain accounts records.

The supply side issues focus on provision of Financial Management oriented BDS. These are explained below:

- Accounting firms are by their traditional culture keen to provide audit services other than other financial consultancy services, the initial requirement of MSMEs prior to demand for audit;
- Accounting firms, cannot viably carry out audits for individual MSMEs using their current service approach. Audit of MSMEs may entail providing embedded accountancy services since it would be based on incomplete records and has a high risk factor;
- Certified Accounting firms are few and most of them are located in Kampala. Providing services to MSME clients based up-country is not cost-effective for them; and
- Traditional FM service approach entails dealing with individual MSMEs, which is not sustainable due the cost involved. The possibility of providing group services for lower end MSMEs and specialized individual MSME product for higher end MSMEs needs to be considered.

Some Thoughts on Appropriate FM Products and FM-BDS Approaches

- a) BUDS must put provide support for the development of appropriate FM products. FM-Consultants could be interested to participate on a competitive basis. No accounting firm is keen to finance development of a public good;
- b) Providing matching grants for FM services needs to be done with caution as it could distort the market and yet it is not sustainable. Supporting development of FM products that are affordable is more sustainable;
- c) Targeting individuals other than Accounting firms to provide FM services to rural MSMEs could be more cost-effective. There is a rapidly growing pool of Certified Accountants i.e. about 100 qualified accountants currently come into the economy every year. This pool of young Accountants could be trained and certified to provide FM services to rural MSMEs using an MSME financial product that could be developed;
- d) The Envisaged role of ICPAU in FM Services Development would focus on a number of areas;
- e) Participation in initiatives to sensitise MSMEs about best financial management practices;
- f) Tailoring the Institute’s examination syllabus to address the needs of the MSMEs; and
- g) Reviewing the adequacy of the FM-products developed to regulatory and company law compliance requirements.

6.14 PRODUCT DEVELOPMENT RECOMMENDATIONS

The Financial Management services product development needs to be considered in two perspectives:

- (a) Development of FM-BDS for small and medium scale enterprises
- (b) Development of FM-BDS for the micro-enterprises

6.14.1 DEVELOPMENT OF FM-BDS FOR SMALL AND MEDIUM SCALE ENTERPRISES

BUDS will provide funding for product development to a provider (consulting/accounting firm) to carry out research and develop a FM-product

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for SMEs on an individual basis. Consultation with the ICPAU has not resulted in an expression of willingness to cost-share product development. A cadre of accountants and a group of accounting firms interested in working with SMEs would be trained and certified in the delivery of this FM-product to the SMEs. Through this accreditation procedure, and related framework contract, the parties should be able to apply for matching grants. While initially the program may start along the lines of the retail approach (current procedures), ideally a degree of outsourcing to an intermediary (e.g. accounting firm) should be aimed at. The firm or institution acting as intermediary, should not at the same time be also as provider. Banks would be brought on board as linkage partners for purposes of referring their clients who are in need of BDS to BUDS. BUDS (or the intermediary on behalf of BUDS) on its part under the linkage partnership would refer eligible SMEs (whose FM practices has been improved) to the Banks for access to finance. The diagram below shows the relationships between the various players in this model.

In order to arrive at this collaboration, BUDS will have to create a *network arrangement* with the parties involved. This would involve:

- Conclusion of an arrangement (MoU) with banks, on minimum requirements for accounting, FM and auditing, as well as referral of bank clients.
- Detailed design of the scheme. This is to be contracted out through tender or contest – it is envisaged that an open procedure can be used that would allow both accounting firms, BDS providers and other BDS institutions to respond.

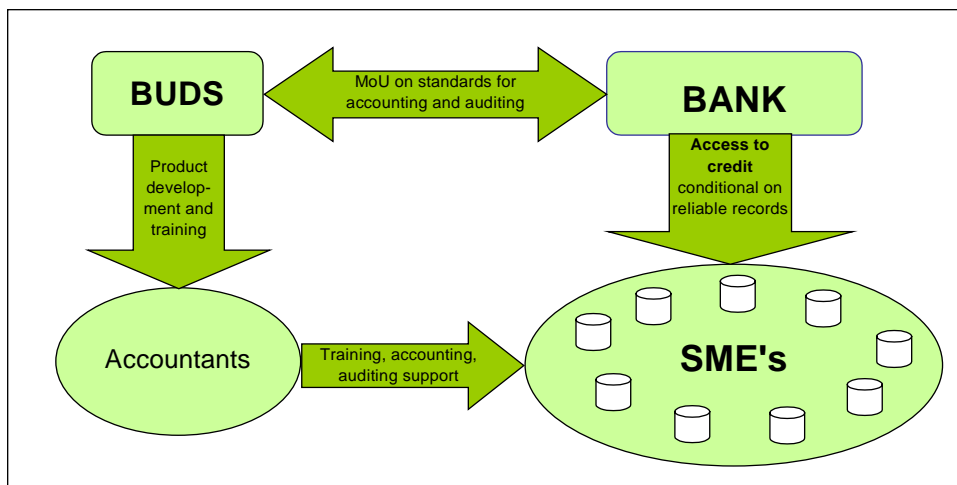
When the product is supposed to become ‘share ware’, the developer will have to be paid for 100%. If the product becomes the property of the developer, this party can be expected to cost share. It is recommended however to choose the former option, as the latter would bind BUDS to only one intermediary, that would have a virtual monopoly. The detailed design involves:

- Development of the SME accounting product
- Development of the FM training programme
- Procedure for selection of an intermediary (tender)
- Procedures for the BUDS matching grants support for accounting services provided (framework contract with intermediary concerned)
- The publicity required to launch the scheme
- Tender (or contest), selection and contracting of the intermediary. Again, an open invitation could be used so as to attract a wide array of possible intermediaries (accounting firms, providers, financial institutions, training institutions).
- Implementation of the training program (contracted out)

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- Implementation of the FM-BDS services program for SME by trained accountants under a framework contract with BUDS.

