

# The BDS Seminar 2003

## Testing the Guiding Principles

Seminar Report

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

## Foreword

The shifting paradigm for Business Development Services (BDS) has required many people working in development to revisit their basic assumptions about the way in which they design, implement and evaluate their initiatives. Donor agencies have many important differences in culture, as compared with their 'target groups' of micro and small enterprises in developing countries; bridging these differences in creative and fruitful ways is no trivial challenge. This fourth BDS Seminar has been a gathering of 140 people interested to build on local initiative and enterprise, whilst respecting donor needs for predictability and scale.

The idea of building more deliberately on local initiative emerged from a series of BDS conferences under the auspices of the Committee of Donor Agencies for Small Enterprise Development (SED); one outcome was the publication of BDS Guiding Principles in 2001 for donor intervention in BDS markets. Perhaps as a result, donor funding for initiatives that aim to build BDS markets has been increasing very rapidly in the last few years. Experiences in how to develop BDS markets are accumulating in many countries at the same time, as for example there are now over 70 assessments of BDS markets world wide, most of what are already available on the website: <http://www.ilo.org/dyn/bds/>

Yet, how robust has the wording of the BDS Guiding Principles actually proved to be? Which elements in the document have stood the test of time, and which require more flexibility and nuance? What roles should governments take, and how does BDS relate to local economic development, associations, clusters and other SED themes? In particular, how can BDS alleviate poverty? These issues, and more, were addressed by 21 speakers during 5 Seminar days, sharing experiences from Africa, Asia and Latin America. Each day ended with small Discussion Groups per presented topic that gave the floor to individual concerns and more in-depth information.

This Seminar Report 2003 reflects the presentations, main findings and discussions of the Seminar and the Study Tour that followed. The Report goes along with the two Seminar Readers "The Primer" and "The Update", the speakers' presentations and accompanying background papers – all of which are available both on the website mentioned above (under 'Global documents') and on the dedicated Seminar website: <http://training.itcilo.it/bdsseminar/>. These documents together provide a comprehensive summary of the latest BDS thinking.

As Seminar directors, we would like to thank the very many people who contributed to the success of the 2003 Seminar. We sincerely encourage past participants and new readers to attend the 2004 Seminar to feed, continue and enhance BDS learning. For more information, please access the Seminar website or email us:

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## Abbreviations

BDS	Business Development Services
Blue Book	BDS Guiding Principles of the Committee of Donor Agencies for SED
GTZ	German Agency for Technical Co-operation
IFC	International Finance Corporation
IFP/SEED	ILO's InFocus Programme on Boosting Employment through Small Enterprise Development
ILO	International Labour Office
ITC-ILO	International Labour Office International Training Centre
MA	Market Assessment
ME	Micro Enterprises
MFI	Micro Finance Institution
PDF	Project Development Facility (IFC)
SBA	Small Business Associations
SDC	Swiss Development Cooperation
SE	Small Enterprises
SEED	As for IFP/SEED
SME	Small and Medium Enterprises
USAID	US Agency for International Development
WB	World Bank
WBG	World Bank Group
WE	Women Entrepreneurs

## Report Guide

The 4<sup>th</sup> BDS Seminar 2003 followed up on last year's Seminar. In 2002, the main discussion still much concerned the conceptualisation of the BDS market development approach. This year's Seminar has taken the debate a step further and discussed the implementation of the approach.

The Seminar report has three parts. The first part briefly mentions the subject of the presentations in chronological order of the week. Subject presentations are underlined followed by the corresponding section numbers so that readers can easily skip to the part of most interest. The second part presents the summaries of the presentations and lists the main points that came out of the daily Discussion Groups with a ♦. The third part is a summary of the optional Study Tour that took place after the Seminar. Throughout the report participant's remarks are found in the following format:

“It's my second time in Turin and I am full of expectations. Last years' was a real eye opener to me and changed the way I go about my daily work”

# **PART 1**

## **The Programme**

## Monday

Mr. Lenglet, the director of the International Training Centre of the ILO, ILO/ITC, welcomed all participants on the first day and placed the Seminar in the wider context of decent work, the core concern of the ILO. Peter Tomlinson explained the objectives, organization and rules of the Seminar, and being the hosting organisation, he also presented the objectives and activities of the ILO/ITC<sup>1</sup>. Jim Tanburn then introduced participants to the general BDS discussion by giving an overview of the BDS 'industry' (1) and elaborated on the discussions that were to come during the week. Peter Tomlinson pinpointed the emerging questions (2). After the break, Alexandra Overy Miehlabradt explained the Seminar Readers (3) and continued with a specific presentation about researching BDS market and market assessments (4). She also announced the new BDS website at [www.ilo.org/dyn/bds](http://www.ilo.org/dyn/bds). The last two discussions of that day were on the roles of specific actors in BDS markets like the government (5) and small business organisations (6) by respectively Joachim Prey and Kees van der Ree .

“I am new to the subject and already feel that I’ll be challenged to verify whether these principles and approaches are applied in my own organization.”

## Tuesday

The second day began with the feedback on the discussion groups of the previous day by Susanne Bauer. ‘Information as a BDS’ was the central issue of that morning and dealt with supply-side bottlenecks. Shivani Manaktala from India shared her experience of disseminating market information (7) to small rural farmers by downscaling information services that aimed at large-scale farmers. Then, Owen Kibenge from Uganda explained that commercial mass media (8) was a BDS itself, but at the same time could raise awareness about BDS, and contribute to market development. The second session focused on the demand side of the BDS market. Lara Goldmark gave examples of voucher programmes in Latin America and elaborated on the usage and performance of vouchers for market development (9). William Steel went into more detail on the potential for market development versus distortion of voucher programmes (10) and presented a case study from Kenya. After lunch, participants could hear about BDS market development in weak markets. Eugene Ryazanov shared his experience of weak BDS markets in Kyrgyzstan (11). Jim Tomecko explained how they developed markets for cross-cutting services in Nepal (12).

“I was here previous years and it seems that we have passed the theoretical phase of what BDS actually is. We have moved on to the more practical part. I feel that we are really dealing with the implementation of how to develop weak markets”.

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<sup>1</sup> For more information on the ILO International Training Centre, see [www.itcilo.it](http://www.itcilo.it)

## Wednesday

The third day began with the feedback on the discussion groups of the previous day by Susanne Bauer. The first session was about transformation processes. Monica Velasco from Bolivia talked about the shift in IDEPRO from cross-sector to sub-sector (13) service provision. Irene Novotny shared the experience from the Austrian Development Cooperation in East Africa in transforming traditional BDS-delivering organisations into facilitators (14). The second session had two presentations about increasing access to new markets within certain sub-sectors, emphasising the role of BDS in that. Mr. Shauket shared the experience of JOBS in Bangladesh, supporting SME clusters by linking with buyers in export markets (15). Antonio Coello explained how Fintrac Honduras worked; Fintrac provided BDS to rural SMEs (16) that linked them up to new markets, increasing their profits and so enabling them to access commercial BDS. The third session was about programme design to impact BDS markets. Kris Hallberg from the World Bank elaborated on impact measurement (17) and how performance measurement should be integrated into the very first stages of programme design. Mr. Matsuert from DFID presented the design process of an ambitious multi-donor BDS project that was just taking off in Bangladesh, designed according to the BDS Guiding Principles (18).

“Although transforming old-model organisations to the new approach is the nicest way, it seems wrong as you are perpetuating the old paradigm.”

## Thursday

The fourth day began again with the feedback on the discussion groups of the previous day. On Thursday morning a somewhat relative perspective was presented. Leila Webster gave an idea of the significance of BDS within the World Bank Group (19). Merten Sievers launched a discussion on potential synergies between BDS and financial services (20). The second session covered gender issues. Ulrike Gminder talked about the CD-rom toolkit for gender-oriented entrepreneurship promotion (21) in different project phases, recently developed for Swiss Development Cooperation (SDC). Gerry Finnegan explained the activities of the Women Entrepreneurship Development and Gender Equality (22) team within ILO's SEED programme. The last session presented a panel on commercial BDS market development and poverty alleviation (23) that was followed by a plenary discussion.

“Obviously, there are different interpretations of the Blue Book. I noticed the difficulty in putting into practice what we preach.”

## Friday

The last Seminar day set off with the feedback on the discussion groups. Then Leila Webster as co-chair of the Committee of Donor Agencies for SED, and Jim Tanburn and Kris Hallberg as two of the Principal Authors of the BDS Guiding Principles, briefly explained the history of the Donor Committee and the 'Blue Book', and opened the floor for comments on the Blue Book (24). Then, Katherine McKee gave a personal overview of the Seminar (25), sharing her perspectives on the issues that had surfaced during the week. In the final session Jim Tanburn encouraged people to keep sending information in for the new BDS Website, and talked about some forthcoming BDS events. Peter Tomlinson also made some closing remarks, with acknowledgements to all the support staff.

## **PART 2**

### **The Discussions**

## **1. An overview of the BDS industry**

1. Jim Tanburn, one of the Seminar's Directors, and a Senior Specialist within the SEED programme of the ILO, began the BDS discussion by presenting an overview of the 'industry'.
2. He gave a quick idea of the heterogeneous composition of the participants, representing a mix of practitioners, governments and donor agencies from all over the world, with very different levels of experience in BDS. Then the track record of the annual BDS Seminars was explained. It goes back to 1997 when the Donor Committee began to define the guiding principles for donor intervention in BDS markets. A series of conferences and meetings followed and eventually led to the Blue Book in 2001 that is now available in 6 languages. The BDS discussion has always been participative and the Seminar aims to facilitate further exchange and learning. It seemed that BDS is still a growing field with an increasing number of events like those organised by the Springfield centre and SEEP, and more resources are allocated as projects are getting larger.
3. Jim Tanburn elaborated the new approach as laid out in the Blue Book versus the traditional approach. In the traditional approach donors directly provide services to a limited group of enterprises, using subsidised delivery to try to achieve quick results at enterprise level. But when it was realised that the private sector already provides many services, even to the smallest enterprises, in a less visible but more sustainable manner, a new approach emerged. A key principle is that donors no longer provide the service, but facilitate: enhance the functioning of what is already there in the BDS markets. Donors should make BDS available to small enterprises and reduce the price through competition rather than through subsidy. Small enterprises can not afford BDS because of imperfect markets, not necessarily because of poverty. Donors should facilitate BDS market development. The implications of the new approach are that donors need to coordinate, have less control over the outcomes, and are less visible. Having the donor profile at the grassroots can impede impact because of high expectations on the part of the entrepreneur about receiving handouts.
4. The situation today was portrayed by an increasing interest combined with engagement, and even 'healthy revolt', towards the BDS Guiding Principles. There is remarkable progress in adapting the new principles despite clear trade-offs. The market development approach to a certain extent implies a choice: the traditional approach is directed at short term results while the new approach bets on long term results by carefully building sustainable systems. Other issues are the great need for training on the BDS principles and practices, and the lack of reliable tools and frameworks, which is not very surprising as the approach is the opposite of a template approach.
5. Jim Tanburn prepared the participants for what could be expected that week. A session would deal with the use of vouchers for market development that in a way is controversial, since vouchers subsidise the direct transaction between provider and demander, and some consider this to be 'bad practice' according to the Blue Book. Questions about the transition to the new approach would be addressed: what to do with providers that were set up with a different logic, how

to manage transition? Some presentations were expected that showed the practice of implementing the approach. Then the area of BDS market assessments was to be elaborated and a new website would be launched. An emerging framework was shown to the participants. Briefly introducing the matrix that could help to grapple with the complexity and choose the most appropriate intervention strategy as different markets required different interventions. It showed that it not always is an either-or choice. If there really is no market, it might be most appropriate to launch a service temporarily as part of the facilitating function (as the 'Blue Book' suggests). Examples of BDS markets in Indonesian and Thailand showed how much variation there can be between different BDS markets.

