

Business Development Services

A Sector analysis



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Introduction

Discussions about Business Development Services often focus on 'Small Enterprises' or 'Micro and Small Enterprises'. For Woord en Daad, this means that BDS can be seen in the context of Micro Enterprise Development (MED) as well as Small and Medium Enterprise Development (SMED). This document probably has a bias toward MED.

1. Definitions

In the field of Business Development Services there is a lot of discussion about definitions and terms that should or should not be used. Even the term BDS itself is disputed. Micro-enterprise development (MED) is a form of small enterprise development (SED), which is part of private sector development (PSD).

Business Development Services

The term Business Development Services was coined in the 90's by the Committee of Donor Agencies for Small Enterprise Development (CDASED) in order to replace the term 'non-financial services'. The 2001 BDS guide defines BDS as:

Services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of "business development services" includes a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community (CDASED 2001)

This definition explicitly excludes services directed at the wider business environment. However, in practice, lobby and advocacy are often included in BDS. In any case, financial services are not included in BDS. Several organisations distinguish three types of programs related to business development:

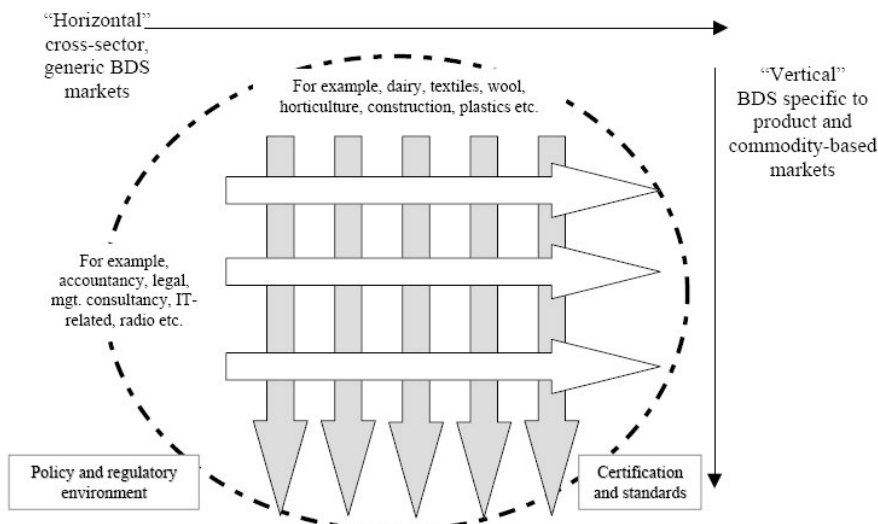
- Financial services
- Enterprise Development or BDS
- Enabling Environment

Sometimes, these three are all integrated into Private Sector Development.

Types and examples of BDS

The definition of BDS by CDASED already refers to strategic and operational services. Operational services are needed for the day to day affairs of enterprises, while strategic services are those needed for medium or longer term affairs, such as innovation. However, there is debate whether operational services should be called BDS or rather Business Services. See the next paragraph.

Another distinction is between horizontal and vertical BDS. Horizontal refers to generic BDS, which applies across sectors and vertical BDS is BDS which is more specific to one sector. The diagram below clarifies this distinction:



From: Bear et al., 2003.

The general trend is that BDS is shifting from horizontal into vertical, sector-specific services. This is one of the ten critical challenges for BDS given by Bear et al. (2003).

Examples of BDS are given in the following table from McVay and Miehlsbradt (2001)

Market access: <ul style="list-style-type: none">● marketing businesses● market linkages● trade fairs and product exhibitions● development of samples for buyers● market information● subcontracting and outsourcing● marketing trips and meetings● market research● market space development● showrooms● packaging● advertising	Input supply: <ul style="list-style-type: none">● linking SEs to input suppliers● improving suppliers' capacity to provide regular supply of quality inputs● facilitating the establishment of bulk buying groups● information on input supply sources
Infrastructure: <ul style="list-style-type: none">● storage and warehousing● transport and delivery● business incubators● telecommunications● courier● money transfer● information through print, radio, TV● internet access● computer services● secretarial services	Training and technical assistance: <ul style="list-style-type: none">● mentoring● feasibility studies and business plans● exchange visits and business tours● franchising● management training● technical training● counseling/advisory services● legal services● financial and taxation advice● accountancy and bookkeeping
Policy/advocacy: <ul style="list-style-type: none">● training in policy advocacy● analysis and communication of policy constraints and opportunities● direct advocacy on behalf of SEs● sponsorship of conferences● policy studies	Technology and product development: <ul style="list-style-type: none">● technology transfer/commercialization● linking SEs and technology suppliers● facilitating technology procurement● quality assurance programs● equipment leasing and rental● design services
	Alternative financing mechanisms: <ul style="list-style-type: none">● factoring companies that provide working capital for confirmed orders● equity financing● facilitating supplier credit

The dominant paradigm for BDS, the market development paradigm, puts emphasis on separating roles of BDS providers and BDS facilitators. This will be worked out in paragraph 2. These two roles are defined as follows:

BDS Facilitator

An international or local institution which has as its primary aim to promote the development of local BDS markets. This may include a range of services to BDS providers (e.g. development of new service products, promoting good practice and building provider capacity) and to BDS consumers (e.g. information, education about the potential for BDS purchase). A BDS facilitator may also perform other important functions, including the external evaluation of the impact of BDS providers, and advocacy for a better policy environment for the local BDS market. Currently, most BDS facilitators are public institutions, NGOs or project offices of donors, and are usually funded by governments or donors (CDASED, 2001).

BDS Provider

A firm, institution or individual that provides BDS directly to SEs. They may be private for-profit firms, private not-for-profit firms, NGOs, parastatals, national or subnational government agencies, industry associations, etc. They may also be firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship (CDASED, 2001)..

Or: Business Services?

The dominant paradigm in BDS is that BDS should be developed commercially, by commercial BDS providers, possibly facilitated by donors. Increasingly, the question is asked whether 'Business Services' would not be a better name. In 2005, a discussion was held among members of the SEEP Network to discuss about the various terms being used. The general consensus was that the word 'development' was no longer needed in BDS and has in fact caused confusion. Business Services was regarded as a better term. At the same time it was concluded that the term BDS is so common that it cannot be dropped (McVay, 2005).