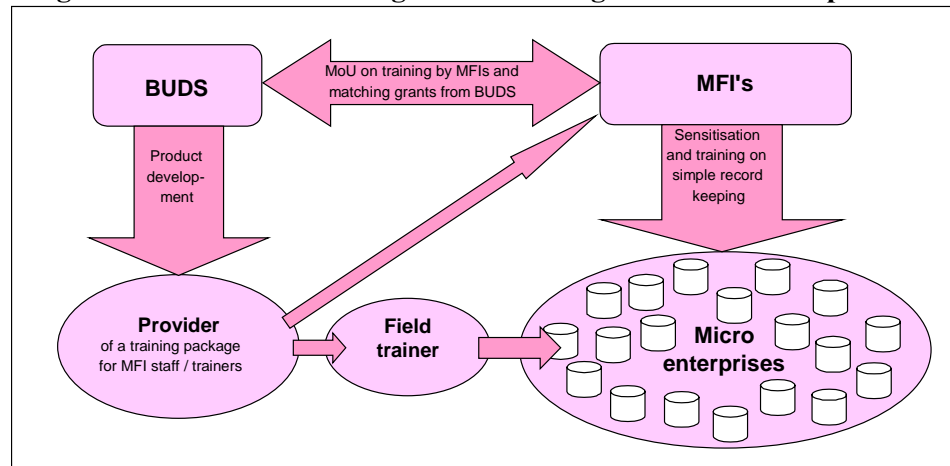
Diagram 6.1: Organisation Of Financial Management Services For SMEs



6.14.2 DEVELOPMENT OF FM-BDS FOR THE MICRO-ENTERPRISES

BUDS would provide funding for product development to a capable institution to carry out research and develop an FM-product for micro-enterprises on a cluster or group basis. A cadre of Accountants interested in working with Micro-enterprises would be trained and certified in the delivery of this FM-product to the micro-enterprises (MEs). Through an accreditation procedure as described above, and related framework contract, the parties should be able to apply for matching grants. Again, the accounting firm acting as intermediary, should not at the same time also act as a provider or trainer. The economies of scale of servicing a group of many MEs would make it commercially viable for the BDS provider on the one hand, and make it affordable to the MEs on the other hand. The MEs might make a small contribution each into the financial pool for paying for the group BDS service. MFIs would also be brought on board as linkage partners with BUDS for purposes of referring their clients who are in need of BDS to BUDS, and possibly as co-sponsors of the training. BUDS on its part under the linkage partnership would refer eligible Micro-enterprises (whose FM practices have been improved) to the MFI (or bank) for access to finance. Figure 6 below shows how this model would work.

Diagram 6.2: Financial Management Training For Micro Enterprises



Similar to the SME program, a networking arrangement needs to be worked out for this component. It would involve:

- Conclusion of an arrangement (MoU) with Micro finance Institutions, on an appropriate training product for record keeping and financial management by micro enterprises. MFIs will have to decide whether to leave the training of micro-entrepreneurs to their own staff (in-house capacity) or to contract it out to independent field trainers. An important feature of this contract is the willingness of the MFIs to co-finance the fee for the field trainers, or to allocate their own staff for this function;
- Detailed design of the scheme. This stage can be contracted out in the same fashion as described above for the SME FM programme. The design involves;
- Development of the training product;
- Design of a training-for-trainer program for MFI staff or independent field trainers;
- Design of an arrangement for the BUDS matching grants in support of training services provided to micro-enterprises (framework contract with accountants concerned);
- The publicity required to launch the scheme;
- Implementation of the training program (contracted out); and
- Implementation of the FM-BDS services program for MEs by trained accountants under a framework contract with BUDS.

6.15 PLAN OF ACTION FOR BUDS

Table 6.2 outlines the likely steps for development and implementation of the FM-SSE and the FM-ME scheme.

Table 6.2: Steps for partner selection

step	Activity	FM-SSE	FM-ME
1	Prepare TOR	<ul style="list-style-type: none"> • see § 6.15.1 	<ul style="list-style-type: none"> • see § 6.15.2
2	Topics covered	<ul style="list-style-type: none"> • Dev't accounting product • Dev't training programme for accountants • Capacity to implement 	<ul style="list-style-type: none"> • Dev't basic record keeping product • Dev't training programme for MFI staff or independent trainers • Capacity to implement
3	Financial proposal should include	<ul style="list-style-type: none"> • Cost of product development • Commission required for implementation of intermediary function • Product cost for end-user 	<ul style="list-style-type: none"> • Cost of product development • Commission required for implementation of intermediary function • Product cost per ME client
4	Invitations for expressions of interest	<ul style="list-style-type: none"> • Accounting firms • Other providers 	<ul style="list-style-type: none"> • MFCC • MFIs • Providers
5	Evaluation of received expressions	<ul style="list-style-type: none"> • Quality of proposed approach & product • Cost-effectiveness • Total cost for preparation • Implementation commission • Willingness to cost-share • Ability to mobilise retail BDS providers 	<ul style="list-style-type: none"> • Quality of proposed approach & product • Cost-effectiveness • Total cost • Commission for implementation • Willingness to cost-share • Ability to mobilise MFIs for retail
6	Signing of Framework Agreement	<ul style="list-style-type: none"> • With intermediary and possibly interested BDS providers (accountants) 	<ul style="list-style-type: none"> • With intermediary and possibly some interested MFIs or other retail BDS providers (accountants)
7	Implementation product development	<ul style="list-style-type: none"> • Organise a test-run on training • Evaluate the result • Approve package • Conclude implementation agreement 	<ul style="list-style-type: none"> • Organise a test-run on training with MFIs • Ask MFIs to evaluate the result • Approve package • Conclude implementation agreement
8	Implementation of FM-SME programme	<ul style="list-style-type: none"> • Intermediary contracts retail trainers (accountants) • Intermediary administers the matching grant component on behalf of the retail accountants 	<ul style="list-style-type: none"> • Intermediary contracts MFIs and/or retail trainers (accountants) • Agreement with MFIs on their financial contribution • Intermediary administers the matching grant component
9	Monitoring and Evaluation of BDS events	<ul style="list-style-type: none"> • By intermediary • By BUDS on the basis of spot checks and reports 	<ul style="list-style-type: none"> • By intermediary • By BUDS on the basis of spot checks and reports

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The Memorandum of Understanding (or framework agreement) with the intermediary describes the way BUDS and the Intermediary collaborate. This includes:

1. Purpose of the collaboration
2. Responsibilities of each party
3. Development of the appropriate accounting product(s)
4. Development of the appropriate training of trainers programme
5. Modalities of collaboration for recurrent BDS-FM events
6. Financial responsibility of the intermediary
7. Reporting/accounting obligation of the intermediary
8. Inspection rights for BUDS
9. Sanctions upon mismanagement or misuse of funds

It is envisaged that one intermediary would be selected for the FM-SME programme and one for the FM-ME programme.