6. Then, referring to the poverty debate, it was mentioned that small enterprise development has often been given only a marginal role in Poverty Reduction Strategy Papers. The poverty discussion often seems to become polarised, and effort is needed to bridge that gap by being clear about what is done and why. There is a need to go beyond the 'poor-cannot-pay' argument in order to overcome exclusion and involve the poor in the mainstream private sector and national economy. Other presentations would go into alternative payment mechanisms not requiring upfront payment. For example embedded services may be provided by traders, who provide services without fees, as part of a win-win situation. Also, services that are sponsored by commercial companies present another possible payment format.
7. Impact assessments were to be an important issue of the week. To measure BDS impact is problematic because of the heterogeneity of the field and the many cause-effect steps between BDS and desired outcomes, such as an increase in employment. Other key issues were to be information as a business service, touching upon the issue of sustainability. The trade-off between short and long term results and how to mesh priorities of donors with sustainability on the ground would get attention during the week. The sharing of information throughout the development of the BDS field has been very open and though it might be difficult, participants were encouraged to share information, thereby thinking about long-term results. Gender was to be another discussion of the week, as was the potential role of governments in BDS markets.
8. The presentation ended by stressing that BDS was much in fashion; one aspect which is now being rehabilitated is the potential synergies between micro finance and BDS, another discussion for later that week. The final thought concerned the need to safeguard follow-up and continued learning.
  - ◆ Facilitation versus provision of services: it is acknowledged that facilitation is needed to 'make things happen' - that all have different roles to play,
  - ◆ How to measure impact and what success criteria to define?
  - ◆ There is consensus on the understanding of the Guiding Principles - but the challenge remains on how to build a convincing case towards the vision of moving towards market development

## 2. Emerging Questions

9. Mr. Tomlinson, the other Seminar Director and head of the enterprise development department of the International Training Centre of the ILO, pinpointed the emerging questions. The Seminar title, “Testing the Guiding Principles”, indicated that it was time to look back and critically assess whether the field was going in the right direction. The major questions that were to be addressed were:

- How to integrate social and environmental objectives within the commercially sustainable BDS approach?
- How to take the results from market assessments into BDS product design?
- How to make services affordable for smaller enterprises? How to enhance BDS provision as part of business relations like embedded services and B2B services?
- How to stimulate demand? How to make entrepreneurs pay for services?
- How to transform actors in the old-style programmes into new programmes? How to convert BDS providers into facilitators?
- How to get start-ups linked up with BDS, if one can hardly speak of an enterprise?
- How to use sub-sector analysis to carve out BDS niches? How to go about sub-sector analysis as provider and how as facilitator?

10. Peter Tomlinson indicated positive trends in the debate of BDS market development. Awareness about the BDS market development paradigm is still on the increase. The number of market assessments is growing vastly. The division between provider and facilitator is not only theoretical but is noticeable at field level: facilitators are inclined to work with several competing providers instead of only one, and providers are more market aware and responsive. Also, there are innovative developments in delivery strategies. However, there remain numerous challenges and the search for replicable models lingers on. The Seminar would debate the strengths and weaknesses of the Guiding Principles, how BDS market development fits into other programmes and how it relates to poverty alleviation.

“I am new to the subject and already feel that I will be challenged even more in the course of this week. I am constantly relating my home country reality to the approach as preached here.”

## 3. The Seminar Reader and BDS Website

11. Ms. Miehlsbradt presented the Seminar Reader with an emphasis on examples that would not be presented in the coming week. For the first time the Reader consists two parts, the BDS Primer and the BDS Update. The BDS primer is meant for those who are new or uncomfortable with the field. It presents the basic approach and concepts. The Update is a synthesis of trends and

information from the preceding year, and is full of examples from all over the world. It is about:

- Market assessments and program design
- Viable business models that deliver BDS to poor entrepreneurs
- New technologies in BDS
- Innovations in interventions and the emerging framework
- Managing BDS market development and the roles of different actors
- Performance assessment and measuring impact
- BDS team-ups with other areas of development like gender and agricultural development.

12. The Update ends with 10 big debates: what are the resolutions and what are the remaining challenges? The presentation elaborated on four of those issues, including viable business models for poor entrepreneurs, new types of BDS, and managing BDS market development. There are 88 examples of BDS interventions in the Update Reader and a few were presented. An example from Mercy Corps in Azerbaijan that facilitated between livestock farmers and veterinarians was about viable business models and showed that commercial BDS could reach micro enterprises. Another area is the usage of new types of BDS, for example using the power of information to develop BDS markets. Swisscontact in Peru developed a BDS magazine, hence directly facilitating the information flow between BDS demanding and BDS providing enterprises. ITDG in Kenya had developed so-called Business Tips, sector-specific information that was provided over the Internet and aimed at intermediaries that could download and commercialise the information to small enterprises. Another example was from a commercial BDS provider in Nepal that up-graded service providers in the small enterprise market by selling them skills and information from service providers in the large enterprise market and so actually made money with facilitation. The following three dilemmas were according to Ms. Mielhbradt at the centre of the debate and she briefly mentioned the pros and cons:

- Which is the best way to achieve scale and impact with BDS interventions: a specific sub-sector approach, or a cross-sector approach directed at mass-markets? Both had their strengths, and they could be both used at the same time, as for example with the Katalyst project in Bangladesh.
- Which service markets should be promoted, those that are demanded or those that have an impact? Some claim enterprises know best, while others say enterprises cannot be aware of all the possibilities. Both arguments are important, but which should be the leading factor?
- What to do with the old-approach programmes: abandon them or transform them into the new market development approach?

13. Then the inter-agency BDS information sharing website was launched: [www.ilo.org/dyn/bds](http://www.ilo.org/dyn/bds). This new website is making available the great wealth of information, facilitating BDS learning in order to push the field further. A 'live' tour on the website gave the participants a good idea of the wealth of information. The site is organised around the typical project phases: (1) market assessments, (2) project design, (3) implementation, (4) impact assessment, and (5) final documentation. Each phase has its own homepage and one can search on

subject, country or region, implementing agency or specific project. There are currently 35 projects from 24 countries, some of which can already be followed throughout their cycle. Some tools, such as questionnaires, are posted in formats which allow them to be downloaded and tailored to local circumstances. Furthermore, one can find BDS-related information like the Seminar Readers under the icon Global documents, information on the Donor Committee and their publications under that icon, and other links to for example the ILO's work on BDS, and the BDS Seminar site (although many Seminar documents are also posted under Global Documents on the same site, too). At time of the presentation, the site had over 60 entries, mostly in market assessments, and 150 documents, but there was still much information waiting to be posted and hopefully much yet to come. Multilanguage homepages and discussion platforms are other issues that are still under development.

"I found the first sessions extremely clarifying and provided the context that I was looking for."

#### **4. Researching BDS Markets**

14. Aly Mielhbradt discussed market assessments for BDS programme design. Her presentation focused on the value of a market assessment, on the tools available, on how it can serve program design and on the latest trends and innovations. A Market Assessment, MA, gives information on three questions that help to choose a specific market: (1) what services are demanded by enterprises, (2) what will help improvement at enterprise level, and (3) considering the intervening organization, in which market most impact is expected? Market Assessments help to understand markets, pinpointing problems and indicating how severe these are. Some typical supply and demand constraints were briefly discussed. Based on the assessment designers should prioritise and choose an intervention. Concerning MA tools, direct BDS consumers and suppliers are key references, although there are several other sources. Then nine tools were highlighted in three columns. The first three assist in choosing an appropriate service market, another set of three help to determine the market development strategy and three can facilitate both decisions. Each tool was briefly explained. Which of those nine assessment tool is most appropriate depends on the characteristics of the program, the BDS market and the assessing organisation.
15. A case study of a market assessment in Vietnam then demonstrated how market information can be used for program design. They used five different assessment tools to depict the urban BDS market and drew several conclusions for program design. More than 90% of enterprises with less than 10 employees had used BDS at least once. Apparently, there was a substantial discrepancy between the actual BDS consumption of enterprises and the traditional donor focus, which has been on training and advice in technical and management areas. Entrepreneurs expected several benefits from BDS, amongst which were decreased production costs, increased efficiency, increased ability to compete and updated business information. A difficult matter is with whom one should work. A MA could provide valuable tools here as in the case of Vietnam it was shown that some services were dominated by governmental bodies while others

were mainly delivered through private suppliers. If the identified services are placed into a grid, with supply and demand respectively vertical and horizontal with different strengths, interventions can be planned. Market development interventions can for example focus on those services that have a strong demand but a weak supply. From the MA it was concluded that SMEs in urban Vietnam want to have better control over the enterprise; high potential services for market expansion were business information, IT related services, and market-related services. The MA hence resulted in a profile of BDS markets in which strengths and weaknesses are clearly pinpointed, leading to the choice of certain interventions to overcome these.

16. The presentation concluded with innovations and trends. Markets in developing countries are often weak and hidden, which complicates assessment and requires creative MA with qualitative tools. They should also cover business relationships, to get a hold on embedded services. This was illustrated with a case from India in which checklists enabled interviewers to probe for embedded services and showed how it could lead to concrete implications for project design. A second emerging area concerns the predictability of the impact of an intervention. Some tools were to test the concept of a product, and to explore the willingness to pay. The Triple Trust Organization in South Africa illustrated how Focus Group Discussions could test and develop new business models for service delivery. How to predict impact of market intervention is an area that is really being pushed forward. A recent trend was the combination of the sub-sector approach with BDS market assessments to ensure that SMEs can access market opportunities. World Education in South Africa showed that with a sub-sector approach, one can look for well defined win-win linkages and start facilitating that particular niche market. The presentation concluded by listing the three key trends in MA: (1) more effort is taken to understand informal BDS markets, (2) there are stronger links between MA and interventions, and (3) the integration of MA into program implementation. The essential ambition of MA is to understand markets, not to document them, and enable one to creatively respond to market opportunities.

- ◆ Market assessments constitute awareness-raising tools in themselves
- ◆ There is a richness of experience on broader assessments available now, but more qualitative in-depth research is needed (and partly done) on 'how to improve services'
- ◆ Questions emerge on how to use market assessment results for program design and operations
- ◆ Performance measurement is important to establish credibility for services

## **5. Roles of Government in Market Development**

17. Joachim Prey from GTZ talked about the role of national governments in BDS market development. He spoke about BDS in the wider perspective of SME development, about the Guiding Principles and the role of governments in those, the service sector in general, and the reality of government roles in BDS markets. BDS was conceptualised as one part of the larger field of SME development and stood together with financial services, infrastructure and the legal and regulatory environment. According to Mr. Prey, BDS markets have

two components, operational business services and strategic business services. The market for operational services can be proposed as a private domain, in which governments have little role to play. However, strategic service markets are both private as well as a public concern. The delivery should be a private transaction but governments have to intervene so existing markets expand and reach down to SE. According to the Guiding Principles, governments should provide a general SE-friendly environment with basic infrastructure and promote vibrant BDS markets: provide the enabling environment, streamline institutions, coordinate services and provide information, fund BDS projects and concentrate on facilitating functions. BDS market development is not a goal in itself, for example for donor agencies it should lead to increased employment. Joachim Prey mentioned several areas that needed more attention:

- BDS on its own is not enough but needs to be integrated into SE development policies. Therefore, often-weak analytical capacities of governments should improve, market principles should be integrated more thoroughly in governments and guidelines for governments were needed.
  - The enabling legal and regulatory environment for BDS needed improvement. The legal environment for service contracts was often weak, impeding market transactions; more equalitarian markets were needed with fair competition and quality standards.
  - Government institutions needed streamlining and re-engineering. Institutions do often not align themselves with market development principles, they need reform and dialogue with private service providers.
  - There should be a provision of information and coordination of services. In practice, little coordination takes place between agencies, and there is little information provided coherently to small enterprises.
  - Governments should provide funds to facilitate BDS market development. Total dependence on donor money should be avoided and it is desirable that governments implement a market development strategy too.
18. Governments tend to assume the role of both provider and facilitator, and often have scattered activities. There is a positive trend towards a more enabling legal and administrative environment. Joachim Prey pinpointed some arguments that are often used to justify the direct delivery of BDS. For example, governments are obliged by law, provision offers political visibility that is required by leaders, private sector is not delivering, enterprises cannot pay and governments have the infrastructure to deliver services affordably, and strategic services are needed to improve the national competitiveness.
19. Finally it was stressed that BDS providers are also small enterprises themselves. This service sector is key to competitiveness, but often not perceived as a small enterprise sector, what limits the development of an adequate service sector since they require specific rules and regulation. The discussion of an enabling environment is just as valid for BDS providers. There is still a lot of work to be done to get it conceptually clear how to develop BDS markets.
- ◆ Consensus that there are only a few positive examples of SED-conducive government policies around, so good-practice case studies are needed here, as well as concrete examples on how Governments can give room to private sector initiatives