At the same time, in the discussion around the use of subsidies (see par. 2.b) more fundamental concerns are raised about the function of the word 'development' in BDS. Philip (2003) pleads to make a clear distinction between ongoing business services (business-to-business services) and business **development** services, which should be related to the start up or development of enterprises.

Sub-sector development, value chain development and cluster development

Sub-sector analysis focuses on one sub-sector of the private sector domain, such as the textile sector, the IT sector or the fresh fruit sector. Sub-sector development aims at developing such a sector as a whole. Value chain development focuses on one specific channel within a sub-sector. Cluster development is a specific way of approaching either sub-sector development or value chain development with a specific focus on strengthening the interactions between businesses in order to achieve more collective efficiency and thereby a better performance.

2. Developments in the sector

a. Paradigms

History of paradigms: from 'impulsive interveners' to 'remote reformers'?

In the late sixties, enterprise development focused on formal Small and Medium Enterprises. Financial services and BDS were linked and the linkage was often forced. The programs were generally unsuccessful (Sievers and Vandenberg, 2004).

In the seventies, microfinance and micro-enterprise development became popular. Financial and BDS (non financial services as they were called then) went together and most BDS was very generic. The main focus was on the financial services, as lack of access to credit was considered as the major barrier for starting entrepreneurs.

In the eighties, the BDS market and the microcredit market were increasingly separated, because they only partially overlapped. BDS markets were very weak, had little impact, limited outreach, were often supply driven and little sustainable.

In the nineties the microfinance sector reached wide consensus about the financial systems approach, the sustainability of which was very appealing. There were replicable models that seemed to work sustainably under very different conditions. The appeal was even greater because it became increasingly clear that the Structural Adjustment Programs (SAP) aimed at macro reforms were very unsuccessful. At the same time, one of the criticisms on the microfinance sector was that it frequently led to market saturation for few widely available products, without much innovation, upgrading or enterprise *development*. The overemphasis on access to credit was increasingly recognised. This led to a shift back toward BDS at the end of the nineties.

In 1997, the donor committee for small enterprise development (CDASED) coined the term BDS to get rid of the negative term 'non-financial services'. In a series of conferences, BDS guidelines were developed (first version in 1999, final version in 2001) which promoted a new paradigm, the market development paradigm. The core idea is that donors should not deliver BDS directly, but facilitate commercial BDS providers to do so. Just like microfinance had learned to look at traditional saving systems and schemes and had adapted their delivery systems to it, BDS also looked at traditional ways of delivering BDS.

Suzuki (2002) showed that in Harare 75% of VET was delivered through private formal and informal institutions and in Tanzania 60%. Most traditional BDS was delivered as embedded services, from manufacturers to subcontractors (first train then work), from buyer to supplier, from franchiser to franchisee, by manufacturers to buyers along with equipment they sell. He concludes that these forms of BDS were generally affordable, relevant and always led to tangible benefits. These forms of BDS do

reach women and youths, but serve to a great extent urban markets rather than rural. According to him, the greatest problems for these traditional providers of BDS is unfair competition by NGO's. Most BDS before this time had simply overlooked any existing forms of BDS and often had even crowded out such services through market distortion and unfair competition. There were very real examples of market distortions and of negative instead of positive impact on economic development (Dichter, 1994).

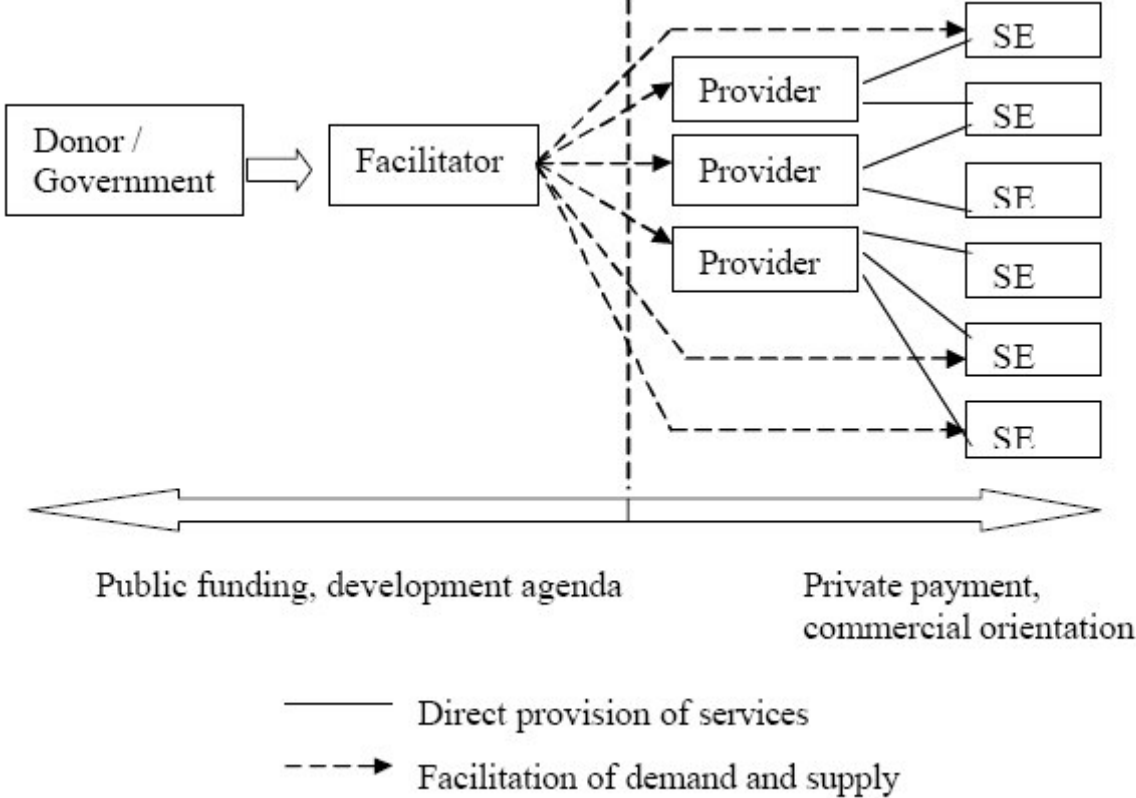
The market development paradigm for BDS has many parallels and is inspired by the financial systems approach of microfinance. The paradigm was in line with the current neo-liberal ideas about markets and the role of governments. However, there are differences between microfinance and BDS: BDS is a much wider array of services, much more tailor made than microfinance; for microfinance, new institutions were developed, mostly from organisations that were formerly NGO's, while BDS is provided by a whole array of different providers in more diverse ways than microfinance.