7. BUDS OPERATING PROCEDURES AND PLANNING

7.1 INTRODUCTION

The new approach has major implications for the way BUDS operates. It should be noted that the intermediary-led approach is not entirely new – BUDS has worked already with and through associations – and neither will there be an abrupt break in the operating modalities. The current demand-led approach will be continued for graduating markets. The transition will be gradual as the new delivery mechanisms are being developed. Thus it is envisaged that the current BUDS project management unit will be able to gradually adjust its operations. Yet the implications of the new approach need to be considered. These include:

- Procedures and Operating Manual
- Organization – planning of staff capacity
- Planning of Operations and Budgeting

It is envisaged that during an inception period for the new programme, the Plan of Operations is prepared, the Operating Manual is finalised and the organisation of the Project Management Unit reviewed. In view of the transition it is to be expected however that the policies and procedures may have to be fine tuned (adjusted) from time to time, as more experience with the wholesale approach is gained. Hence Management should be mandated to present proposals for policy or procedural adjustment to the Steering Committee for approval.

7.1.1 UNIFIED APPROACH TO OPERATIONS MANAGEMENT

In order to create a unified framework of operations, it is desirable to devise a new Operating Manual with a modular framework for policies and procedures. Within this framework, some policies and procedures are generic, where others must be specific for the funding component or the delivery system concerned. Much of the content of the new manual can be taken over from the existing BUDS manual, but especially for the procedures related to each step in the BUDS process cycle (spanning from application to payment) are to be described more systematically. This is described in detail in paragraph 7.5. The proposed structure for the Operations Manual can be summarised as follows:

Table 7.1 Overview required adjustments in the BUDS Operating Manual

	Generic procedures and specific procedures for (a) retail BDS and (b) wholesale BDS
1. Objectives	Much in line with current manual, updated to new formulation of objectives
2. Operating policies	Much in line with current manual, updated for new BDS paradigm policies
3. Eligibility criteria	Much in line with current manual, but complemented by the specific eligibility criteria for the four funding components (EDS, FM, Export, OTJ Training).
4. Procedures for the process cycle	Specific procedures for each step in the process cycle need to be refined; especially for the intermediary-led approaches new procedures and forms are to be devised.
5. Management	Much in line with current manual
6. M&E	Updated for the proposed new performance monitoring system
7. Accounting	Much in line with current manual

It is noted that the main new chapter in this proposed manual structure is “Procedures for the process cycle”.

7.2 OBJECTIVES AND ESSENTIAL CONCEPTS

General objectives

The Business Uganda Development Scheme (BUDS) is a component of the Private Sector Competitiveness Project. The *overall objective* of the project is ‘to make the Ugandan private sector more competitive, so that it can expand in both domestic and international markets.’

The *specific objective* of BUDS is to stimulate a process of innovation and increased outreach in the market of Business Development Services (BDS), to enhance access to quality services and to stimulate that underserved market segments get access to appropriate and sustainable services.

BUDS Grants

BUDS is a cost-sharing grant scheme in which enterprises receive part of the costs of utilising business support services. A broad range of such services is covered, including marketing, production and general business planning. Larger enterprises will access the scheme directly. Smaller enterprises may access it through intermediary organisations such as business associations. The scheme will also support the development of BDS delivery capacity, by extending similar cost-sharing grants to service providers or market intermediaries to support product development and capacity building.

BUDS advice and networking

In addition to the grants, BUDS can provide free hand-holding advice to enterprises on the basics of business planning, to help the client decide on what services will be most helpful, selecting a service supplier and getting the best out of a supplier. BUDS can also engage on its own initiative in consultations with intermediary organisations such as associations, specialised sector institutions or programmes and financiers, to identify viable wholesale channels for BDS delivery.

Small enterprises

In the context of BUDS the term Small Enterprises (SEs) is used to cover the full scope of Micro-, Small- and Medium Scale enterprises with employment not exceeding 100 people. In the absence of a broad consensus over definitions for the various size-categories of enterprises in Uganda, it is proposed that BUDS will use a simple employment criteria:

- Micro enterprises ME <5 employees
- Small-scale enterprises SSE 5-20 employees
- Medium-scale enterprises MSE 21-100 employees
- Large-scale enterprises LSE > 100 employees

Parties to a BDS event

In line with the potentially more complex nature of BDS delivery mechanisms, as outlined in chapter 4, four different types of actors can be distinguished, apart from BUDS:

- **Beneficiary**; the enterprise or cluster of enterprises (MSMEs) that benefit from the BDS event.
- **Provider**; the party that provides the BDS.
- **Intermediary**; the party that organises a BDS event for one or more beneficiaries and takes responsibility for one or more steps in the implementation cycle (i.e. application, supervision, payment, reporting).
- **Facilitator**; the party that helps structuring the BDS event, based upon knowledge of the sub-sector or the area.

In the formulation of procedures these roles must be clearly distinguished. In the wholesale model the intermediary could take responsibility for most steps in the process cycle, as described in chapter 4. Moreover, in the intermediary led approach, it can no longer be assumed that the *beneficiary* is the *applicant* and also the *recipient* of the matching grant. In the intermediary-led procedures it could well be that the intermediary (e.g. an association) is the applicant, that the cluster of MSEs are the beneficiaries, and that a training institution is the recipient.

7.3 MAIN OPERATING POLICIES

7.3.1 RESOURCES AND LEVEL OF SUPPORT

Resources

BUDS will submit a plan of operations and budget on an annual basis to PSFU, based upon total available funding resources and planned disbursement levels, consistent with active funding agreements. Management is free to allocate resources within the framework of the approved budget.