- ◆ Government interventions are needed, on the other side, to support large-scale interventions

## **6. Roles of Associations in Market Development**

20. Kees van der Ree from the ILO introduced the function of Small Business Associations (SBA) by presenting three case studies. Although associations are best known for their lobby role, associations do have a large potential in BDS market development, both as service providers as well as facilitators. Associations can have an important role in weak BDS markets that need to be developed from scratch, addressing the underperformance of governmental institutions. Also in transitional markets, where there are BDS markets that do not function very well, associations can play a complementary role. The challenge for donors is to facilitate the reform from rent-seeking associations towards value-adding activities within BDS markets.
21. Two examples from Ghana and one from India showed the diversity of association models: differences were emphasised not only in membership structure, but also in the structure of revenue sources and in the different mixes of service provision. One offered professional services for pineapple exporting enterprises in Ghana, and got a large share of its income from the services it sold. Another Ghanaian example was a smaller association of small barbershops that was strong on advocacy and services linked to regulations. The third example from India was an old chamber of commerce whose members included a diverse mix of small, medium and large multi-sector enterprises; the chamber was strong on certification and export information services.
22. The lessons that could be learned from these cases were: (1) if an association wants to be sustainable, it is advisable to develop one or two operational services, be good at those and attract membership to pay for it. Those services that address market constraints are most promising. Direct service delivery clearly has a positive effect on the quality of the professional management and technical structures for service delivery, while facilitating services have less impact; (2) Donor support in the initial stages of an association's launch is often helpful, to promote democratic representation and accountability. Donors can assist in the choice between provision and facilitation (i.e. whether a certain service should be provided by the association or out-sourced). However, donors should not continue their support too long, standing back when the association can stand on its own. (3) Another lesson concerns the relationship between BDS and representative services. Associations have a political role in policy-making; as part of recent decentralisation processes, member enterprises are demanding more of their associations, in terms of representation. Globalisation is another process that ascribes new roles to associations. Associations make small enterprise visible and provide easier means to establish partnerships with global market agents. In transition countries, associations can have a market-supporting role since the private sector is not yet there and there is no rights-based approach. Associations can help to establish more conducive legal and regulatory frameworks, including for example arbitrational services.
23. In the discussion, it was noted that advocacy alone is not a profitable business, hence direct service provision can improve the sustainability of the association.

Partnerships between associations and governments were important too. The self-regulatory role of associations should ideally be in coordination with government agencies. Associations know well the needs of their member enterprises and can complement government regulation. Lastly, it was mentioned that associations might have an important potential role in Market Assessments. Associations can assist in BDS product development and testing. They know the enterprises but also have a larger picture of the BDS market. A potential difficulty would be that associations are too involved and have too much to gain to let successful products go freely out in the market.

- ◆ Should SBAs go into BDS delivery? Market distortion issue?
- ◆ Various sources of revenues available to SBAs - BDS only one possible area (examples: membership fees; delegated functions; tax collection)
- ◆ Globalisation trends are an area of concern and a necessity for business networking
- ◆ Sustainability of SBA undermined by donor interventions if funding continues too long

## **7. Market Information as BDS**

24. Shivani Manaktala presented the experience from International Development Enterprises India (IDEI), which has been involved in BDS-like activities since their launch in 1991. Their mission statement clearly reflects a facilitating role: “To improve [...] conditions [...] by identifying, developing and marketing affordable appropriate and environmentally sustainable solutions through market forces”. In 2001 they started with a specific BDS component for the rural poor. IDEI perceives poor people as their customers, they believe that the poor can pay as long as products are rightly priced and give short-term returns to investment. The approach taken is that IDEI identifies, or designs, affordable and environmentally sustainable technologies that have an impact on alleviating poverty and provide full returns on investments. They work with a variety of private partners like manufacturers, dealers, village level mechanics and output market traders, and have 450,000 MSE customers. The example that was elaborated was about service provision to the horticulture sector, addressing three key problem areas: irrigation systems, supply of information and supply of quality inputs. IDEI searched for private service providers that could address these problems. They found drip irrigation dealers, agri-input dealers, nursery growers and information and agri-service providers, of which this last one was most problematic because there were few.
25. They finally came to IASL, Indian Agribusiness Systems Pvt. Ltd., that since 2000 was addressing the information gap to farmers. IASL had started a variety of information products under the brand name of AGRIWATCH. They had developed weekly publications, the “Farm Weekly” and “Trade Weekly”, a trade report in the form of email messages on specific commodities, a monthly magazine, a mobile information service that provides commodity-specific information through mobile phones, and an internet portal. The services of IASL were profitable after two years, though their main revenue came from consultancies. IASL clients are predominantly larger farmers and traders. Smaller farmers were hesitant to pay for information and base their decisions on

it. Hence, the questions for IDEI were how to reach smaller farmers with the IASL services, how to make small farmers pay for them, how to make it more accurately available and how to measure impact?

26. IDEI decided to put up an ICT-based service centre for small farmers, owned by a local entrepreneur with access to IASL information. To attract farmers they developed several services around the internet-based information like a phone-link to agricultural experts that can be consulted for individual problems by the visiting farmers. It was difficult to charge only membership fees in order to cover costs, and all services are priced. With approximately 500 farmers a service centre can become profitable. According to an impact measurement, they have reached 10.000 SMEs in 18 months, improving their incomes by USD 285 per SME.

## **8. Roles of Mass Media in BDS Markets**

27. Owen Kibenge from the ILO explained the development of commercial radio programmes for small enterprises in Uganda. He began by setting out the main constraints in Ugandan BDS markets on both supply- and demand-side like the cost, quality and awareness issues. Apart from the voucher programmes, social marketing and other subsidised services, commercial mass media was another means to address BDS market imperfections. Mass media is a very powerful marketing tool for BDS that reaches into remote areas and to diverse customer segments. BDS can be linked to mass media in various forms. Examples given were for-fee spot advertisements from BDS providers, BDS providers that were used as trainers and resource people on-air, arbitration between SME clients and BDS providers, and mass-mobilisation of small enterprises. However, the mass media needs to be liberalised, and small enterprises recognised as a separate and commercially-viable target group. In many countries this is not the case, and interventions were needed at the policy level, before BDS could be channelled effectively through mass media.
28. ILO FIT-SEMA, Small Enterprise Media in Africa, began with a pilot radio programme in 1999. Since then, 5 commercial radio programmes in Uganda and 4 in Ghana have been persuaded to embark on programmes aimed at the SME market, and there is still a lot of work to be done. It stood out that the programmes are fully commercial and never received any ILO funding, only technical support. It was explained that the use of radio in Africa exploits the geographic and demographic capacity, builds on current developments in the broadcasting industry as it is fairly new, increasing the competitiveness, it shows great potential for sustainability and allies with the aural tradition. Radio, as it was said, is actually the only mass media in Africa.
29. Then, the commercial relations between the broadcaster, the advertisers and the listeners were set out. What counts for the listener is the content of the programme, what counts for the sponsor is the number of listeners, not content nor quality of the programme, and what counts for the broadcaster is the money he or she gets from the sponsors. Hence, the profile and number of listeners are crucial. Small enterprises are indeed many, they are business consumers for production inputs and domestic consumers for personal consumption, and in

addition have an important role in the distribution and retailing of wholesale products. Small enterprises need BDS and many have access to radio. A radio programme for small enterprises hence is an opportunity for broadcasters.

30. The FIT approach has been one of facilitating adoption through conviction. They began by persuading one radio station of the feasibility of small enterprises as a listener group. Once the first programme was on air and proved to be successful, the idea was replicated to other stations. Competition was promoted by disseminating training manuals and lessons learned. It was explained that the programme format was a magazine style that covers advocacy, information and business tips and advice. Owen Kibenge then presented four conclusions: (1) mass media is an important business service provider for information, advice and advocacy, (2) mass media is an important tool for BDS providers to reach small enterprises, (3) it is commercially viable for media companies in developing countries with many small enterprises to focus on small enterprises as a specific audience group; “narrow-casting” to small enterprises attracts sponsors, and (4) BDS market development programmes should not buy airtime as it distorts markets; instead, they should work towards sustainable media targeted at small enterprises. A Working Paper and a Manual on establishing radio programmes are available on various Websites. During subsequent discussions, the following points emerged:
- ◆ Different models for information as a commodity: 1. pay for service - low demand/bias to larger, richer small enterprises + traders; 2. advertisers pay - good potential for unbiased info where advertiser is not linked to the message; 3. - embedded service: commodity buyer or input supplier pays as it is in their interest. Many examples exist of market information passing through the commodity chain.
  - ◆ Risk of manipulation of info when passing through private sector channels. Multiplicity of channels and ownership structure (competition) to reduce these risks.

## **9. Vouchers for Market Development**

31. Lara Goldmark from DAI shared her experience with voucher systems in Latin America. She commented on the usage of vouchers, results and risks involved, performance and sustainability of programmes, and shared some surprising conclusions. The usage of vouchers stems from times of depression in which the economy needed to be kicked-started and were basically used as a wealth transfer tool. Today, vouchers are used for BDS market development, which is rather different. She then named the most important results and risks that were involved. Amongst the results it was mentioned that access is broader, reaching people who never used training before, particularly in low-income populations. Also, the supply expanded, new products were developed and information flows improved. In short, markets do change. Programmes are however prone to market distortion, fraud and political manipulation. External control by an independent agent could reduce the risk of fraud and above all, an exit strategy is important; it should be defined before hand and propagated clearly.
32. Then several illustrative examples mainly from Latin America were presented. It gave an idea of how goals changed over time. For example, some voucher

programmes had as initial objective to improve the competitiveness of the SME sector but later refocused towards development of the training market. It was shown that there was a consistent down-market trend, that is to say, while the focus was on medium or small enterprises, the vouchers were actually used by smaller entities. A variety of indicators showed the different stages and performances of the examples; the number of vouchers used, for example, indicated the maturity of the programme as low percentages were typical for starting programmes. Another set of indicators conveyed information on the sustainability. For example, a mix of voucher users and non-voucher users in a course indicated an interest beyond the programme.

33. Then, four surprising conclusions were drawn: (1) voucher programmes are not only about vouchers but just as important, are a way to get information out and increase the discourse, (2) vouchers appeared to be wanted by start-ups and smaller sections of enterprises. It seems an effective tool to reach those lower income enterprises. (3) smaller voucher programmes perform better and it seems that vouchers above all, are an appropriate tool for focused market interventions, (4) there is a horizontal link with formal education and voucher programmes, to give more training options to SMEs. Vouchers proved to be an effective tool to offer education and training to those outside the formal system.

“The exit strategy discussion got me wondering. I used to think that vouchers were very market disturbing. But indeed, if it is clearly conveyed to voucher users that they are temporary, perhaps it might even be an effective tool for market development as part of a larger programme.”

“I agree with the discussion we had in the room, that training (the focus in many voucher programmes) is not the ultimate input for growth.”

## 10. Vouchers: Subsidy or Distortion?

34. William Steel from the World Bank spoke about the internal contradictions apparent in the Blue Book. His presentation, “Demand Side Intervention for BDS: Market Development or Distortion?” tried to pin down the difficulties in developing markets by giving the Kenyan voucher programme example. According to the Guiding Principles, in weak BDS markets one should provide demand-side incentives, like vouchers. But also, the Guiding Principles warn that subsidies on the transaction (like vouchers) are likely to be distortionary. Subsidies change the price, hence give false signals to the market, although when there is no market, there are few transactions to distort. According to Mr. Steel, subsidies are justified when market development benefits outweigh the distortionary effect. Of course, that is very difficult to measure but it implies that one may subsidise in cases of no market, but keep the subsidy as low as possible, clearly phase the subsidy out and limit the number of vouchers per person. In other words, have an exit strategy.