More recently, the interest for linking finance and BDS has increased (see 2.d) just as attention for the diversity of the target groups for BDS. Also, awareness increased that the market paradigm has its shortcomings and that a fundamentalist faith that markets are the solution for all problems and that its positive benefits will automatically trickle down to the poorest entrepreneurs, is not justified. This led to the next paradigm shift: from 'market development' to 'making markets work for the poor', or M4P. In this approach the market is looked at more holistically and sector-wide. Focus is on facilitating all actors in such a way that the market will indeed work for the poor. In this shift, there is more space to look at the role of subsidies, especially for the 'entrenched poor'. The M4P paradigm is not so much a break away from the market development paradigm but rather a correction or fine-tuning of the model. The ILO 2006 BDS reader has widened the scope of BDS even more, by focusing on 'sustainable private sector development' rather than BDS itself.

The history of BDS paradigms cannot be fully summarized as a shift from impulsive interventions to remote reformations. Especially within the M4P paradigm, there is room for a balance of direct interventions and more remote facilitation, but always within a more systemic framework, based on the key notions of market development.

The Market development paradigm

The market development paradigm can be summarized by the following diagram:



From CDASED, 2001.

Donors and international NGO's that are active in enterprise development do not directly deliver BDS to small enterprises (as in the first paradigm of BDS) but work with existing or new BDS providers, which are enterprises themselves. In this way, interventions are not a substitute for the market but development of the market and delivery of BDS is done by businesses in a business-like manner.

The following principles apply (McVay and Miehlabrad, 2001):

- facilitate market development rather than providing services
- start with market assessment of BDS – finding demand and supply
- intervene with the least possible distortions (tread lightly in markets)
- subsidies not for direct transactions, but indirectly
- promote competition between BDS providers
- have a clear exit strategy for subsidies
- separate the roles of provider and facilitator

In three key words: business like, demand-led and tailor-made (Jackson, 2004).

Appropriate services should be selected through small enterprise surveys that gather data on numbers, size, gender, growth and constraints, through methods like rapid appraisals, through sub-sector analysis and through test marketing and action research.

The following table gives a list of possible interventions in this approach for various market problems.

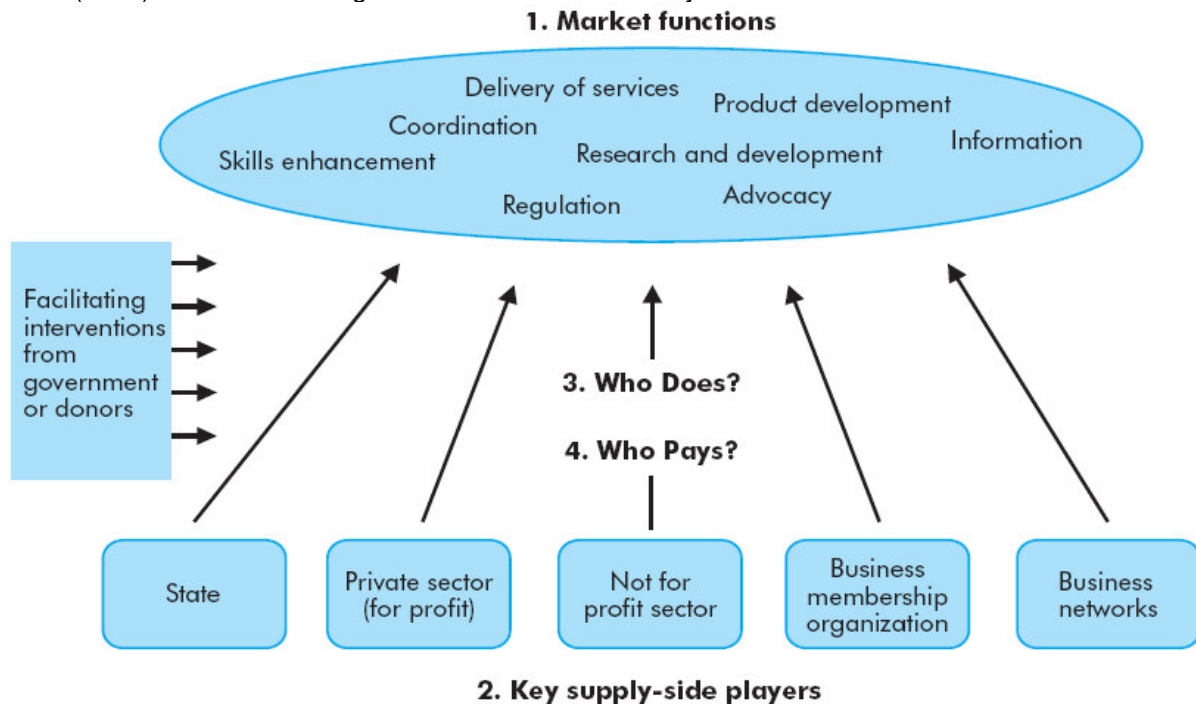
Market problem	Possible interventions
Demand-side problems	
Consumers lack information about services	<ul style="list-style-type: none"> ● Develop a BDS yellow pages ● Open a BDS consumers' bureau or information center ● Help suppliers improve their marketing ● Implement a voucher scheme
Consumers are unable to effectively identify their business problems	<ul style="list-style-type: none"> ● Develop an awareness raising campaign about typical business problems and BDS that can help ● Help suppliers create marketing campaigns that help SEs identify business problems
Consumers do not have the capacity to pay for services up front	<ul style="list-style-type: none"> ● Assist suppliers in developing payment options ● Promote embedded services ● Promote services financed by large firms ● Help consumers form clusters to purchase services in groups
Consumers are risk averse to trying services.	<ul style="list-style-type: none"> ● Provide suppliers with technical assistance to improve trial inducing strategies ● Implement a voucher scheme ● Promote business linkages for embedded services
Consumers do not see the value of services	<ul style="list-style-type: none"> ● Assist suppliers in improving advertising ● Assist suppliers in developing customer referral programs ● Conduct general advertising for the service ● Help suppliers to test and demonstrate quality of services
Consumers want services packaged together	<ul style="list-style-type: none"> ● Broker agreements among suppliers to develop packages of services ● Provide venture capital and technical assistance for suppliers to diversify
Supply-Side Problems	
Service products lack the benefits and features that consumers want	<ul style="list-style-type: none"> ● Assist suppliers in developing and commercializing new products ● Bring in suppliers from other countries to adapt and franchise appropriate products
Suppliers are risk averse to targeting new consumer segments, such as women, micro enterprises or the service sector	<ul style="list-style-type: none"> ● Provide suppliers with information on the viability of a new consumer segment ● Subsidize some of the costs in targeting new consumer segments, such as test marketing ● Use market research to identify promising opportunities to serve new consumer segments
Suppliers lack market information	<ul style="list-style-type: none"> ● Develop or improve marketing research services/suppliers ● Provide suppliers with market information ● Teach suppliers how to gather market information
Suppliers lack business or technical skills	<ul style="list-style-type: none"> ● Provide training and technical assistance to suppliers ● Assist training suppliers in developing and selling appropriate products to other BDS suppliers
There is insufficient supply in the market	<ul style="list-style-type: none"> ● Provide venture capital to suppliers to expand ● Design a program to assist start-up suppliers
Variable quality of services is harming suppliers' reputations	<ul style="list-style-type: none"> ● Provide quality assurance services ● Assist supplier to improve consistency in service provision ● Help suppliers form associations with certification processes
Market environment problems	
Free services are distorting the BDS market	<ul style="list-style-type: none"> ● Advocate with government and/or other donors to rationalize BDS subsidies
Regulations adversely affect the BDS market.	<ul style="list-style-type: none"> ● Advocate for changes in the regulations ● Organize SE suppliers to advocate for changes in regulations affecting the BDS market