Level of support

Each individual grant to a recipient enterprise or to an intermediary organisation must be matched by a contribution from the enterprise(s) or intermediary itself. The contribution depends upon the stage of development of the market segment in which the transaction takes place. No preferential rates of support will be given to particular sectors, types of service, enterprise size, enterprise category or region. Unless the PSFU decides otherwise, the following rates apply;

Table 7.3 Matching grant contribution in respect to minimum beneficiary contributions

	Sensitisation	Capacity building	Product development	Replication
Embryonic markets	100%	50%	50%	50%
Underserved markets	100%	50%	50%	50%
Graduating markets	-	50%	50%	25%
Mature markets	-	25%	25%	0%

- For sensitisation clients cannot be expected to pay, hence BUDS contributes 100%
- For service grants the beneficiary is expected to contribute the balance not covered by the matching grant, unless in a client cluster arrangement the intermediary or any other party is willing to sponsor clients for this purpose.
- For capacity building:
 - Associations are unlikely to be able to pay for their own capacity building, unless it operating in a mature market,

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- BDS providers should be able to pay at least 25%, unless they operate in a mature market (in that case they should be able to contribute at least 50%).
- For product development:
 - Associations or non-commercial intermediaries are unlikely to be able to contribute substantially to product, unless they operating in a mature market,
 - BDS providers should be able to pay at least 50% if they obtain owner over the product. When they operate in a mature market they should be able to contribute at least 75%,
 - However, when providers do not obtain ownership – i.e. when the product becomes available to anybody (shareware); the provider cannot be expected to contribute.

Hence the following minimum contributions would arise:

Table 7. 4 Minimum beneficiary contributions for capacity building and product development

Contribution by:	Capacity building		Product development		
	Association	BDS provider	Intermediary or association	BDS Provider's own product	BDS Provider shareware
Embryonic markets	0%	25%	0%	50%	0%
Underserved markets	0%	25%	0%	50%	0%
Graduating markets	0%	25%	0%	50%	0%
Mature markets	25%	50%	25%	75%	0%

To the extent that the beneficiary's contribution and BUDS contribution do not add up to 100%, the beneficiary should be allowed to identify other subsidy sources for the gap.

BUDS will define the market segments in which it operates and identify which market segments it considers to be in the category of 'graduating' or 'mature market'. Decisions on upgrading any market segment to these two stages will be approved by the BUDS Steering Committee and/or PSFU.

7.3.2 GENERIC ELIGIBILITY CRITERIA

General and specific criteria

Due to the various funding component of BUDS, the eligibility criteria are not entirely generic. Below first the general eligibility criteria are described. Specific eligibility restrictions related to the funding component with which it is financed, are outlined in the next paragraph (table 7.4).

Qualifying beneficiaries

Only privately owned enterprises, legally established in Uganda, will qualify as beneficiary. No restrictions will apply as to whether an enterprise is locally or foreign owned. Enterprises may apply for support either singly, or as groups. Parastatals, government entities and government-controlled enterprises will not qualify. Specifically, enterprises where the government or a parastatal is the largest shareholder, or has a majority on the board, will not qualify. Enterprises in all manufacturing and service sectors and farmers will qualify.

The term ‘qualifying enterprise(s)’ is used for the final beneficiary (or beneficiaries) of cost sharing. This needs not to be organisation applying for BUDS support or the organisation handling the grant disbursement.

Qualifying intermediary organisations

In order to improve efficiency and outreach, BUDS will as much as possible work in collaboration with intermediary organisations. Their involvement may range from client referral and clustering to the organisation of a BDS event including financial arrangements, supervision on implementation and reporting. In special case BUDS may decide to subcontract an intermediary for all or most functions related to the BUDS project-cycle. Eligible intermediaries include:

- Associations
- Lead-firms in a market chain or exporters
- Market facilitators such as specialised sub-sector organisations, branch organisations, etc.
- Training institutes
- Financiers (MFIs, banks)

Qualifying activities

In principle any use of external support service, demonstrably contributing to improvement of the enterprise’s performance will be supported. For grant applications below US \$ 1000 per beneficiary the justification can be provided on the application form. For grant applications exceeding US\$ 1000 a separate justification is to be provided in the form of a Plan. For group-based activities

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the justification can be provided by the intermediary organisation responsible for the application.

The application must clearly spell out for the BDS activity:

- *What constitute the deliverables under the BDS transaction?* The description of the deliverable(s) should allow management (or the intermediary organisation involved) to verify whether the activity has taken place as described.
- *What is the 'output' expected by the client(s)?* The description should allow BUDS to assess whether and to what extent the BDS contributes to improvement of the beneficiary's enterprise performance.

Qualifying expenditures

Expenditures on service fees, plus expenditures on associated travel and incidental expenses charged at cost, incurred wholly and exclusively on a qualifying activity, will qualify for matching grant support. Performance-based fees will not qualify. Salaries for staff employed by the supported firm will not qualify, nor will recurrent costs such as royalty fees. No expenditure on hardware will be supported, with the exception of quality control equipment for export oriented enterprises. The exclusion of expenditures on hardware extends to all physical products, whether consumables or capital goods.

Appropriate charging

The management unit will seek to satisfy itself that fee rates being charged for services are broadly in line with market realities, particularly in cases where service suppliers are not previously known to it. In cases where the management unit has no real grounds for suspecting over-charging, grant support could be made conditional on an acceptable process of competitive bidding between at least three qualified contenders.

Management will assess the cost effectiveness of proposed BDS activities on the basis of benchmark ratios for comparable activities in the same market segment. Activities that turn out to be non-cost effective (i.e. outside the range of 'acceptable ratio's) will not be supported.

Exclusion

Expenditures on services provided by the firm undertaking the BUDS management contract, or by any directly associated firm, will not qualify for support.

BUDS may not extend grants in support of activities that support the production of the following: alcoholic beverages, weapons, tobacco and gambling.

7.3.3 SPECIFIC ELIGIBILITY CRITERIA

In view of the conditions attached to the four different funding components of BUDS, also partly different eligibility criteria apply. The differences are summarised in table 7.5. The FM programme can be seen as a special case of the EDS programme, targeted at Financial Management interventions. Other eligibility criteria are identical to EDS. The export programme has very specific criteria in respect to eligible activities and expenses.

The OTJ Training programme supporting apprenticeships for students of TVET training institutions is altogether different from the other three. The OTJ programme is unlike the other three components not targeting enterprises as beneficiaries but individuals (trainees). In this programme the strict separation between the 'intermediary' organising the BDS event, and the 'provider' may not be needed. It is envisaged that the TVET training institutions will perform both functions. This is considered acceptable in view of the transparent cost structure of the programme, once a basic training levy (training cost/trainee/week) has been negotiated.

7.3.4 PROVIDER REGISTRATION

In order to build up a database on BDS capabilities in Uganda, participating BDS providers are required to complete the BUDS Consultant/Trainer Registration Form (p10). The information of the form is used to update the computerised providers' database.