35. When markets are not working, there are no products that small enterprises need and there is no experience on either side. It implies that the risk is high for both demanding and supplying agents, which makes them reluctant to embark on a BDS transaction. Suppliers are reluctant as small enterprises may take the training without paying, but demanders are reluctant too, as they do not know the benefits and for example, trained workers may leave after being trained, since human resources are mobile. Besides a lack of information and experience, and high levels of risk, the paying capacity is often impeding markets from developing. Essentially, that is a financing problem and vouchers can offset financial market imperfections.
36. William Steel presented a scheme in which vouchers were distributed directly to small enterprise clients and in which BDS providers were upgraded, hence decreasing the risk of the transaction to the small enterprise. Voucher schemes always had a significant information component as assessments have to be done and BDS directories need to be made. Once BDS providers know about a voucher programme and know that there is money in the small enterprise training market, risk reduces and BDS providers will be more willing to come in to the market.
37. The immediate impact of a voucher programme on the client is relatively easy to measure. Nevertheless, the essential change aimed at is about long term shifts in BDS markets, after the subsidies have been removed. Since it is public money, the flow of future transactions should be changed in a permanent way. Proxies for changed behaviour are for example the increased willingness to pay or willingness to stay in the market. Shifts in demand and supply depend on the reactivity of those and it was argued that the elasticity of supply and demand responses determine the effectiveness of subsidies.
38. The voucher programme in Kenya confirmed that mainly micro enterprises were using the vouchers, as was also highlighted in the previous presentation. Some data were presented, for example that they trained almost 35,000 small enterprises, of which 60% were women. Once the voucher platform was in place, it was able to respond to other problems, and for example assisted in the set up of a credit cooperative, providing training to the associates on the management of credit schemes. The programme was unlike typical World Bank programmes, dominantly channelled through the private sector. Voucher schemes could call attention, for example to governmental training institutes that saw that classroom training were not the type of training that small enterprises were looking for. The vouchers were handed out by business consulting firms, NGOs and Associations, of which the latter benefited substantially as they had a new service to offer to their members. The project was coordinated within the line Ministry, which had been problematic because of delays in printing and issuing the vouchers.
39. After approximately one to one and a half-year, eighty percent of the SME reported business growth, against thirteen percent of a control group that consisted of non-voucher users. Two-thirds mentioned a growth in business assets, and almost eighty percent of the trainer providers raised employment, significantly higher than in the control group. About two thirds of the voucher users that had no enterprise, had started one. However, these changes at firm level do not justify public money, whereas long-term shifts in markets do. Forty percent said that they continued to buy BDS after the programme. One segment

that seemed sustainable was technical computer training organisations which, during quiet periods such as around Christmas-time, had staff and equipment under-utilised. They could offer the course, originally directed at larger enterprises, to small enterprises at a 90% discount. Three quarters of BDS suppliers said they had noticed an increase in demand and most had reinvested the money in the new small enterprise market. The majority of vouchers had gone to master craft workers, giving the trainings, which had made the existing informal apprenticeship system more focused and effective, and so transformed the traditional apprenticeship market. Overall, new entries had come in, new products were developed and the voucher programme had changed the market in the long term. There had been a minimal distortional effect in those cases where there had previously been no market at all, although the subsidy rate of 90% had been too high. During subsequent discussions, the following points arose:

“The issues that come to the surface on subsidy versus long-term market changes, are very interesting and challenging ”

- ◆ How to design technical programmes - operational issues and competing priorities (donors, providers, clients)?
- ◆ Risk of distortion and need for control mechanisms (filter: screening demand/supply/ eligible products; delivery: 75% attendance; feedback: evaluation)
- ◆ Concerns: impact assessment and cost-related issues (administration costs)
- ◆ Consideration of market situation of demand: assessment of appropriate situation to reach low-income MSEs; larger geographic areas; verification of the 'right' products needed (standardized, verifiable; additionality)

## **11. BDS market development in Kyrgyzstan**

40. Eugene Ryazanov from Helvetas shared his experience in BDS market development in Kyrgyzstan, a former soviet country. He began by presenting the characteristics of Kyrgyzstan; he gave a profile of the BDS market, explained the approach taken by Helvetas and mentioned the lessons learned and road ahead. Kyrgyzstan is small with a population of 5 million, mainly located in rural areas and has a decreasing GNP per capita. It was explained that the SME sector was urban based and is relatively small: there are 1,6 SMEs per 1000 people. SMEs are going through difficult times. There is little national purchasing power, imports exceed exports, it is difficult to access finance and there is an over-supply of donor projects directed at SMEs. On the positive side, there is a high level of skills, an adapting young generation, and a high potential for local service providers. Because of the donor presence, resources are available. A comprehensive MA has been done; it found that BDS provision by donors mainly relates to management and marketing. However, private providers dominate the BDS market. The BDS sector is small in volume, equivalent to USD 6.5 million per year and 95% of the service providers are in the urban area. It was found that three quarters of the small enterprises that received free services were able and willing to pay, and indeed they would pay if that assured them of better service quality.

41. Key in their approach are the working groups of different stakeholders in which Helvetas plays a facilitating role. For example, one working group consists of intermediaries, traders, engineering companies, customs, legal services, and marketing and management consultancies. They work in specific sub-sectors, still mainly with agro processing enterprises, because value chains are different, hence have specific problems. For them, export promotion is the basis for poverty alleviation in Kyrgyzstan. Eugene Ryazanov had very good experiences in working with private service providers. The participation of service providers was vital, both in the development and the implementation of projects. It stood out that the different stakeholders were very willing to cooperate and got involved in a mutual learning process.
42. Some of the results were that consultancy companies had provided services to the agro-processing enterprises worth almost USD 20.000, two trade companies had been established that had created 250 jobs, five guide books were published and were selling well, and a management school was set up by a consultancy firm. A number of consultancy firms that took part in a working group had formed an association to develop the local consultancy market, defend it against donor distortion, and improve the quality. The same for a group of enterprises that established their industry association as a result of the working groups. There are several activities at the moment to attract foreign investors to Kyrgyzstan. They plan to stick to their intervention approach and want to expand to other sectors.

“It actually would be nice to have some examples from the so-called developed countries. I wonder to what extent the paradigm applies to practice in the first world.”

## **12. Developing Cross-cutting BDS Markets in Nepal**

43. Jim Tomecko from GTZ in Nepal talked about stimulating cross-cutting services in weak markets. By 'cross-cutting', he meant generic services that to a large extent were sector-independent. He gave examples of three interventions from GTZ in Nepal. First, by presenting the grid with the four quadrants of market stages and intervention strategies, it was emphasised that there were different types of weak markets. He was going to look at the situation of low vs. very low service supply, and low vs. very low service demand. The case studies were about so-called AFT services: the accounting, finance and taxation service sector, including statutory audits and financial consultancies. These cross-cutting services help SMEs to comply with the law, and to make strategic decisions; they can also save money, and make them fundamentally better managers. There were several reasons to choose this service segment. Surveys had shown a high potential for these services amongst micro-enterprises and GTZ saw the possibility to go “down market”.
44. Then, eight project steps were briefly mentioned, following a logical order from the definition of a market segment, up to the monitoring of change in the market after the intervention. Their (1) objective had been to increase the purchase of AFT services by SME, (2) therefore 10 product sectors were selected. Market

intelligence was gathered (3) on both demand and supply side, including for example buyer behaviour, and structure and volume of supply. They analysed that data (4) and found that there was an important difference between statutory services and voluntary services, of which the latter were of greatest concern in the light of market development. Statutory services do not help in strategic decisions. It was also learned that SME spend USD 135 per annum on AFT and the smaller the enterprise, the less was spent on financial consultancy. Buying behaviour was influenced by awareness, price, perceived need for AFT, and in-house capacity. The bulk of services were bought from registered auditors and to a lesser degree, chartered accountants, and predominantly related to statutory services. The market for non-statutory services was estimated at USD 44 per SME per annum. (5) They looked for changes in policy, legal and regulatory environment, at the issue of market access and factors that hampered supply in order to define their (6) service market strategy. They were to establish a “connect” in SME perception between AFT and competitiveness. On the supply side they would improve the quality and marketing competences. (7) Each intervention that was to be planned needed a clearly defined objective, a plausible relevance to the service market, and should leverage resources from other partners; they needed to identify indicators for success with attention to sustainable impact on the service market, and test intervention ideas with focus group discussions. The (8) impact indicators depended on the specific intervention that was to be planned. In effect, they applied elements of a sub-sector approach in a cross-cutting way, in a number of sub-sectors.

45. The first case aimed to stimulate demand by informing SMEs about the value of AFT services and so to increase purchases of those services. The project selected several provider-partners and targeted approximately 3,000 SMEs in the capital. Branding and the identification of distribution points were important aspects of their strategy. The main inputs were made by sector specialists, an advertising agency, and included capacity building for the service providers, trade fairs and other sponsors. These inputs indeed generated an impact on the AFT purchasing behaviour. Almost eighty percent of the input was provided by GTZ, justified in this case because of the public-goods character of the awareness-raising. The second example aimed to remove supply constraints, by commercialising VAT training for hundreds of SME in small towns. Key elements were partner selection, the adaptation of the service product to the target group, pricing it right with an appropriate proportion of subsidy, and ultimately a scaling up of sales. Again, the impact was indicated by number of enterprises served, growth in consultancy businesses, level of satisfaction and continuity of service provision after the intervention. Here, the GTZ input was only 8 percent. Service providers and SMEs paid for the rest. The third case had the goal of franchising AFT services in small towns, where the market for services was weak. The project worked with one franchiser and ten franchisees, aiming at a group of hundreds of enterprises. Amongst the key issues here was again the selection of partners, the validation of the concept, market research, and getting the 'offer' to franchisees. The sales of the franchisees increased by 50% per annum; in addition, a new service product was developed, and customers were reported to be more satisfied. GTZ input was relatively low: 33% of the financial input, mainly for promotion. Through these projects, GTZ got to know the market and its players. They found it easier to locate partners and interventions subsequently. The implications were that the approach should be an integrated

one that reached further than private market players, that more local manpower is needed, and that results may not be those previously predicted.

- ◆ The term 'weak markets' is not clearly defined - diverse and complex reality of weak market situations - long list of 22 activities for SME promotion discussed. Range of MSE to informal sector to rural operators
- ◆ How to tailor training or other business services for poorer clients, and what are the specific payment options? Examples: vouchers, service fees as part of credit fees, group-based fees, BDS bartering services among themselves, embedded services - risk of subsidies for transaction costs remains.
- ◆ How to use social capital to develop a market? (e.g. in-kind contributions; coop's pooling funds).
- ◆ Specific market: gender - can gender-specific BDS be market-led? Choosing value chains for women and men producers - opt for embedded services.
- ◆ Who are the service providers in remote/hard-to-reach markets, i.e. rural areas? How to identify non-traditional partners, and for what functions? Example of technical & management training for MSE combined. Conclusions: if the incentives are right...
- ◆ More room for discussion and reflection on BDS for micro-businesses and for MSE in rural areas - clarify micro- versus SME cost/benefit analysis

### **13. From Cross- to Sub-sector Approach**

46. Monica Velasco described how IDEPRO, a Bolivian NGO, had changed its strategy to sustainability, and what impacts this had on SMEs and on the competitiveness of Bolivia. IDEPRO had shifted its BDS provision away from a human resource focus, towards a sub-sector approach in which enterprises are linked up to production chains. She began by explaining the situation of Bolivia, a large country with few people of which almost 60 percent is living under the poverty line. More than eighty percent of employment is in micro and self-employment although they contribute less than 30 percent to GDP. Bolivian enterprises are not very competitive. IDEPRO, established in 1991, has three intervention lines: micro finance, BDS and cluster investment. Until 1994 they offered BDS in a package with microfinance, then they changed to offer BDS as sole service directed at the individual entrepreneur: model 1. Since this year, 2003, they have adapted their approach to treat entrepreneurs within a wider context, as part of the productive value chain: model 2.
47. Monica Velasco explained the shift by comparing the second to the first model. In the first model, the entrepreneur is the client within the environment of the enterprise, and IDEPRO was "pushing" the entrepreneurs. In the current model, IDEOPRO not only works with entrepreneurs but enterprises and clusters too are their direct clients, which are perceived in the context of national and international markets for inputs, raw materials, and products. SMEs in Bolivia are isolated, often with only weak links to those markets. The overall strategy of IDEPRO is to articulate SME needs within clusters and the wider environment, a "pull" function. Though before they were working inter-sectorally, they were now offering services within a sub-sector approach: more specialised, more focussed. They work in four regions where they choose sub-sectors based on

local characteristics. The main office in La Paz is facilitating the regional offices in the development of those sub-sectors.