From McVay and Miehlebradt, 2001.

A common problem recognised in this approach is that in many countries, BDS markets are weak. Nevertheless, Bear et al. (2003) report that BDS markets account for 25-35% of the GDP in high income countries and for "half of this" in low income countries. They state that these markets show a big growth potential.

Nussbaum and Miehlbradt (2003) conclude that in 'weak BDS markets', most BDS is delivered as embedded services and are not recognized as services, but as added value to the core business. They recommend that in such cases, BDS should be kept as much as possible as embedded services.

Market sustainability is one of the key words in the market development paradigm. McVay and Miehlbradt (2001) offer the following framework for sustainability:



They indicate the key challenge in this model is how the lower end enterprises could be reached sustainably. The same concern is voiced by Harper (Gibson and Harper 2002) and led to the M4P paradigm.

Criticism on the market development paradigm

The market development paradigm is not without its critics. In the first place, there are many 'impulsive interveners' whose voices may not be heard in official networks and in papers and articles.

Especially, the question whether the market is the one-size-fits-all solution and whether market development will or will not trickle down to the poorest entrepreneurs has led to much debate (e.g. Philips 2003, Jackson 2004) (see 2.b. about the question of subsidies).

Caniëls et al. (2003) criticise the model for another reason. The market development model is not really demand driven, because it still focuses on the supply side. Especially BDS aiming at innovation should take a more evolutionary approach, whereby the users and providers are co-producers and co-developers. This enhances a quicker adoption of innovations. In services marketing, attention is on the process of 'prosumership', because production and consumption of the product (the particular service) takes place simultaneous and this process turns out to be of utmost importance for the use and demand of the service. The market development model has such a strong focus on sustainability that many services are still ready-made products, sometimes designed by international donors, that are delivered to 'beneficiaries' whose activity is then reduced to selecting the right services.

They recommend less focus on sustainability and more on longer term linkages and relations between businesses in order to stimulate the process of prosumership and innovation.

In summary the positive and negative points of the market development approach are:

Positive:

- Potential to reach many more entrepreneurs. Direct intervention programs usually have a very limited outreach.
- Incentives are removed, which means that BDS must be more suited to the needs of entrepreneurs, becomes more relevant and can be delivered sustainably on the longer term with impact on a wider target group/
- Focus is always on cementing connections with the real market, rather than creating enterprises that are disconnected from market influences.
- The problem that the business sector becomes welfare expecting and dependent is avoided. Gibson notes that this is especially the case with the SME sector in South Africa because of the many available programs (Gibson and Harper 2002).
- Specialised, commercial, often sector-specific BDS providers are often more relevant than generic donor BDS providers.

Negative:

- Inequity between entrepreneurs tends to become higher because of a focus on higher end markets.
- There is no natural flow of resources to the poorest, not even when a market develops. The market does not solve everything.
- The current model is still very supply driven. Marketing and innovation theories suggest that especially strategic BDS, aimed at innovation should be a more iterative process of 'producer' and 'consumer' together.

Appendix 2 gives a summary table of arguments for direct intervention and for market development.

The 'Making markets work for the poor' paradigm: M4P

Bear et al. (2003) describe the market development model and give ten critical challenges for BDS. They accept the core logic of the market development paradigm: not providing direct solutions for problems but focusing on how the market system could provide its own solutions, so that BDS leads to market connection rather than disconnection, even for formal and informal micro-enterprises. Some of their challenges are:

- In market analyses there should be attention for traditional and current ways of formal and informal markets without just assuming the Western markets framework.
- There should be more attention for the role of the state. BDS is not necessarily neo-liberal or anti-state. Depending on the context, the state should or could be involved in regulation, information, research or standards.
- BDS must become much more sector-based. General BDS (horizontal) is often less relevant than sector specific (vertical) BDS. In this way, much more can be provided as embedded services.
- Development people are not suited for BDS. This should be done by business people who proactively look for the right offer to make for each situation.