7.3.5 MODULAR FRAMEWORK BUDS OPERATING MANUAL

Much of the content of the new manual can be taken over from the existing BUDS manual, but especially for the procedures related to each step in the BUDS process cycle (spanning from application to payment) are to be described more systematically. Thus the proposed modular structure for the Operations Manual can be summarised as in Table 7.6.

Table 7.5 Eligibility criteria for the four funding components of the BUDS programme

	EDS	FM	Export	OTJ
Purpose	BDS market development through increasing range of products, marketing efforts, greater involvement of SE associations, with increased outreach to rural enterprises	To improve the standard of accounting and financial management, so as to enhance cash flow management and improve access to finance	To better exploit export potential by enhancing product quality standards, procurement, storage, transport and production.	To facilitate better linkages between enterprises and TVET training institutions.
Eligible beneficiaries	Companies (no size ceiling), or groups of enterprises. Providers (CB & PD) Associations (CB & PD)	Companies (no size ceiling), or groups of enterprises Providers (CB & PD) Associations (CB & PD)	Enterprises (SEs) in export supply chains	Trainees from MSMEs
Eligible intermediaries acting on behalf of SE's	Associations Lead-enterprise in market chain Market facilitators Financiers	Associations Lead-enterprise in market chain or exporter Market facilitators Financiers	Exporter – Lead firm in market chain Associations	TVET training institutions
Eligible activities	Any BDS activity that leads to increased sales or productivity, better quality or less waste	Audits, improvement in financial accounting systems, development of appropriate FM products	<ul style="list-style-type: none"> o patents o prototypes o technology transfer o product development o quality control equipment o staff training o cost in meeting ISO standards o on the job training 	Short term skills upgrading training
Eligible expenses	Training Consulting fees (local and foreign) Travel expenditure	Audit services MF consulting services Product development		Wages paid by enterprises to TVET students
Ceiling per beneficiary	US\$ 20 million	US\$... million (still to be decided)	US\$... million (still to be decided)	US\$.. million (still to be decided)

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Table 7.6 Modular structure for BUDS Operating Manual

	Generic procedures	Specific procedures for retail BDS	Specific procedures for wholesale BDS
1. Objectives	Much in line with current manual, updated to new formulation objectives		
2. Operating policies	Much in line with current manual, updated for new BDS paradigm policies		
3. Eligibility criteria	Much in line with current manual, but complemented by the specific eligibility criteria for the four funding components (EDS, FM, Export, OTJ).		
4. PROCEDURES FOR THE PROCESS CYCLE			
4A. Intake / BDS preparation	A1. Generic procedures intake	A2. Intake procedure retail	A3. Intake procedure wholesale
4B. Application	B1. Generic procedures for applications	B2. Application procedure retail	B3. Application procedure wholesale
4C. Screening on eligibility	C1. Generic procedures for pre-screening	C2. Screening procedure retail	C3. Screening procedure wholesale
4D. Approval	D1. Generic procedures for approval	D2. Approval procedure retail	D3. Approval procedure wholesale
4E. Contract	E1. Generic procedures for contracting	E2. Contracting procedure retail	E3. Contracting procedure wholesale
4F. Implementation	F1. Generic procedure for implementation	F2. Implementation procedure retail	F3. Implementation procedure wholesale
4G. Completion	G1. Generic procedure for completion reporting	G2. Completion reporting retail	G3. Completion reporting wholesale
4H. Payment	H1. Generic procedure for payment	H2. Payment procedure retail	H3. Payment procedure wholesale
4I. Monitoring and evaluation	I1. Generic procedures for M&E	I2. M&E procedure retail	I3. M&E procedure wholesale
5. Management			
	Much in line with current manual		
6. M&E			
	Updated for the proposed new performance monitoring system		
7. Accounting & Audit			
	Much in line with current manual		

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It is noted that the main new chapter in this proposed manual structure is “Procedures for the process cycle”. Each module in this chapter defines:

- a. Scope of the task to be performed
- b. Who does it (BUDS, contracted intermediary)?
- c. How is it done? What procedures apply.
- d. Which standard forms are used?

The current BUDS Operations Manual contains much that can be included within the new modular manual structure. In appendix 7.2 a listing is provided of all paragraphs (topics) in the existing manual, with an indication of the appropriate module in which it can be included in the new manual, together with the desirable changes.

It is noted that the standard forms to be used in conjunction with the manual are to be related to specific project cycle procedures in a recognisable fashion. This can be done by giving them a code number that corresponds with the module concerned in the manual.

Appendix 7.1 provides an overview of the contents of the new manual, within the framework of a modular structure. It contains:

- Reference numbers to the paragraphs of the current manual;
- Reference to standard forms currently used (by page number of the current compilation of forms and operating procedures); and
- Brief indications of new elements that need to be considered.

The drafting of the new manual will require:

- A review of the current manual formulation, against the background of the new programme design and rephrasing where ever necessary;
- A review of operating policies, based upon decision making in respect to the various proposals made in this report in respect to the programme design framework; and
- Review of the current forms. In some cases it may be appropriate to have different forms for retail and wholesale procedures.

Formulating the missing parts in the current manual, especially in respect of the successive steps in the process cycle. For each step a brief description is required of:

- Purpose:
- Who is responsible?
- Which procedures apply?
- What standard forms are used?

- With the aid of the attached tables the compilation of the new manual can be finalised.

7.4 DIAGNOSTIC TOOL

A well focussed BDS intervention is only possible after the most important bottlenecks for enterprise performance have been established. For this purpose BUDS has been planning to develop diagnostic tools. It has proven more difficult than expected. This can be attributed to several factors. First, in markets with a demand deficiency, self-diagnostic tools do not work, as entrepreneurs are insufficiently aware of their own weaknesses. A trainer or consultant is needed to guide them through the process. This proves to be the case even in higher brackets of SEs and even in graduating markets. Secondly, general diagnostic tools have to cover all eventualities, and hence tend to become too 'bulky' for the micro/small segment. Tools for a particular type of enterprises or even a specific sub-sector, are more effective. Thirdly, private providers are unwilling to invest in the development of a diagnostic tool for MSEs, unless they are fully paid for it. The returns on investment are not considered worth it.