48. Before, BDS was a product aimed to meet the needs of the entrepreneur. Today, BDS is a process, aiming to improve national competitiveness. They augment the productivity of the enterprises by meeting the needs of both entrepreneurs and the sector as a whole. IDEPRO carries out diagnostics of groups of enterprises, and analyses their export potential for subcontractors. They give two qualifications, A and B, of which A is a green-light that qualifies the cluster as ready for export, and to go directly into negotiations with larger enterprises. Qualification B indicates that they not yet ready and IDEPRO makes a programme with the cluster for technical assistance. IDEPRO also strengthens clusters and provides technical assistance aiming to integrate SMEs into the value chain.
49. IDEPRO has several income sources. Under the traditional approach to BDS, they received subsidies and also had income from the sale of services. Because they have found a niche, they have been able to raise their prices. They also sell information about their direct clients to others, such as larger enterprises that are interested in sub-contracting. Besides that, they have the majority of shares in 3 institutions that generate resources for BDS, and enable IDEPRO to influence the enabling environment for subcontracting to SMEs. One source comes from a microfinance service that developed into a banking institution and generates profits that are reinvested in BDS. A second institution is a consultancy enterprise for large and governmental enterprises. The third foundation is the “bolsa de sub-contratación” that establishes political mechanisms to facilitate sub-contracting between large and small enterprises. Their sustainability is increasing, from generating 18% in 2000 to a prognosis of 42% in 2003. As explained, this is due to a concentration on fewer enterprises with export potential within the 4 sectors, and a reducing focus on subsistence enterprises. Although IDEPRO works towards financial sustainability by focusing on a market segment and diversifying income sources, its aim is to have an impact on SMEs, integrating them into specific sub-sector chains on a regional basis.

“It has been a stimulating week with useful presentations. A pity that there is limited time for substantive discussion that involves a wide range of views. Coffee breaks do not have that reach.”

## **14. Transforming to Market Development**

50. Irene Novotny, from the Austrian Development Organisation (ADO) in East Africa, described the exit strategy or transition phase that ADO had followed in two projects in Tanzania and two in Uganda. In 1993 several projects had started with the aim to develop the private sector, but instead of finishing on schedule, they expanded into more service areas and more phases. Because of limited results in outreach and impact, it had been decided to change the objectives into service sustainability, and exit strategies were implemented. For each of the four cases, she elaborated on the bottleneck, the solution and the results that the new approach had generated so far. The first case addressed the service market in the

dairy sub-sector of Tanzania, in which a local NGO had to change role from direct service provider to market facilitator. Another case concerned a group of female food processing entrepreneurs in Tanzania, who had formed an association. As it was still weak, the association was transformed into an autonomous department within the host institution, becoming responsible for training courses in food processing. A third case was from Uganda and dealt with the promotion of income-generating activities in rural areas. The project ran out of funding, and the phasing out was realised by forming a consortium of the 136 facilitators that had been involved in the project; the new consortium charged fees for its services. The fourth case, also from Uganda, was in the shoe sector; a training and common facility centre was transformed into a broker for large shoe orders from schools, police forces and others, with services like training, brand development and leasing out of equipment.

51. There have been several advantages in transforming old-approach projects to more sustainable and effective market development projects. Keeping the human resource capacity in the new institutions safeguarded some of the institutional knowledge and networks that had been built up during former project phases. The local staff became part of the new structure with more responsibility and say over the strategy. Key in the transformation had been transparency and information to the project staff. Realistic time horizons and adequate pricing had been essential for the financial sustainability. The implementation of the exit strategies had been a real challenge that required donor coordination and consensus in the field. A detailed paper on these cases and the lessons learned is available on the Seminar website.

## **15. BDS for Access to Export Markets**

52. Imran Shauket presented the case of the Jobs Opportunities and Business Support (JOBS) Programme in Bangladesh. The University of Maryland, the implementing institution, had originally provided a wide spectrum of services. Under the new approach, the aim was to be aware of the dangers of distorting service markets, and to focus on sub-sectors. Though before, all the services were fully subsidised, the share of subsidy had been reduced to 30 percent. With a staff of 45 persons, they are now working in 12 sub-sectors with growth potential and scope for added value and employment creation. He explained their methodology by the example of the footwear sector. They would analyse the sector, pinpoint the driving forces like the preferential access that Bangladesh enjoys to markets in some countries, and the restraining forces like the lack of adequate human resources. Large exporters in the footwear industry had trouble in meeting the international demand, particularly because of skill shortages; small producers, on the other hand, had the skills but no access to markets or credit. JOBS therefore grouped 12 enterprises and facilitated in the development of an export vision, provided training with an international consultant who knew the destination country, and monitored the linkage between SMEs and buyers. After a year, the results had been positive. With the assistance of JOBS, incomes and employment increased, better machinery is being used and new producer-groups have been formed. There are 24 groups

now. The linkages between the buyers and the SME producer-groups are purely commercial and convey embedded services.

53. Imran Shauket ended his presentation by noting that there had been an increase in efficiency, because cluster production has many advantages over individual production. Alternative forms of finance had come up as the presence of JOBS did provide some form of informal collateral, and there was a buyer-driven support for market access. Buyers have a long-term interest in the survival of the cluster and look for work for them. The delivery of embedded services had been substantial. The intervention for JOBS had been minimal with an investment of approximately USD 2,000 per enterprise. And finally, the sustainability of the intervention was a function of the success of the sector: if exports grow, the sector grows rapidly, associations are formed and take up bigger roles, and government also becomes involved. More documents on JOBS are available at the Seminar Website.

“Being a newcomer, the approach as presented here seems very useful. I would encourage BDS-ers to keep the bigger goal of poverty alleviation in sharp focus. Do not evangelise too much, and search for the best approach for the situation you are leaving from.”

## **16. BDS for Access to Agricultural Markets**

54. Antonio Coello presented the ways in which Fintrac was increasing market access for rural SMEs in Honduras. The CDA project, as it was named, had started in 2000 after Hurricane Mitch, when USAID contracted the U.S.A.-based Fintrac to increase agro-exports. Fintrac is specialised in agribusiness development and as it was explained, reactive to the needs of the agro-producers. It had no intention to start a BDS project but as it turned out, BDS is an important component in the CDA project. CDA has 12 agronomists, 3 more people in the main office and covers 70 percent of Honduras. In 2002, it picked up BDS with a focus on market access and through product improvement it aimed to add value. Honduras is arguably even less competitive than Bolivia, and CDA together with its office in Washington provides market information and highlights opportunities.
55. To give an idea of BDS in Honduras, Antonio Coello mentioned examples of possible BDS providers like truck drivers and large producers. He presented two cases, the first of which involved CDA linking small rural processors to a broker, who distributed to supermarkets and so linked the SMEs to new markets. The hesitance of brokers to enter into business relations with small-scale rural production was often related to the irregularity and small size of production. CDA helped the producers to improve both product quality and presentation, and advised on legal requirements; CDA also helped the broker to expand the number of product lines. In the second case, CDA linked pepper producers to freight agents who exported the peppers to neighbouring countries. CDA provided training to the growers and to the freight agents. They linked the growers to processors and other BDS providers, linked the BDS providers in

turn to regional buyers, and created a formal delivery program. The results have been significant in terms of expanded market access.

56. The philosophy of Fintrac is to provide the initial BDS, in order to move rural enterprises into more profitable markets where they can capitalise, and can start buying commercial BDS. The lessons learned were that increased sales led to increased BDS consumption, both embedded and fee-for-service. Free-of-charge BDS, it was argued, could 'jump-start' commercial BDS markets, particularly in the areas of technology and market requirements. Also, it was concluded that any donor-funded horticulture project should include an initial BDS component. Facilitators should clearly focus and define their interventions, while maintaining sufficient flexibility to react to market changes. The actual success of BDS depended generally on the viability of the product sector.
- ◆ Market linkages: some are exploitative; role of Governments; viability of commercial provision; question of sub-sectoral focus, and sub-sector versus cross-sectoral approach towards increased market access (needs analysis).
  - ◆ Donor prerequisites: have exit strategy and time frame; limit facilitation to short, well targeted activities (attention: time-scales of BDS programs often too short; avoid competition among donor projects; consider the functioning of the entire value chain (no piece-meal approaches)
  - ◆ BDS principles: cease market distortion; build up local capacities of service providers; private sector operators in the front; involve business or producer associations
  - ◆ Priorities/choices: niche sectors easier than traditional ones
  - ◆ Points to consider: commercial interests within sub-sectors; influential stakeholders; government policies and priorities

## **17. Design: Impact Measurement**

57. Kris Hallberg from the World Bank began by mentioning the four main messages of her presentation. Firstly, it was vital to have a logical framework that articulated the cause-and-effect rationale in order to define measurable indicators. Secondly, plan evaluations right from the start of the programme, and collect baseline data. Thirdly, choose an appropriate evaluation method that suits the programme and its context. And fourthly, take other project externalities that affect the target group into account.
58. She then elaborated on the importance of the logical framework. The causal relation was explained between the project inputs, followed by project output, intermediate outcomes and the final outcomes. It helped to identify risks, external influences and possible but unintended outcomes. For BDS market development, a logic frame would start with SE initiatives, that then would be followed by an improved institutional or market performance, an improved SE performance, that finally would lead to improved economic and social conditions. A more detailed example of technical assistance to BDS providers was given and she suggested some indicators. Impact was then visualised with a graph by subtracting an estimation of the situation without the intervention from the real situation with the intervention.

59. Related to the third main message, four measurement methodologies were briefly explained, with the suitability depending on the trade-off between complexity and cost versus the necessity for causal inference and rigour. The whole process was illustrated with an evaluation of a Mexican programme that had aimed to improve SE productivity, measured by the change in labour productivity. This particular case showed that although the targeted enterprises were worse off than before the intervention, the control group was even worse off than the treatment group. It showed that control groups were not to put the impact into a relative, more modest context but to understand the real impact of the intervention. It was stressed that control groups and impact measurement over time were important. She concluded with the suggestions that multiple methods should be used, that if the programmes were large, investment should be made in evaluation, and that smaller projects should not try to indicate the relation between BDS and poverty alleviation, but should stick to measurement of intermediate impacts. A paper is available on the Seminar website.
- ◆ Review logic model considering point of departure: problem statement, target population, goal, project objectives and indicators at different levels of: ME, service providers, BDS market expansion, product market volume) - CABS example: rural poor and micro-entrepreneurs ME in two Southern regions, 14 villages, 44% women ME.
  - ◆ Verification of Indicators: BDS providers (e.g. new services sold; cost/unit for services; percentage of costs recovered from fees; clients satisfaction)
  - ◆ means of verification: example of women ME percentages: inquiries/repeat orders; use/ repeat use of services, profits, production volume etc.
  - ◆ control group issue: participants/non-participants over time; profits in relation to market size, production conditions such as soil, weather etc.; question of target hit (e.g. welfare) or other impact effects met (and why if the intended target was missed)
  - ◆ Impact evaluation model discussed – pressure by US Government for USAID to do more on poverty (min.: to reach min. 50% of the poorest of the poor)
  - ◆ Independent control groups needed; need for additional funding to do impact screening – can regression model used for this type of funding? Caution to eliminate other variables – need for research to measure specific poverty-related effects.
  - ◆ BDS Channels: (a) direct delivery of BDS to poor, (b) causing changes of SE performance to hire more poor/increase wages (indirect), (c) causing changes of SE performance that leads to increased economic growth in the region and to reduce poverty (indirect)
  - ◆ logic models:(a) facilitator (training/TA) → BDS providers (higher quality services, greater outreach) → poor MEs (increased sales/incomes) → region (reduced poverty rate) (b) facilitator (training/TA) → BDS providers (better service + outreach) → non-poor SEs (sales + employment increases of poor) → region (reduced unemployment/increased income/reduced poverty rate (c) facilitator (training/TA) → BDS providers (better service + outreach) → non-poor SEs (increased sales/profits) → region (increased private sector growth/ economic growth/reduced poverty rate
  - ◆ going through different models: consider set of all other variables that affect poverty