Some of these challenges, as well as some of the criticisms in the previous paragraph are taken into account in the M4P framework in which the direct BDS and the market development frameworks are both subsumed (Tanburn 2005a). One of the examples that more roles for the government are open in this approach, is that 'temporary market protection from global corporations that compete with local small enterprises' is suggested as one good option.

Emerging lesson in this paradigm is that the poor should be at the heart of market assessments and program design, because of the acknowledgement that empowerment does indeed not trickle down automatically. This means that:

- Culturally sensitive methods of getting information should be used, in such a way that also illiterate people are included.
- Risk taking should be reduced, especially at early stages.
- Direct payment should be avoided before tangible benefits are realized.
- Increasing access to information should be a major focus.
- Working on inter-firm cooperation, increased competition (of suppliers to the poor), organising confrontation to demand fairness if nothing else works.
- Working on various types of groups in value chains: producer associations (loose clusters), inter-professional bodies of various stakeholders (where the poor are often indirectly represented), associations of brokers / traders / suppliers / service providers.
- For the 'entrenched poor' entrepreneurs, more direct involvement will be needed

- For remote rural poor, the focus could be on the nearest selling points as starting points for increased joint action, common input buying, service delivery etcetera. Alternatives could include the use of radio or sms where there is mobile phone coverage.

However, focusing on the poor should never be a focus on the poor in isolation. After all, the aim is to connect people in competitive ways with the wider market (list adapted from Tanburn 2005a)

b. Subsidies

Use or non-use of subsidies plays an important role in the various paradigms and is often debated by critics. The market development paradigm was partly developed because of market distortions through free services (e.g. Phillips 2002). This is why in this paradigm BDS should be delivered in a business-like way: cost effective, sustainably and profitably.

The BDS guide (CDASED 2001) discourages long term subsidies and states that donors who do use subsidies as short term investments should exercise care in the application of it. Subsidies should be for specific objectives, should be time-bound with a clear exit strategy right from the beginning and should not be applied at the BDS transaction itself, but rather pre-transactional (e.g. R&D, development of service products, test marketing, raising awareness) or post-transactional (e.g. for impact monitoring and evaluation). Others within this approach add that subsidies should be transparent, have small administrative costs, should be small enough to offset distortions and should at least not have macro-effects (Phillips, 2002).

In a roundtable discussion in 2004, several international organisations active in BDS discussed and exchanged their practices (Argidius, with OICI, Fundes, Accion, Trickle Up, World Vision, USAID, Fin-trac) and although all organisations recognized the need for sustainability, only Accion was able to cover most of its costs by fees and royalties (Argidius 2004).

There seems to be a consensus that wholly subsidized programs for BDS generally lead to donor-driven, or at least supply-driven, ineffective programs that may hinder instead of help connection to the market (e.g. Barton, 1997). However, there is criticism on the strong focus on financial sustainability:

- The focus of BDS providers will shift toward the better off entrepreneurs and the higher-end markets. This will lead to a higher inequity (Jackson 2004).
There is no natural flow to the poor (Harper in Gibson and Harper 2002). Empowerment does not trickle down to the poor automatically (e.g. Barton 1997 writes at the early stages of the market development paradigm: there are market failures which justify subsidies. These should be based on cost-benefit calculations rather than on return on investment for individual companies).
- The focus will easily shift toward standardized, off-the shelf service products, rather than on cementing relations between businesses (Caniëls 2003).

Philip (2003) develops the most clear argument about 'putting back "development" in BDS'. She argues that as such the market approach is healthy, but that there should be a distinction between ongoing, business-to-business services, which are needed for the operation of a business. Such services should be and are in most cases delivered by the market, on a commercial basis. If this should be subsidized, it means the enterprise is not viable.

What then remains in BDS, are services specifically meant for the initial development of businesses. She argues that with this development agenda there is no way around a transfer of resources, whether they be called 'incentives' or 'subsidies'. This will be needed in order to break away from existing power relations in sub-sectors, at the demand side as well as at the supply side, which are the cause that BDS markets tend to leave out the lower end markets, especially informal micro enterprises.

A summary of the argument could be: "Facilitation (with subsidies) is what you haven't figured out how to do commercially (yet)" (adapted from Argidius 2004).

c. ICT and BDS

Access to information is one of the most essential business services. Aley et al. (2002) did a research in Kenya and Bangladesh and confirmed an unsatisfied demand especially by informal enterprises, for business information. They found that:

- Small enterprises are acutely aware that they are being exploited by people with access to information: most complaints centre on lack of information about what the final customer pays for their product, the correct price for a material they need and how to source a necessary input.
- No individuals or companies specialised in providing information targeted to informal enterprises.

- There was no situation where informal enterprises accessed information from sources dedicated to providing information as a stand-alone product: information sources for informal enterprises currently supply some other additional service or product.
- Small enterprises rate community based organisations and trade associations as the worst information deliverers.
- While civil servants are an important source of information much of it is inaccurate and provided too late to be useful.

Increasingly, use is made of Information and Communication Technology to bridge the information gap. There is a danger that the use of technology is another means of widening the gap between poor and rich. For example, for the use of internet, knowledge of English and computer skills are required which are often not accessible for the poorest. However, mobile phoning is different. Tanburn and Singh (2001) call this the mirror of micro finance. The mobile phone market has shifted away from high margin / low volume markets to low margin / high volume markets which are highly competitive in many regions of the world, increasingly also including rural areas.

Benefits for small enterprises include lower communication costs, more access to information and therefore less extortion, a bigger outreach of small enterprises and of BDS providers and reduced transaction costs. Tanburn and Singh (2001) quote from studies that show that one mobile phone per 100 populations leads to an increase of the GDP/capita of over \$1.000.

A good example of the use of internet for BDS is www.katalystbd.com where a lot of business information is brought together for several business sectors in Bangladesh.