Therefore it is recommended that BUDS will pursue two separate strategies in this respect:

1. Making use of the existing APDF 'Diagnostic Evaluation' facility for the formally registered SME's. This tool has proven to be effective in the Ugandan context, and it is available.
2. Development by intermediaries of simple self-diagnostic tools for micro/small entrepreneurs that are participating in clustered BDS events.

It is recommended that the latter tool be developed in collaboration with the association or intermediary organisation that is responsible for the clustering. Even a workbook or simple diagnostic form will require some form of guidance for it to become useful to micro/small entrepreneurs. The association or intermediary organisation could perform the necessary handholding function. A capacity building activity for this purpose may be necessary. The other advantage of this approach would be that the tool is developed in the context of the specific needs of the group. For instance, if the tool would be developed in conjunction with micro finance institutions (that act as intermediary), the tool would focus on issues that are most relevant for their clients. Thus the promotion of the tool, and the handholding of users, would be in the interest of the intermediary concerned.

7.5 PLANNING OF OPERATIONS AND BUDGETING

Inception

In the inception phase of the new BUDS, a Plan of Operations needs to be worked out, which includes:

- Activity planning; refinement of the framework of objectives and goals, to include targets and timeframe for each of the program components (EDS, FM, Export, OTJ) and for the four program instruments (sensitisation, capacity building, product development). Completion of a logical framework.
- Assessment of workload and manpower requirements - planning of work for the Project Management Unit.
- Financial projections – budgeting – target setting.
- Adjustments in operating procedures – finalisation of the Operating Manual.
- Marketing and communication work plan (paragraph 4.9 refers).
- Adjustments to the PTMS – planning of the base line study and mid term review (paragraph 8.7 refers).

While it is vital that management plays an active role in the planning of operations, it is envisaged that consultancy support shall be required.

Organization of the Project Management Unit

As part of the inception phase of the new BUDS program it seems desirable that a human resources assessment be done against (a) the projected increase in workload from retail and wholesale transactions and (b) the new functions that are introduced, especially related to the wholesale approach and the capabilities required. These new functions include:

- Establishing networking arrangements with other players in the market
- Proactive identification and (assistance in) formulation of capacity building and product development projects. While formally the proposals will come from associations and other intermediaries, BUDS will have to be an active partner in this process.
- Structuring of wholesale arrangements with intermediaries.
- Consultation with government and donors in respect of harmonization of market interventions, so as to avoid inconsistency of policy between the various players.

These new functions require communication skills, project formulation capacity, a creative or entrepreneurial approach, and policy management

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capabilities. It may well be necessary to add new staff , for instance for the structuring of wholesale arrangements and the networking functions.

Finally the internal organization and governance structure should be reviewed. A market development approach for BDS requires vital decision making (for instance on market segments that are to be considered as mature, and thus closed for the BUDS transaction-based grants), and a strong interaction between management and Board (or Steering Committee) in respect to wholesale BDS arrangements.

8. PERFORMANCE MONITORING SYSTEM

8.1 PURPOSE AND STRUCTURE

In accordance with the programme design framework described in chapter 3, the performance monitoring system will have to be improved, in order to produce the necessary measurable indicators. The system should be able to provide solid performance monitoring data on four levels:

- Development of the BDS market
- Improvement in institutional performance on provider level
- Improvement of efficiency and sustainability of BUDS/PSFU
- Client satisfaction and impact

The current information tracking system of BUDS will have to be augmented in order to meet the new requirements. It is envisaged that this can be done largely within the context of routine data collection as part of BUDS transaction processing.

For various reasons it is important to install a solid performance measurement system. Among the prominent reasons are:

- BUDS must be able to report progress on achieving general programme objectives:
 - Cost-effective use of programme funds,
 - Effectiveness in terms of market development, BDS provider strengthening and client satisfaction, and
 - Justify the use of matching grants in various market segments.
- Account for the use of funding provided by various donors, against their specific programme objectives;
- Build up the “market intelligence” necessary to assess the cost-effectiveness of incoming applications and to detect fraud and collusion. For this purpose it is vital to generate benchmark ratio’s and standards for each type of intervention in particular market segments;
- BUDS is to intervene “intelligently”; i.e. it is to avoid market distortion.

In principle all data required should become available as an integral component of BUDS recurrent processing of applications. Below the measurable indicators for each of the four programmes, monitoring levels have been described.

Currently BUDS operates a computerised *Performance Tracking and Monitoring System* (PTMS). It is a relational database system in which

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comprehensive information on its clientele is maintained. The data are collected from three forms:

- Application for Cost Sharing Assistance
- BUDS-EDS Applicant Questionnaire
- Client Satisfaction Survey

Apart from the client database, information on providers is being maintained. The system is capable of producing a wide range of reports, including cross reference tables. As the programme is tailor made in Uganda, small modifications can easily be made.

8.2 MONITORING OF BDS MARKET DEVELOPMENT

For monitoring of the progress in developing the BDS market, three major criteria can be applied:

- Expanding outreach for BDS to MSME clientele
- Developing a high quality, competitive market
- Deepening the market; reaching underserved populations (e.g. rural enterprises and the micro-enterprise sector)

What can be measured is the part of the market that BUDS covers through its transactions. BUDS is not in a position to build up a comprehensive market intelligence system. The indicators to be applied are summarise in table 8.1 below:

Table 8.1 - Indicators for achievement of market development objectives

Description of the objectives and goals	Indicators for achievement
1. Outreach: Expanding the BDS market for MSME clientele	a. No. and value of BDS contracts b. Regional distribution - % Central Region c. The number of market segments effectively served d. Market penetration; % of clients as % of total SE's e. Reach; % of MSEs (<20 empl.) as percentage of all MSMEs
2. Competitiveness; Developing a high quality, competitive market	a. No. of BDS suppliers b. No. of service products offered c. No. of repeat clients (retention %) d. Absence of market distortion e. Stages of market maturity in the specific market segments in which BUDS transacts matching grants
3. Deepening the market; Reaching out to underserved populations	a. No. of clients from underserved segments b. No. a. / total beneficiaries

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An important criteria for improvement of market competitiveness is that the BUDS programme itself does not contribute to market distortion. To this end a 'fair competition' test should be introduced, as part of the appraisal.