## 18. Design: Designing Programmes

60. Frank Matsuert from DFID Bangladesh shared the extensive experience in designing a multi-donor project according to the BDS Guiding Principles ('Blue Book'). The conceptual implications were explained and later illustrated with their experience. The new approach had important implications for donors in three areas: (1) Donor control, (2) Donor visibility, and (3) Donor co-ordination. Under the new approach, donor control will decrease, so donors will have to accept more uncertainties; the focus will move away from control towards risk reduction or management. Donor visibility will decrease as well, as donors should remove their logos and hide any non-commercial 'signals'. The new role is about so-called forward and backward branding. Donor co-ordination is a prerequisite for the approach to work, since contradictory approaches should be avoided. Coordination is needed at all intervention levels, including particularly the operational level, and across sub-sectors.
61. Then some characteristics of Bangladesh were given, for example regarding the massive NGO sector and the large volume of resources spent on small enterprise development; nonetheless, there was an increasing consensus around market-oriented approaches. Frank Matsuert showed that BDS programme spending had gone up from approximately USD 20 millions in 2001, to about USD 65 million in 2003. The largest programme was KATALYST, a combined effort of three donors: DIFD, SDC and Sida. He explained what they had done on control and risk reduction, focusing on the approach for scale and impact, while developing risk-reduction mechanisms. They began by consensus-building amongst themselves; then an overall scoping study was followed by approach studies in a number of themes like weaker markets, gender and clusters, leading finally to the overall project approach. This formulation period, which took one and a half years and about GBP 100,000, involved eight draft project documents.
62. In short, the project had three components. They were working in 4 sub-sectors, had identified three cross-sector or generic BDS markets and were working on an enabling environment and crosscutting themes like gender. They had formed criteria for weaker markets and sub-sector selection, had set milestones for key outputs, and had used high-level resource people to assure quality in the various areas. Impact forecasting had been a new and important area. And impact assessment generally should cost about 5 percent of the budget. The result had been a multi-disciplinary complex design, though a well-defined and coherent total with clarified responsibilities. He then stipulated some aspects of the implementation, for example that action research had been a vital methodology.
63. On visibility it was commented that all donors had expected a low profile, even donors that were not involved in KATALYST. The project had invested in its own branding and mission statement. Frank Matsuert recognised three levels for co-ordination: the donor level, the project level and the sub-sector level and named the coordination mechanisms for each of them. Although this was still an area in development, there were some results like a joint research agenda, and joint web pages.
64. The lessons learned were seven: (1) BDS is management intensive, (2) monitoring systems are demanding but vital, (3) intervention should be interwoven with research, (4) government should get involved at an early stage,

(5) in addition to facilitators, there was also a role for supra-facilitators since partnerships with institutions were crucial, to have impact and leave capacities behind, (6) there is a major trade-off between scale and complexity, (7) and it was important to think about how impacts were expected to happen, in thinking about the programme goals. He showed how the development of BDS markets and a conducive environment should ultimately lead to pro-poor sustainable growth. There were already many baseline studies, which should lead to high-quality impact measurement. He mentioned several challenges like the flexibility and responsiveness of the team, gender and measuring the impact on poverty alleviation. Finally, some promising issues of the programme to be presented next year were the combination of sub-sector approaches with trade regime interventions, predictive impact tools, methodologies for sub-sectors, clusters, and rural markets, and practical monitoring tools also for embedded services.

## **19. The World Bank and BDS**

65. Leila Webster of the SME Department of the International Finance Corporation (IFC) presented tables and pie charts that gave a macro view on the SME activities within the World Bank Group (WBG). The WBG consists of the World Bank (WB) that primarily provides loans, the IFC that invests and MEGA that provides guarantees to the private sector that invests in development. From the budgetary figures it could be seen that SME spending was now growing again after a period of low spending, because for some time targeting a specific group of SMEs did not fit the all-inclusive poverty alleviation approach. Despite current growth, SME issues are increasingly scattered over the different departments. The World Bank spends around USD 800 million a year on SME activities, IFC invests around USD 600 million a year and MEGA spends USD 150 million per year on guarantees. The relative importance of SMEs is the greatest for IFC, as it represents 15% of their budget, while for the WB, it is only 7%.
66. The SME loans element of the WB had three areas. The largest being (1) financial assistance that is channelled through local banks, three quarters of the whole. Twelve percent goes to (2) technical assistance channelled through intermediaries, and fifteen percent goes to (3) strengthen institutions that deliver services to SMEs. Within the component of financial assistance, still one fifth are grants, often in connection with rural SMEs. Of technical assistance, almost half goes to training and most is channelled through governments; only a small proportion, 9%, goes to private agencies, but this is growing. The financial and technical assistance goes for the large part to medium and increasingly micro enterprises. About two fifths is going to micro enterprises, the rest by and large to medium enterprises. Half of the targeted enterprises are in rural areas. It was stressed that the WB is good at targeting medium enterprises and is increasingly learning to target micro enterprises. The great challenge for the WB is to target small enterprises. However, the 'core business' of the WB is in credit lines rather than BDS.
67. Then the work of the IFC was explained, including credit lines, project development facilities (PDF) and direct investments (although the latter is coming to an end). This work is again mainly reaching medium and micro-

enterprises, with collaborations with microfinance institutions increasing. IFC's work in BDS is predominantly through the 8 PDFs, which employ about 600 people. PDFs work regionally and are strongest in South East Asia and in Africa. A ninth PDF is being opened in Latin America. The PDFs are managed by IFC though only 20 percent of the investment comes from IFC, the rest coming from other donors. Training and supply-chain work are the two big areas of PDFs. Supply chain work is growing, partly as there are natural synergies with IFC's other work with larger enterprises, and partly as sub-sector approaches are seen to be more effective.

68. The BDS Guiding Principles ('Blue Book') are core and indisputable, according to Leila Webster, but implementation remained very difficult. Three challenging issues were highlighted that needed further thinking. One was the about appropriate roles in very weak markets where there are hardly any providers. SMEs might need other services than those offered through embedded channels, but how can these be facilitated? Another dilemma was presented by environments in which there were many subsidised services: how to develop service markets in this case? The final concern was about consultancy markets. The IFC people in the field believe that more consultancy consumption by SMEs will payoff in improved performance, but is that true, and if so, how can that market be developed?
69. William Steel from the WB added that although the WB only lends to governments, the pressure is growing to sub-contract to the private sector. Although there are regional differences, service delivery is increasingly a private-sector concern. Two new areas were pointed out. One is that the Bank is assessing investment climates in developing countries through firm-level surveys, and integrating the results into the discussions about strategies to reduce poverty. And a future concern was seen in the trend to increasingly sub-contract public services to small and micro enterprises. These small enterprises do not have the capacity to make bids on WB projects and the small-scale structure is becoming a constraint in the delivery of services.

“The Seminar gives me at least 10 new ideas per day, and would like to drop 10 ideas of mine as well.”

## **20. BDS and Micro Finance**

70. Merten Sievers from the ILO headquarters in Geneva talked about the links (or lack of them) between BDS and microfinance services. He outlined the logic of linking the two together, explained why there was not more discussion on this theme yet, and described the linking models currently in use. The logic for linkages was analysed at the level of the enterprise, the BDS provider and the financial service provider. Enterprises need both BDS and finance; to link them up could improve the accessibility to BDS. BDS providers could benefit from the relatively large outreach of Micro Finance Institutions (MFIs); this could improve the financial viability of BDS provision, and enhance payment systems. MFIs may benefit as their clients could grow faster, and this could enhance their portfolio. He suggested that the main reason why this potential had not yet been

fully explored was that many MFIs were struggling to become sustainable, and were therefore concentrating on what they saw as their core competences.

71. It was explained that the ILO had prepared an inventory on existing linkages between BDS providers and MFIs, and had found about 25 cases. Most have been donor initiatives, few reached financial sustainability and on the whole, hardly any BDS providers had linked up with MFIs. The cases have been categorised by two characteristics: the institutional and the conditional linkages between the financial service and BDS. The first characteristic had three categories: Unified institutional linkage - one organisation offering both services with the same staff. Parallel institutional linkage - when an organisation has two departments and separate staff for the different services. Linked institutional linkage - when there are two independent organisations, one offering BDS and the other microfinance. The other criterion, conditional linkage, separates those that offer BDS as compulsory for access to microfinance, and those that do not.
72. All six situations were illustrated with a case, and three cases were elaborated in more detail. Two cases of a unified organisation offering both services with the same staff, from Morocco and Peru, provided BDS on voluntary basis. One case of an institution offering services in parallel, through different departments, on a voluntary basis, came from Bangladesh. Each case illustrated the rationale, the results so far, and the benefits for the clients. Five lessons learned were mentioned. Donor-driven linkages do not seem to work well, feedback from the clients is crucial, the service supply should be adequate to the diversity of MSE needs, that there is a big potential gain in outreach if the services are linked, and there is little known on best-practice models. It was still not clear whether MSEs really want to link the two together. Also, whether it could be a market-driven process was still unclear. Perhaps new financial instruments like leasing could increase the reach of BDS. Another unresolved question centred on the possibilities for risk-sharing between financial service and BDS providers.
73. Lilly Villeda from USAID emphasised the benefits for MFIs to offer BDS, and noted the potential of MFI networks to promote and facilitate BDS markets. Related to the benefits for MFIs, an example was given from Armenia where an MFI was organizing trade fairs for its clients as a market access service. In offering this labour-intensive BDS that built on the diversity of and proximity to its clientele, it strengthened its client relations. Another example of a risk-reducing BDS came from an MFI in Peru. It had a large rural portfolio and was designing a pilot project to purchase BDS in conjunction with other players of the value chain. In effect, it was a risk-sharing system for the MFI. In terms of MFI networks promoting BDS markets, she cited the case of ACCION, a network of 18 MFIs in Latin America and Africa that developed BDS which were quickly mainstreamed amongst their different member MFIs. Ms. Villeda stressed that MFI networks had a potential role to develop BDS markets that reached underserved MSEs with significant scale.
  - ◆ Few cases of collaboration between MFIs/BDS providers exist.
  - ◆ The variety of business services indicates that some BDS are more compatible with finance than others (e.g. leasing); there is a role for BDS providers to help MFIs improve (access to) their products
  - ◆ Inappropriate BDS advice by MFI → default risks because of subsidised services; → avoid lender liability!

- ◆ FUNDES model: if growth potential of SME → referral
- ◆ Zimbabwe: combination BDS/MFI can work (advice to loan clients on how to use loans)
- ◆ Open question: should donors subsidise linkage/facilitation between BDS providers and MFI?