A more advanced example (though in microfinance) is Accion's program PortaCredit, used by several MFI's in Bolivia, Colombia and Guatemala where loan officers use PDA's to collect and upload information in order to accelerate administrative processes.

d. Financial and non-financial services

Should financial and non-financial services be linked together?

In the discussion about the history of paradigms it was noted that financial and non-financial services were often linked in the sixties and seventies. The unsuccessfulness of these programs led to the separation of the two. Practically this meant that the focus was almost exclusively on the financial part and that BDS were largely neglected. Argument for separation of financial services and BDS are:

- Delivery is simpler, because each provider can focus on either finance or BDS, which are very different.
- Financial regulations often required such separation.
- Sustainability is easier reached, especially of the financial institutions.
- Combination often led to lack of expertise and weak performance in both areas.

Of course, at the level of the enterprise, the separation is artificial. Both are integrated in setting up and running a business. More recently, some authors and practitioners plead for more integration. Sievers and Vandenberg (2003) proposed a typology of linkages between financial services and BDS with the following two dimensions:

- Compulsory (the client who takes financial services is obliged also to take BDS) or Voluntary (the client is free to select either or both of financial services and BDS).
- Provision: Unified (provided by the same department and often the same people in the same institution), Parallel (provided by the same institution, but by different organisational units with separate accounting and different people) or Linked (provided by two distinct institutions that operate in the same area and refer clients to each other, organise joint marketing).

Combining these two categories results in six types of linkages. The authors give 25 examples of linkages from each of the categories and conclude that for different contexts, different models could be used. But voluntary linkage is usually better than compulsory linkage and unified provision does not often result in good results. Especially smaller microfinance institutions should rather focus on linked provision and the same is true when and wherever BDS providers already exist.

Jackson (2004) wrote his dissertation on business centres in Johannesburg and also shows that linkage of financial services and BDS has positive results for the financial institution, the BDS provider and the entrepreneurs.

Karlan et al. (2006) did a thorough statistical analysis (in Peru) with a sample group of 4.000 entrepreneurs, where microfinance clients were given compulsory, voluntary or no entrepreneurial training along with their loans. They found the following results:

- Institutional outcomes: repayment rates and client retention increased, but compulsory training also caused some drop out. The positive effect was greatest with those who expressed the least interest in training beforehand.
- Business skills and practices: knowledge improved through training but did not always translate into practice. Reinvestment of profit into the business and also increased as well as innovations.
- Business outcomes: significant increase of profit of 16% and 28% in the worst month, which indicates smoother income distribution and therefore risk reduction.
- Household outcomes: no effects on decision patterns and some but not significant increase in education of the children

e. Monitoring and Evaluation

It was in the market development paradigm that the importance of monitoring and evaluation was recognized strongly. At its early stage, Barton (1997) indicated that 'willingness to pay' may be the best overall indicator for a BDS program. This became an important indicator, though it was recognized (increasingly) that it may not always be the best proxy indicator for impact of BDS programs, just like it is increasingly recognized that financial sustainability of microfinance programs is as such not yet a guarantee for impact on poverty reduction (Hileman and Tanburn, 2000).

McVay et al. (2001) propose a performance measurement framework with indicators based on three goals of BDS under the market development paradigm:

- have positive impact on client firms
- increasing outreach to underserved populations
- delivering sustainable services through sustainable suppliers and cost-effective programs

The indicators used for monitoring and evaluation of BDS programmes are presented in Appendix 1. Most of these are not really focusing on the impact on the performance of micro-enterprises.

In the M4P paradigm, more attention is given to the effect of power relations among entrepreneurs and between entrepreneurs and other stakeholders in their environment, for example when buyers of primary products in a rural area are of a different ethnicity than the producers.

f. Labour standards

The question is sometimes raised whether the focus on market systems will have a positive or rather a negative impact on labour conditions. If enterprises are connected to (increasingly global) value chains, will competition not lead to cost reduction and worsening labour conditions?

The ILO, a major player in the field of BDS, encourages the promotion of good labour standards (such as those of the ILO itself) within BDS programs. Others however argue that it is better to leave this also to the market system itself and to only facilitate win/win situations where all stakeholders become convinced that good labour standards are beneficial.

It seems to be more in line with the M4P paradigm to actively promote good labour standards, since it is probably one of the things that markets will not solve automatically.

3. SWOT of the BDS sector

<p>Strengths at international level</p> <ul style="list-style-type: none"> • Healthy market thinking. • M4P framework more balanced than market development framework: attention for 'entrenched poor': facilitate what cannot be done commercially yet. 	<p>Weaknesses at international level</p> <ul style="list-style-type: none"> • Still tendency to focus on higher end markets. • Often limited impact and not sustainable programs. • Still often focusing on few individual entrepreneurs, not wider market.
<p>Strengths of BDS sector in developing countries</p> <ul style="list-style-type: none"> • Methods like 'embedded services' fit traditional ways better. • More attention for linkages: clusters and value chains, where BDS is integrated. 	<p>Weaknesses of BDS sector in developing countries</p> <ul style="list-style-type: none"> • Weak BDS markets in many countries. • Sometimes value not seen. Much need for awareness creation. • Many donor driven projects that keep enterprises

	<p>protected from the market and hinder market development.</p> <ul style="list-style-type: none"> • Often little attention for traditional BDS providers, leading to crowding out / market distortion. • Traditional BDS providers often of poor quality, e.g. traditional apprenticeships may not always lead to much learning.
<p>Opportunities</p> <ul style="list-style-type: none"> • Increasing globalization – opportunities for insertion in global value chains. • Increased attention for cluster development and value chain development with attention for vertical and horizontal linkages between formal small, medium and large businesses and formal or informal microenterprises. • Mobile phone coverage increasing in many areas. 	<p>Threats</p> <ul style="list-style-type: none"> • The other side of globalisation: cheap mass production from China and India may make competition harder for many other countries.

4. Strategies and principles

The tables on pages 3 and 7 give many examples of BDS interventions.

In setting up a BDS program or assessing a proposal for a BDS program, the following points serve as guidelines. Not every point will be applicable in every situation.