CRITERIA FOR THE "FAIR COMPETITION TEST"

1. Are in this market segment other BDS providers active for MSMEs that transact their business fully commercially (i.e. without grant support)? Y/N
2. Do they transact business with the same size-category of businesses (micro, small, medium)? Y/N
3. Do they operate in the same sub-sector ? (e.g. metal fabrication or horticulture) Y/N

If 1, 2, and 3 are Y; the application for matching grants should be declined, as it would distort fair competition in the market. If 1 and 2 is Yes but 3 is No, check;

4. Does the risk exist that the matching grant affects the other commercial BDS provider(s) negatively?

If the answer on Question 4 is "Yes", the matching grant does constitute a market distortion, and consequently it should not be approved.

8.3 MONITORING OF IMPROVEMENT IN INSTITUTIONAL PERFORMANCE ON PROVIDER LEVEL

For monitoring of improvement in institutional performance on provider level, four major criteria can be applied:

- Innovation; Appropriate product development for various market segments
- Efficiency: Cost effectiveness of BDS improved
- Supplier sustainability
- Quality and appropriateness of services provided

As discussed in chapter 2, in the underserved and infancy BDS markets, the first sign of development is the creation of appropriate BDS products and delivery mechanisms, that ensure affordable services for clients that have little to spend. BUDS will have to monitor closely new initiatives that are being undertaken (pilot projects, new products tested) and wherever appropriate contribute to such initiatives.

The indicators to be applied are summarise in the table below:

Table 8.2: Indicators for Monitoring of improvement in institutional performance on provider level

Description of the objectives and goals	Indicators for achievement
1. Innovation; Appropriate product development for various market segments	a. New products launched for specific market segments b. Improvements in cost-effectiveness due to new BDS products
2. Cost effectiveness of BDS delivery improved	a. Cost effectiveness ratio's per market segment b. Changes in average cost effectiveness ratio's over time
3, Supplier sustainability	a. BDS supplier's increased share of commercial BDS b. Grant subsidy as % of provider's sales c. Increasing share of smaller size SMEs
4. Quality and appropriateness of services provided	a. Client satisfaction score b. Affordability; BDS as % of sales c. Sector-programme assessments d. Cost-effectiveness level e. Total subsidy cost per supplier

Especially the cost effectiveness data are of vital importance for BUDS market intelligence and appraisal framework. Out of data obtained from ongoing transactions, BUDS will build up a database for each market segment in which it is active, on the basis of which it can deduce ratios such as:

- BDS cost per client served
- BDS cost per type of BDS service
- BDS cost per provider person-day
- BDS cost per provider person-day/client
- BDS cost as % of sales

For each of these ratios per market segment an average value and a range (minimum, maximum) will be generated. Subsequently BUDS can formulate benchmark values (or value ranges) for each of these ratios that serve as a frame of reference for new applications.

The sustainability of BDS providers (item 3 in the above table) will be more difficult to monitor, as providers will be reluctant to share actual profitability information. Thus proxy indicators are to be used. These indicators are to be included in the new registration form (questionnaire) for providers.

The quality and appropriateness of services provided is even more difficult to quantify. Assessments will depend partly on third party judgement (e.g. sub-sector organisations) and partly on proxy indicators. Improved cost-effectiveness of BDS delivery can be interpreted as a more appropriate delivery method, provided that the quality of service is not jeopardised.

8.4 BUDS/PSFU EFFICIENCY AND SUSTAINABILITY

Whereas BUDS may not be sustainable as a matching grant programme without donor support, some of the functions that it undertakes through intermediary organisation such as MSME associations may continue. Therefore it is important that BUDS aims at creating capacity at intermediary level to perform certain market facilitation functions. Moreover reduction of transaction cost by working through intermediaries and outsourcing of tasks, helps to bring down the average grant element per transaction. This is calculated as:

$$g\% = (mg\% + tc\%)/(1+tc\%)$$

in which:

g% = average grant element %

mg% = average matching grant %

tc% = average transaction cost = BUDS expenditure/total matching grants

tc% = (admin. expenses for service grants) / (total value of service grants disbursed) x 100%

If tc = 30% and mg = 50% the average grant element is 61.5%.

In calculating BUDS transaction costs, distinctions should be made between BUDS administrative expenditures (staff cost, office expenses, travel expenses etc) for capacity building and product development, and the BUDS administrative expenditures made for the Matching Grants (service grants). The former could be seen as ‘investment’ in capacity building, the latter as recurrent expenses. Thus a calculation of BUDS transaction cost requires an apportioning of these two types of expenses. This may require a modification in the accounting system, or it could be done by means apportioning ratios.

Table 8.3: Indicators for Monitoring of BUDS efficiency and sustainability

Description of the objectives and goals	Indicators for achievement
<i>Goal 3: Improve PSFU/BUDS efficiency and cost-effectiveness</i>	
Improve PSFU/BUDS efficiency and sustainability	a. Reduction of retail-clients (%) b. BUDS transaction cost on service grants c. Average grant element per transaction d. Outsourcing % e. % work done through associations f. No. of beneficiaries / BUDS staff member (p.a.)

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BUDS can improve its cost-effectiveness by:

- Reducing the % of retail clients in favour of “whole sale” which is less labour intensive for BUDS (e.g. by working through associations or other intermediary organisations). This is based on the assumption that the cost of a person-day for an association will be considerably lower than the same figure for BUDS.
- By reducing the BUDS expenditure per client due to more efficient operating modalities (i.e. reducing transaction cost).
- By outsourcing task to organisations that can perform the same function either free of charge or against a remuneration that is lower than the comparable BUDS remuneration level.

8.5 CLIENT LEVEL SATISFACTION, RETENTION AND IMPACT

The data required to measure client satisfaction are much the same as currently practiced. Only the impact data must be collected by means of an impact study. The rest can be collected on a regular basis from completion report data.

Table 8.4: Indicators for monitoring of client satisfaction, retention and level impact

Description of the objectives and goals	Indicators for achievement
Increased acquisition of BDS	<ul style="list-style-type: none">▪ % of clients satisfied with the service▪ Repeat customers
Increased application of BDS in business	<ul style="list-style-type: none">▪ Increased demand per market segment▪ Change in sales and gross profit
Impact on business growth	<ul style="list-style-type: none">▪ Increase in turnover

8.6 MARKET INTELLIGENCE - DATA REQUIREMENTS

In order to generate these indicators and ratio's on a recurrent basis the following data will have to added to the MIS:

- The type of BDS as per standard categories (coded)
- The market segment (coded)
- The stage of development of the market segment (coded)
- Ultimate client (beneficiary) profile data;
 - Number of employees
 - The estimated (average) sales level
 - BDS Satisfaction score

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- Affordability score
- Repeat use of BUDS; (also for ‘wholesale’ applications)
- Provider profile data;
 - What services regularly provided
 - Type of clients (SMEs as % of total)
 - Subsidized clients as % of total
 - Estimated turnover
 - Days spent on BDS transaction

This shows that the incremental information to be collected and processed is not very substantial. With minor adjustments in questionnaires and data processing procedures all indicators and ratio’s can be generated.