## **21. Gender: a Tool Kit**

74. Ulrike Gminder, a consultant for the Swiss Development Cooperation (SDC), presented the new toolkit for gender-oriented entrepreneurship promotion. She began by noting that women had to learn that nobody will give power; one simply had to take it. The CD-rom was a manual for practitioners and provided practical tools and strategies for the different phases of the project cycle. Its aim was to boost women's participation in SED and BDS programs and to contribute to the empowerment of women entrepreneurs. Part I concerned the planning, implementation and monitoring phases. This presentation concentrated on the planning and implementation and identified a number of challenges that needed particular strategies. One such challenge was to know your clients and understand the profile of women entrepreneurs, requiring an analysis of the target group and needs and demands. The SDC focus was more about demand, what they really buy, than about needs - often the focus in women-oriented programmes. Another challenge was to pick the right partners that understood the profile of women entrepreneurs. A third issue related to programme planning was sector choice. Sub-sectors are gender-biased and the challenge was to identify sectors with growth potential that were women-friendly, perhaps including non-traditional sectors.
75. Concerning the implementation phase, BDS markets are also often gender-biased and not easily accessible for women. It was stressed that despite the plenitude of available tools, usage was still low and BDS markets remain focused on men. At the demand-, supply- and donor-side some tools were briefly mentioned. For example, women needed to be specifically informed on existence of BDS. BDS suppliers needed to realise that women are potential clients and present an untapped market niche. Existing BDS should be adapted to women's needs, with particular attention to formats of payment. Donors should work towards increased women participation at different levels and Ulrike Gminder gave an example of how a voucher programmes could promote a gender balance in BDS markets. The policy dialogue was important to overcome legal, social and cultural barriers. A systematic gender-orientation was needed throughout the project cycle.

## **22. Gender: the ILO Experience**

76. Gerry Finnegan from ILO Geneva explained ILO's work on women entrepreneurship. Gender, like decent work, is a crosscutting theme within the ILO and in 2000 IFP/SEED formed the Women Entrepreneurship Development and Gender Equality (WEDGE) team, to work on affirmative action and

mainstreaming. WEDGE gathers knowledge on women entrepreneurs and has a role of advocacy and voice for women in SME organisations and policies.

77. WEDGE developed BDS support products for women, including trade fairs and radio programmes. It developed training material and looked for integrated approaches. SIYB, ILO's entrepreneurship training package, had integrated gender throughout its course. There was little evidence of gender analysis and market research on the role of women in BDS markets, but according to Mr. Finnegan, there was considerable evidence of market failure. BDS markets did not necessarily provide for women's needs, and service products needed adaptation. WEDGE saw women as key actors in BDS processes, not only as BDS users but also as providers. A comprehensive example from India was given where five pilot BDS providers had been selected. The approach of each provider to the development of women's entrepreneurship was elaborated. Several outputs were expected from this project like guidelines for gender-sensitive surveys and impact assessments, training courses, and lessons for BDS providers on how to improve outreach and access of BDS for women entrepreneurs. Some of the preliminary lessons were that 'gender-neutral' often implied gender blindness, that gender analysis complements market research, that there was a need for more experimentation, and that there is a missing middle since women are in micro and large enterprises, but less so in small. WEDGE was contributing to the three goals of the Blue Book. (1) Assessing BDS markets with the objective to expand, improve and deepen BDS markets, (2) Sustainability and cost effectiveness with the objective to achieve supplier sustainability and improve the programme cost-effectiveness, and (3) Impact with the objective to increase the acquisition of BDS, customer usage and benefits. Gerry Finnegan ended by stressing the many things needed to be done in order to adapt BDS markets to women's needs. A background paper is available at the Seminar website.

- ◆ Gender = woman? Gender stereotypes affect men as well
- ◆ Trends towards more inclusion of women entrepreneurs (WE)
- ◆ Should we follow gender-specific or mainstreamed approaches? Best to follow both, often start with gender-specific action, then move on towards mainstreaming
- ◆ But: be aware of the risks: gender mainstreaming often leads to 'non-action'. Integrate WE according to market assessment/segment captured by WE.
- ◆ What are the features of women as entrepreneurs? WE are able to pay - but it depends on WE ownership of business/control over resources - be aware of socio-economic context
- ◆ BDS awareness among WE: very low (ILO/WEDGE: Ethiopia research) - BDS 'appetizers' to women's homes or workplace. 'Try before you buy.
- ◆ Gap between theory and practice; different expectations (examples: SIDA/SIYB; SDC/ gender approach), and a variety of target groups - how to prioritise?
- ◆ Continuous attention to gender issues needed/should also be part of donor conditions
- ◆ Bad practice among government interventions: welfare approach to WE BDS for free or heavily subsidized)
- ◆ Role models of WE needed

## **23. Commercial BDS markets and Poverty Alleviation**

78. There was a panel discussion around the question whether developing commercial service markets is indeed an effective way to address poverty. Jim Tanburn introduced a panel of four volunteers that wanted to share their approaches, why they perceived it as an effective way to address poverty, and what the limits were of those approaches. The first two presentations were cross-cutting approaches and the last two were sub-sector approaches.
79. Mr. Anderson from the ILO in Uganda addressed the question whether commercial radio programmes for SME could reach the poor and affect poverty. According to him the answer was yes, though there were some real challenges and opportunities. Commercial enterprises reach the easy-to-reach, who are often not the poor; minority groups may not be as commercially viable. However, in many countries, SMEs represent a large share of the population and thus a large group of potential listeners. To mitigate political and commercial interests in distribution of information, it is desirable to have a diversity of channels for information. The questions here are to what extent can commercial services reach some of the poor, and what is the role of public funding (and public media, in this case). The radio programmes are quite effective means to address both material poverty and the poverty of representation.
80. Mr. Muzira from ILO Zimbabwe had another experience in crosscutting service development. Although it was not possible to cover the whole spectrum of the poor, commercial services could reach poor SEs. Poverty was partly understood as a lack of opportunities and in Zimbabwe, business information is a key constraint to development. It was explained that their strategy was to link the 'have-nots' with the 'haves'. They had linked the SE with the larger enterprises as potential buyers and suppliers of services by developing an information magazine Business Connect that later was sold and run commercially and profitably. Another area to address the lack of information for SE was providers' exhibitions and internet services. Mr. Muzira made clear that SEs had no effective demand towards commercial BDS, but that these information services could link demand and supply in a commercially viable manner.
81. Then Ms. Huong from Vietnam presented a sub-sector approach in which exporters were identified as rural extension workers. To affect the poor and reach considerable scale, they had chosen to support the exporters, rather than directly the producing poor. It was explained that many farmers produce handicrafts when agricultural production is low, and that these handicrafts are then bought by exporters. By assisting exporters to overcome their key problems of market information and design, sales increased and rural production with that, hence affecting poverty. The difficult part was that the exporters were demanding quality services from the project.
82. Shivani Manaktala from IDE from India had the last presentation on another sub-sector approach. The IDE approach is to look at the obstacles that poor people face, and search for affordable technologies that can overcome these. The majority of poor in India depend on agriculture and many have problems with access to water. She gave an example in drip irrigation where they developed a technology that was only suitable for small plots of land. When they noticed that even an USD 8 version was not used by many, they designed a less durable but

cheaper machine. Large irrigation producers gradually began to see small-scale farmers as a market niche and now produce small-scale machinery on a commercial basis. The big limitation is that IDE is not reaching the landless, which are the poorest. However, as small-scale is moving up market when having access to water, it is expected that employment will increase, employing the landless.

83. Jim Tanburn then provoked a thinking process with all participants, building on previous presentations. The discussion flowed between three central points. The first point of discussion was about the scope for commercial activities within social organisations. Although there were successful examples of enhancing income generating activities of NGO, others had the opinion that the social image would be badly affected when commercial activities were taken up. So, can an NGO be a business or not? There seems to be a clash of paradigm since poverty alleviation and economic growth are difficult to combine as immediate goals. Nevertheless, it remained an open question with different opinions around it. Touching the issue of Social Enterprises and scaling-up from poverty, the second central question that was brought up did seem to convey a certain level of agreement. The question concerned the logical frame that targeting the less poor would benefit the really poor. The consensus was that one should articulate the assumption when it was being made, rather than trying to avoid accusations of using trickle-down approaches; more empirical research was required. That led to the third point of discussion, on impact measurement: Should public money only be spent on those interventions with measurable results? There were different opinions in the room although to some extent there was an agreement that efforts for impact measurement were needed, but that this should not hold back investment in less predictable or measurable interventions.
- ◆ Question of definition of 'poor' and of specific features of remote rural + dispersed areas' - needs assessment up-front - what and how (BDS maybe - not a must!)
  - ◆ Scope for innovative BDS specially designed for poor - issue of commercialisation (grouping of services; BDS & financial services, fee-based services), option to create linkages, access to value chains (e.g. export) and clusters
  - ◆ Criteria for BDS market development: need for technical services, for distinction between on-farm/off-farm skills, and for using existing practical experiences available in rural areas- focus on what there is - not what there is not
  - ◆ Certain non-fee-based services required: arbitration, legal advice; embedded services
  - ◆ Suggestions where to start: with "less poor" (who can take risks) - prioritise interventions
  - ◆ Need for capacity building, mentality change, use of participatory approach and facilitation, importance for follow-up and monitoring
  - ◆ Issue of sustainability: create necessary preconditions; subsidies 'ok', but exit strategy as a 'must - question of scope of sustainability of agricultural sector'
  - ◆ Conclusion re. BDS paradigm/blue book: needs adaptation to reality

## 24. Implications for the Blue Book

84. Leila Webster briefly explained the history of the Committee of Donor Agencies for Small Enterprise Development. It had started as an informal network in 1979, but nobody at that time expected that the field would stay prominent for so long. The Committee has no staff or budget, and the members meet once a year to share experiences and lessons learned on SED. Two key documents have come out so far: the 'Pink Book', with Donor Guidelines for microfinance, and the 'Blue Book', with Guiding Principles for donors in BDS. Jim Tanburn elaborated a bit more on the BDS Working Group of the Donor Committee. After four conferences and a virtual discussion, all inputs from around the world had been summarised into the Guiding Principles. He noted that there were several small changes already indicated to the document; for example, the wording about the roles of providers and facilitators seemed to indicate that organisations had to choose quickly either one or the other, whereas the reality was more fluid. Similarly, the diagrams did not show the possibilities of embedded services, and should be modified accordingly. Then the floor was opened to the participants who were invited to give their interpretations, doubts and comments on the Guiding Principles, as inputs to future revisions. Key comments were:

- The Blue Book has a gap between theory and practice. It should give more practical tools for implementation of the principles: what to do in weak markets, for example?
- The Blue Book should say more on choosing partner organisations and the complications: how to work with embryonic partners
- The Blue Book needs to revise the definition of SME: do we still exclude agricultural enterprises?
- The Blue Book should dedicate a paragraph on reaching micro enterprises and addressing poverty: how low can BDS market development go?
- The Blue Book should be more explicit on the relative position of BDS in the wider SED discussion: BDS is not the only way to SED, how does it relate to other debates?
- The Blue Book has to elaborate on the “public good” versus “private good” discussion: what are the best practices for subsidy?
- The Blue Book should address gender issues

85. Kris Hallberg, as one of the principal authors, explained that the Blue Book had a conceptual character. However it was realised that the enormous amount of experiences gained since its publication were pointing to the need for more practical guidelines. She added that the Blue Book should contemplate the complexity of firm interactions, both between themselves and with BDS providers. Jim Tanburn, another of the principal authors, then gave his reaction to all mentioned points. Amongst others, he pointed out that indeed agricultural enterprises were already being included, and that the message in the Blue Book was not so much about appropriate levels of subsidy, but that the private sector was already providing similar things that looked different, but that were worth considering.