- Market research should be done at two levels:
 - The level of BDS providers: to survey the current BDS providers (formal and informal). This should include traditional BDS providers and BDS provided as embedded services.
 - Market research of the (sub-) sectors for which BDS is planned to be offered (such market research is itself a form of BDS)
- BDS should be done business like, demand led and tailor made. This means:
 - Stimulating a variety of BDS providers (with competition) is positive
 - If BDS is offered by NGO's, it should be handled by business people, not development or social workers. This also holds for training.
 - Tailor made: Sector specific (vertical) BDS is to be preferred above generic (horizontal) BDS, where and whenever possible, also if this means that other actors are involved.
- Value chain development (or sub-sector development) is preferred, so that 1) BDS can be offered sector-specific, 2) the focus can be on brokering linkages between businesses (BDS as embedded services), 3) linkages between informal and formal enterprises can be laid and strengthened, 4) businesses can easier be connected to global value chains, thereby preventing market disconnection.
- BDS can be subsidised for starting entrepreneurs. However, this is limited to initial start-up of enterprises: business **development** services. Ongoing business services should be provided on a commercial basis: Facilitate (with subsidies) what cannot be done commercially yet.
- There should be specific attention for offering BDS in the following ways. These options are not necessarily good or even possible options in every context, but in setting up the proposal, they should be reflected upon:
 - Offering BDS as business to business services, possibly by offering capacity building to existing (sometimes informal) BDS providers, suppliers, buyers, cooperatives or other actors.
 - Offering BDS as embedded services (e.g. by suppliers or buyers, or through franchising or subcontracting).
 - Setting up / promoting business associations (of micro entrepreneurs) who can broker contracts with input suppliers and BDS providers and who can play a role in lobby. Such associations could be stimulated and helped, but should become self-reliant.
 - Using voucher schemes, where target group selects the BDS they need.
 - Use of indirect payments, linked to tangible support products that lead to direct benefits. These payments could cover some of the costs of other products as well (package / embedded).
- If financial services and BDS are offered together, arguments should be given for the way of linkage that is chosen (6 categories, see par 2.d). Generally, Voluntary linkage is preferred over Compulsory linkage and Linked (offered by different organisations cooperating) or Parallel (offered by

by different departments) is preferred over Unified (offered by the same people of the same department)

- For remote rural settings, BDS could possibly best be linked to existing supply, service or delivery points, such as local markets.

5. Actors

Major international donors / BDS facilitators and BDS networks

- CDASED: Committee of Donor Agencies for Small Enterprise Development. (<http://www.sedonors.org/>). They developed the 'BDS Guidelines' of the market development paradigm in a series of conferences between 1995 and 2001.
- ILO. The International Training Centre of the ILO in Turin publishes the annual BDS Reader, which is now widened to 'private sector development'. ILO is quite influential in the field of BDS. They are the main actor behind the rather new series of three interconnected websites:
 - <http://www.businessenvironment.org/>
 - <http://www.bdsknowledge.org/>
 - <http://www.value-chains.org/>
- UNIDO, is involved in industrial development and cluster development, including BDS programmes. No focus on micro enterprises.
- SEEP Network: Small Enterprise Education and Promotion Network. 67 member organisations who are active in microfinance and micro enterprise development. The original focus was on evaluation of enterprise development projects. Now, SEEP publishes a wide array of documents in the field of microfinance and MED.
- USAID with AMAP (Accelerated Micro-enterprise Advancement Project), adopts a three way approach to business development: financial services, enterprise development (or BDS) and enabling environment for MED.

Other international BDS facilitators

- Action for Enterprise, a key actor in the market development approach.
- ACCION. Mainly active in microfinance with strong emphasis on financial systems approach.
- OICI, Fundes, Accion, Trickle-Up, Argidius
- Worldvision uses a 'five finger approach': 1. Access to Microfinance, 2. Access to Markets, 3. Access to Technology, 4. Access to Information, 5. Access to Know-How

Other actors:

- Membership associations of small enterprises. The importance of this type of actors is increasing.
- Service delivery organisations
 - Government programs
 - Semi-government programs
 - NGO's – as facilitators, sometimes as providers
 - Commercial providers

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Appendices

1. Performance measurement framework for BDS

Goal 1: Increase Impact	
Assessing BDS Customers, SEs	
Objective	Indicators
Increase customer acquisition of BDS	Customer satisfaction with a business development service (percentage satisfied)*
	Repeat customers (percentage of customers who buy more than once)*
	Reasons for satisfaction and repeat purchase (<i>supplemental</i>)
Increase customer application of BDS	Percentage of customers who applied the services as intended by the program and reported by the client.*
Increase customer benefits from BDS	Percentage of customers who experienced business benefits, as defined by the program and reported by the client, as a result of the service.*
Goal 2: Increase Outreach (Scale and Access)	
Assessing BDS Markets	
Objective	Indicators (Reported for the Overall Market and for the BDS Program)
Expand the market for BDS	Number of SEs acquiring a service through any method and purchasing a service through commercial transactions*
	Amount of sales by BDS suppliers (<i>program only</i>)*
	Market penetration: percentage of potential SE market acquiring a service through any method and purchasing a service
	A program's market share of all services acquired through any method and all services purchased (<i>program only</i>)
	Awareness: percentage of SEs aware of a service
	Reach: percentage of those aware who have purchased a service at least once
Develop a high-quality, diverse, competitive market	Percentage market share held by the three largest suppliers
	Number of BDS suppliers (<i>program only</i>)*
	Number of BDS products (<i>program only</i>)
	Retention: percentage of multiple purchasers out of all purchasers (<i>not relevant for some programs</i>)
	Satisfaction with last service purchase (<i>supplemental</i>)
	Reasons for purchase, nonpurchase, and choice of supplier (<i>supplemental</i>)
Increase access of underserved groups to BDS	Extent of access: percentage of SE customers purchasing a service that represent targeted populations (women, microenterprises, exporters, and so on)*
	Target market penetration: percentage of potential SE targeted markets (women, microenterprises, exporters, and so on) acquiring a service through any method and purchasing a service
Goal 3: Achieve Sustainability and Cost-Effectiveness	
Assessing BDS Suppliers and Facilitators	
Objective	Indicators
Achieve supplier sustainability	Percentage supplier revenue from SEs*
	Breakdown of sources of supplier revenue (<i>supplemental</i>)

	BDS supplier financial sustainability (nondonor revenues/total expenses)* (<i>supplemental</i>)
	BDS contribution margin ((SE revenues from a service – direct expenses for the service) / total expenses)* (<i>supplemental</i>)
	BDS viability (SE revenues from a service / direct expenses for the service)* (<i>supplemental</i>)
Improve program cost-effectiveness	Ratio of annual program expenses to annual program sales to SEs
	Annual program expenses per customer served*

Performance Measurement Framework for Business Development Services
PMF 2001. From McVay et al., 2001.