8.7 METHODS OF DATA COLLECTION AND PROCESSING

The collection of data required for the above described performance monitoring system could all be acquired through the normal forms already in use. However, these forms will have to be amended slightly to incorporate the questions required. The data requirements and sources of data collection are specified below.

Table 8.5: Data requirements and sources of data collection

Data requirement	Source of data collection
<ul style="list-style-type: none"> ● The type of BDS as per standard categories (coded) 	<ul style="list-style-type: none"> ● Processing of data from application form
<ul style="list-style-type: none"> ● The market segment (coded) 	<ul style="list-style-type: none"> ● Processing of data from application form
<ul style="list-style-type: none"> ● The maturity of the market segment 	<ul style="list-style-type: none"> ● To be looked up (or to be assessed by the responsible BUDS officer) before entering data from application form
<ul style="list-style-type: none"> ● Beneficiary profile data; <ul style="list-style-type: none"> ○ Number of employees ○ The estimated (average) sales level ○ Repeat use of BUDS; ○ BDS Satisfaction score ○ Affordability score 	<ul style="list-style-type: none"> ● Client data to be included on; <ul style="list-style-type: none"> ○ BUDS application form ○ BUDS application form ○ BUDS application form ○ BUDS satisfaction survey form ○ BUDS satisfaction survey form
<ul style="list-style-type: none"> ● Provider profile data; <ul style="list-style-type: none"> ○ What services regularly provided ○ Type of clients (SMEs as % of total) ○ Subsidized clients as % of total ○ Estimated annual turnover ○ Person-days spent on BDS transaction 	<ul style="list-style-type: none"> ● Provider registration form <ul style="list-style-type: none"> ○ Provider registration form ○ Provider registration form ○ Provider registration form ○ Provider registration form ○ Completion report

8.8 REPORTING ON PERFORMANCE

The regular reporting of BUDS transactions (number, value in US\$) can be done:

- By quarter
- By Size category
- By Type BDS
- By Region
- By Type of provider
- By Type of SE
- By Market segment
- By Maturity of the market segment

Apart from the currently used reporting formats, it is proposed that a number of cross-reference tables are routinely produced for analysis purposes. There is a wealth of market intelligence ‘hidden’ in the data base, that only comes out by selecting the right cross reference tables for study and analysis. The options are indicated in the following cross-reference table:

Table 8.6 BUDS cross reference tables

	Years /Qtr	Size	Type BDS	Region	Type provider	Type of SE	Market segment	Market maturity
Years	===	-	-	-	-	-	-	-
Size	x	===	-	-	-	-	-	-
Type BDS	x	x	====	-	-	-	-	-
Region	x	x	x	===	-	-	-	-
Type of provider	x	x	x	x	=====	-	-	-
Type of SE	-	x	x	x	-	=====	-	-
Market segment	x	-	x	x	x	-	=====	-
Maturity of market	x	x	x	x	x	x	x	=====

The particular tables recommended for analysis include data on BUDS transactions (number and value):

- By size and type of BDS;
- By region and type of BDS
- By size and client category
- By size and region
- By size and quarter
- By market segment and type of BDS
- By market segment and region

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- By market segment and type of provider
- By market segment and stage of market development (maturity)

These cross-reference tables help to better understand the needs of small (micro) versus larger enterprises, and the relation to region, client category, market segment and stage of market development.

While adjustments to the PTMS are contracted out, at the same time a facility should be created to make reports:

- Per month, quarter, or year
- To select only the BUDS clients that applied in given time span (e.g. last year)

8.9 BASELINE STUDY AND MID TERM REVIEW

It seems desirable that prior to the start of the new phase a base-line survey is carried out, so as to create a frame of reference for future reviews and evaluations. This can be limited to what BUDS staff can do internally (BUDS baseline study), or it can be a more comprehensive base line survey that is contracted out (comprehensive survey). The latter would include also the BUDS survey part.

BUDS baseline study

- Upgrade the BUDS data base (PTMS) to include market segments, and stage of market development;
- Assign market segment and stage of market development to each transaction;
- Make a solid analysis of all cross reference tables in the data base;
- Establish current cost effectiveness levels (ratio's) per market segment;
- Do a rapid market appraisal for each market segment to identify
 - which providers are active?
 - what type of BDS is provided – what innovation is going on, being tested
 - estimate of transaction volume
 - type of subsidy sources
 - stage of market development
 - type of BDS already transacted commercially
 - the degree of BDS provider sustainability – subsidy reliance;
- The BUDS-EDS and BUDS-SSE evaluations can be used as baseline in respect to client impact;
- Calculate BUDS transaction cost as per 2003; AND
- Compile all information in a “BUDS market baseline study”.

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Comprehensive approach

- All of the steps listed above (BUDS baseline study);
- Carry out a statistically valid sample survey – tracer study among MSMEs both BDS users and non-users;
- Ask consultant to analyse and compile all available statistical sources of the government on MSME registration, BDS, MFIs and SME finance;
- Ask a consultant to collect BDS data from all other (donor) programs - all to receive the market study (transaction volume – types – target markets – BDS suppliers). This could become the basis for;
- Make proposal to donor community and Government to coordinate information gathering. Create an observatory for market developments in PSFU, with registry for BDS providers.. Indication of what/where the mature markets are;
- Have annual meeting among donor to establish consensus on what are the graduating BDS markets and the mature BDS markets; and
- Compile all information in a Produce an annual ‘BDS market status report’.

Mid term review

- Make a solid analysis of all cross reference table in the BUDS data base (PTMS);
- Establish current cost effectiveness levels (ratio’s) per market segment in the PTMS;
- Do a rapid market appraisal for each market segment (same format as base line);
- The BUDS-EDS and BUDS-SSE evaluations can be used as baseline in respect to client impact;
- Perform client impact study; and
- Determine BUDS transaction cost as per 2006/7.