2. Summary of arguments for market development

Table 2: How to Develop Value Chains	
Rational for Direct Value Chain Development	Counterargument for Strengthening Support Markets
<p>Immediate results: Some programs are pressed to produce results quickly, either due to a recent emergency or pressure to achieve program targets in a short time frame. They perceive that diving in and working directly with businesses in the value chain is the fastest way to get results.</p>	<p>Up-front investment in stimulating support markets is essential: “There are no shortcuts to developing markets.”⁵⁸ The upfront investment in understanding markets and engaging businesses to deliver support services and products produces better results faster because the investment can pay off within the life of the project in terms of reaching more businesses.⁵⁹</p>
<p>Reaching the Poor where there is no market: Some program designers fail to see the opportunities for service markets to develop in very weak markets serving very poor people. Some markets are so blocked by poor infrastructure, lack of services, low economic activity, and poverty that the very concept of developing markets seems ridiculous.</p>	<p>The poor are involved in weak markets:⁶⁰ Although markets serving the poor are often very weak, they usually exist. Many programs have demonstrated that even in very weak markets, serving the very poor, microenterprises and other community-based businesses can be engaged to sell support products and services to the poor. When these local markets are given an opportunity to grow in a sustainable manner, they can have substantial development impact. But, offering free services can easily destroy these fragile markets.</p>
<p>Engaging large-scale businesses: Some programs offer large-scale businesses incentives in the form of free services and even financial subsidies to engage with SE producers. Sometimes, larger businesses are doing fine without SE producers and need some incentive to overcome the risks, costs, and social barriers to doing business with SEs, even when linking with SEs will benefit the large business.</p>	<p>Market-based solutions for engaging big business: Although it can be challenging to engage large enterprises in doing business with the poor, the same logic applies to working with them as working with SEs. Awareness needs to be built, risks reduced, and incentives made clear before a business will purchase a service or engage in a new business opportunity. Subsidizing large-scale businesses distorts markets and creates dependency and unrealistic market conditions. It is unclear that the large-scale businesses who do not receive subsidies will copy the pattern, thus limiting outreach to those businesses involved directly in the program and providing them with a leg up in the market. In contrast, some programs are finding ways of building awareness and motivating large businesses to do business with SEs without direct subsidies and/or are gradually developing commercial markets for services that they may provide directly at the beginning of programs.⁶¹ The “Bottom of the Pyramid”⁶² movement illustrates how large corporations, on a global level, are recognizing the importance of doing business down market and are investing in this strategy without public subsidies.</p>

Table 3: Direct Value Chain Development vs. Developing Commercial Support Markets

Direct Value Chain Development Programs—Missed Opportunities for a More Systemic Approach	More Systemic Solutions in Similar Programs—Developing Commercial Support Markets
<p>Using International Consultants to Build Exporter Capacity: A donor has contracted a development organization to match international volunteer consultants with food processing firms seeking to improve their exporting capabilities. By improving processing and exporting services, the food processing value chain will be more competitive and benefits will accrue to smaller firms who supply inputs to the chain. However, the services go to a limited number of select firms and are not sustainable beyond the life of the project.</p>	<p>Using International Consultants to Build Exporter and Local Consultant Capacity: In similar projects in Guatemala and Vietnam, development agencies have identified potential consultants in the country who could provide similar services as the international expert. The international experts are partnering with the local consultants on the donor funded jobs, mentoring them, and building the confidence of target firms to use locally based consultants for full fee in the future.</p>
<p>Cutting Out Support Market Development Due to Scarce Resources: A development firm, under contract from an international donor, has designed a value chain development initiative targeting rural and poor areas. Using a participatory process, the firms selected several value chains with high market potential and significant involvement of poor producers. The plan is to increase value chain competitiveness and benefits to the poor in the value chain by strengthening linkages and the capacity of firms in the chain. The original design included a plan to strengthen support service markets by working with intermediaries, but this aspect of the project was canceled due to differing opinions about what is most cost-effective, pressure to produce results quickly, and lack of budget.</p>	<p>Focusing on Comprehensive Solutions in One Sector: Similar projects with restricted budgets are focusing on one sector and developing both the value chain and its support markets at the same time. Where possible, projects support intermediary, private sector service providers. Where these do not exist, and the pressure to produce results is high, projects are providing direct services to firms in the chain, while simultaneously creating businesses or associations to perform this function in the long run. In other words, they are building in sustainable exit strategies. This is more labor intensive, so these projects focus on one value chain only.</p>
<p>Subsidies to Large Firms to Engage with SEs: Two donor-funded projects, implemented by development contracting firms, subsidize large-scale businesses to strengthen their supply chain by incorporating small enterprise suppliers. One does this through matching grants in several target sectors. The other by issuing requests for proposals for specific types of activities in a target value chain and providing technical assistance during the project.</p>	<p>Market-Based Incentives for Large Firms to Engage SEs: Some other programs encouraging large firms to increase or improve their purchasing from SEs are not subsidizing the large firms. Rather, they work with an interested lead firm, providing technical assistance in working out a viable model of subcontracting. At the same time, they identify and develop markets for support services to SE suppliers and large firm buyers. They then document these practices and spread awareness about them to other large firms in the industry, often through existing or new associations that the project helps form. Other large firms then copy the original model, accessing assistance through consultants and/or associations that have been assisted by the project.</p>

from BDS reader 2005: From BDS to making markets work for the poor.