## 25. A Personal Overview of the Seminar

86. Katherine McKee, Director of Micro-enterprise Development from USAID, gave her personal overview of the issues that had emerged during the Seminar. She talked about the broader definition of BDS, that more empirical research was needed on the usage and effects of BDS and how markets actually develop. The trends in service types were pinpointed, and the wider discussion around BDS for poverty and economic development was outlined.
87. The first issue was about the definition of BDS that had broadened up. It now included for example technological and embedded services. The field had matured and MA tools better captured the more complex reality of BDS markets. More empirical research was needed on the growth of enterprises and BDS usage. The often-cited “missing middle” that had no access to BDS was probably located in between small and medium. A warning was given about assumptions without empirical grounds about BDS and their effects on growth and employment. Also, an important area was market development. Markets develop in very diverse ways, and facilitation had different implications in different markets. The term “rolling facilitation” that had been introduced by Antonio Coello seemed to capture that complexity. There should be more openness on the costs of the market development approach. Although service fees were introduced, where is the money being spent? And even though the new approach was less distorting, it should be realised that all facilitating and technical assistance is distorting.
88. There is a trend from mass markets with crosscutting services and economies of scale towards niche markets with sector specific and tailor-made BDS. However, the choice between sub-sector versus crosscutting approaches should not be taken too exclusively. It was important to have a diversity of approaches. Market access had been another key issue in the BDS debate. There had been several successful examples and entrepreneurs seemed most willing to pay for BDS if there were short-term results that increased income. 'Market linkages' was a new and growing area of BDS. Then there were still many open questions about embedded services and the roles of donors in their facilitation. She expressed particular interest in examples of BDS products that had a down-market bias, like vouchers and drip-irrigation, which were not so interesting for larger enterprises. More knowledge was needed here.
89. The discussion about poverty actually contained two questions: for whom is entrepreneurship relevant, and what are the limits to current BDS approaches? More thought was needed on those products that reached down-market. Another concern was the position of BDS within development strategies. For many donors, BDS was only a very small concern. BDS needed to be seen in the wider context. How can BDS contribute to trade and globalisation? The debate on private and public goods was still ongoing and a need was identified for more disciplined usage of these terms. Governments needed to get involved in BDS market development. However, there is a gap between what donors would like governments to do and what governments currently think of doing. The final issue she mentioned was about social capital and trust at all levels of the BDS field. Social capital and trust determined to an important extent the success of BDS and of the current debate, in which discussions had been frank and open.

## **PART 3**

### **The Study Tour**

## The Study Tour

90. The Seminar was followed by an optional Study Tour from 14 to 17 September to the Tuscany region in Central Italy. As in former years, the aim was to see something of BDS markets in practice and focused on the reasons for success of Italy's export-oriented SMEs.

“For me, this Study Tour was the best part of the Seminar since one spends day and night with people from all over, that are all wondering about BDS. It's when the real discussion takes place.”

91. On early Sunday, a group of 24 participants left southwards to Lucca that was to be the central point of departure for the rest of the Tour. The participants were to visit the CNA, the most important BDS provider for small enterprises in Italy, and several small enterprises that to greater and lesser extent used BDS.

## The BDS environment of Tuscany

92. The first visit was paid to the CSA Lucca, the service centre for handicraft of the National Confederation of Small and Medium Businesses and Craft Firms (CNA). Mr. Tesi, the director of the regional CNA, gave the participants a general idea of the enterprise sector and the services that CNA offered to its members. He emphasised the importance of small enterprises for employment and economic growth, and that small enterprise policy must be in line with local development priorities. About 90% of Italy's enterprises have fewer than 50 employees and 70% have fewer than 15. Moreover, the small-scale crafts sector of Italy is an example of an old sector that is still very competitive on international markets. The participants were to visit two such sectors this day, shipbuilding and carnival floats. Two thirds of the enterprises in Lucca are in services, like crafts. It was explained that CNA is a democratic, non-profit and non-political association that besides its lobby function offers a wide range of services to its members, services like trainings and advice in the areas of marketing, environmental matters and safety.
93. Instead of going into much more detail, Mr. Tesi invited the participants to introduce themselves and explain what they were doing. He said that the CNA was honoured with a delegation of such wealth of nationalities and experiences. Several issues rose from the discussion that followed, amongst which it was learned that approximately one third of the enterprises are women, that the CNA has a partner organization in Burkina Faso, and that data collection and statistics are important aspects of the CNA. Furthermore it was learned that the CNA together with the Ministry of Industry has a project for start-ups with funding from the European Union. About definitions of size of firms it was explained that they use three criteria: the number of employees, the turnover, and the level of linkage to other firms. Another fact was given about FIAT that subcontracts 70% of its production to countries like Brazil and Spain and to small enterprises around Turin. SMEs assure flexibility, though quality and certification remain challenging issues. Despite the importance of its services, the core business of

CNA is political lobbying. It was emphasised that the CNA can at best influence, but it can not dictate the market. One third of the starting enterprises close down again within three years. CNA can give advice, but it is the craftsmen and women that make the decisions. According to Mr. Tesi it is innovation that dictates economic cycles. He ended the session by saying that information is provided free of charge to members but the consultancy services are offered at market prices.

94. Then Mr. Marchetti, the director of Artigiancredito Toscano (ACT) elucidated the credit service of the CNA. He explained that in order to develop the economy after the Second World War, the CNA decided to concentrate on accountancy, tax advice, quality and credit. And if credit was to be accessible for smaller enterprises the cost needed to go down. Since the CNA is legally constrained, the CSA was created that though closely linked to the CNA, is a credit association on its own. The CSA began small, with 9 associates, and hence aimed to reduce the price of credit. It has negotiated favourable interest rates with commercial banks (3%) and most interesting, the CSA stands guarantee for half the loan, up to a maximum credit of 560.000 euros, referring to both working capital and structural investments. It is still profitable for commercial banks since overheads and default are significantly reduced. The CNA also has special loans, for example a loan of which 70% of the total value is not charged with interest. Mr. Marchetti stressed that the financial advice services of CSA are important too. If an enterprise applies for a loan, the CSA helps to prepare the business plans before they are channelled to the bank.
95. Mr. Barsocchi of the provincial administration of Lucca gave his idea of the small enterprise environment in the Lucca province. Firstly, the situation of the province was sketched by its demographic and economic characteristics. Recently the province had lost competitiveness. Exports and consumption had been dropping and inflation had been rising. Although the unemployment rate was lower than the average of Italy, it was higher than in previous years. Lucca has a high concentration of small enterprises, more than 90% of the enterprises have less than 10 workers. Other features of the enterprise sector include a high percentage of single-owned enterprises, many craft enterprises, and almost one third of the workforce was self-employed. Less than one third of the workforce were women. Approximately two thirds of the province's exports go to the European Union. Lucca is a diversified province in terms of enterprise size, structure, and sectors, so reducing its risk of recession and unemployment. For example, the paper and shipbuilding industries are flourishing at the moment while footwear and stone mining are doing less well. Overall, competition is increasing from countries like China. Mr. Bertzoci stressed that innovation requires participation of all actors, not only enterprises, and essentially is a communal process that involves the government. Since the Lucca area is not self sufficient, they need to link up to international markets. Besides credit instruments, enterprises need human resource training and the public and private sector should go hand in hand. The local government highly values its on-going dialogue with CNA.

## **BDS Clients in the Pisa Province**

96. After lunch, the bus brought the participants to Polo Nautico di Viareggio, a nautical cluster in the province of Pisa, where participants could get a taste of this blooming upper-market industrial cluster. One of the two enterprises that were visited was FIPA Massarosa of Viareggio, an example of a small enterprise that grew big by moving into a specific market niche. The enterprise started with ship repairs at the end of the 80s but now only produces luxury yachts on demand and makes 6 to 8 vessels a year. They used to subcontract a considerable amount of work but have recently increased in-house production. Still, other local firms supply engines and electrical wiring. Visits were paid to the workshops where the yacht frames were made of glass fibre and where the interior fittings were fabricated. The interior was fabricated according to the specific needs of the customer. It was explained that there were no particular advantages to the location but the firm had simply grown from there. Transportation was their main limitation, requiring light material and determining the maximum length of the ships. They informed that the technique was imported from the United Kingdom in the seventies and was considered relatively traditional today. The vessels need approval of the maritime authority but local government gives most constraints in regulation. There was no explicit elaboration on BDS usage.
97. Remaining in the industry, the Tour then brought the participants to an enterprise that builds electrical systems for yachts, Federigo Landucci & C. s.n.c. The founder and owner is 75 years old. He had started the business in 1952, was still keen on it and though preparing his son to take over, had no plans to retire as yet. The firm hardly subcontracts and takes care of their product up to the installation in the yachts and had 85 employees, of which 3 were women. They currently work for 20 different shipbuilding companies, all custom made, and face strong competition. Key to their success is cooperation within the enterprise and between the enterprises in their industry and investment in innovation. According to them, the CNA has primarily a political role to play and creates political discourse for small enterprises.
98. The final visit of that day was paid to a group of artisans that build carnival floats for the Viareggio carnival, Italy's 2nd most famous that attracts ten thousand people every year. Together with shipbuilding, it is one of the typical industries of the Lucca area. The carnival is a tradition that goes back 30 years when at some point the government of Viareggio decided to turn it into an official parade of five days. Besides related businesses that pick the fruits of such event, it provides work to 25 small firms that construct the floats and are gathered into the "Cittadella del Carnevale Viareggio". It is a large ground with several high sheds, each shared by about three enterprises that during half a year work on their project. The rest of the year they work for other carnivals or have other jobs. The private firms have to invest up-front but in case the event makes a loss, the municipality covers the difference. The CNA assist the artisans in paperwork and legal issues. After walking around the workshops the participants had a look at the museum that tells the history of the Carnival.

"It would have been interesting to obtain more insights on the operational sides of how clusters operate in a production setting."

## **BDS Clients in the Pistoia Province**

99. On the second day Mr. Gasser prepared the participants for a visit to enterprises in Pistoia. These enterprises had acquired niche markets, facilitated by a favourable environment with the CNA providing access to credit, training and political lobby, and a strong attitude of cooperation amongst the enterprises.
100. Rosella Lingerie in Larciano, close to Florence, was the first example. Mr. Tarabussi and Mr. Magnolfi explained how Mr. Tarabussi and his wife Rosella began to make underwear in a garage 1978. Being a luxury good that is prone to economic changes, the first important step was brand development. They managed to position the brand in the national market and half way through the nineties decided to try international markets. They began presenting at trade fairs. As the first experience had not been very successful they decided to join a consortium of 10 exporting enterprises that channelled assistance to attend trade fairs. It reduced costs and increased their visibility. Rosella Lingerie employs 12 people now and has entered European, Japanese and Arabic markets. The design and prototypes are developed at the plant visited but assembly is contracted out to local firms, as it is easy to monitor and supervise, despite relative high labour costs. Again, the reason for the location has been organic. The owners come from the region, though there are a lot of useful tailoring skills around. The discussion that followed the presentation revealed that they are not part of a cluster, but really a consortium where they capitalise on shared needs. Problems between members are overcome because of a basis of mutual respect, and in the end, it is the market that decides the most suitable product. Confidence is key. One has to convince the customer of the desirability of their product. They are members of the CNA but stressed the large quantity of organizations and associations that show an overlap and sometimes conflict. The chamber of commerce has an important role in representing Italian small enterprises in the international market
101. Mr. Davide Overi of the furniture designer Formitalia warmly welcomed the group to the second enterprise visit of the day and gave a tour through the workshop while explaining the firm's business model. In the 60s they started making furniture frames and worked with designers like Gucci. Then when the second generation took the management, they started to design themselves and gradually moved up-market to luxury furniture. Enjoying the skills of the region that is famous for its leather processing clusters, Formitalia aims to optimise the added value to their products. They produce for the top-end market. Their products are handmade and reflect local culture and handicraft tradition. Formitalia today employ 62 people. Although they have their own showroom in Florence, the majority of production is destined for export. One of their biggest markets is Russia where they have a franchise system. Being small, they are able to adapt to new trends and market changes. Formitalia values BDS like the services of the Chamber of Commerce that assists them with e.g. with exports information and contacts, and the CNA that organises workshops and facilitates in business meetings.

## **BDS Clients in the Lucca Province**

102. Filoni Franco & Co. snc is a family run industrial design business that is located in a rural area, some 45 minutes from Lucca, in San Marcello. Mr. Filoni, the owner, has been involved in industrial design since 1952 when he was sub-contracted by the major car and train manufacturers that originally settled in the region because of the natural resources. Mr. Franco changed his enterprise strategy as a response to a profound crisis in the vehicle sector. Most large companies are relocating to other countries. Filoni is a team of 18 now, and besides the design they embarked on production. They acquired a market niche with the production of small electrical carts to market and transport frozen or hot food, excellent equipment for small enterprises in developing countries. They are reducing risk by being less dependent on other enterprises, and by expanding their products to, for example, drilling machines and aeroplane seats. They are members of the CNA. They find the CNA services of advice on legal requirements and certifications helpful. However, the local Chamber of Commerce was not very beneficial since their focus is on other sectors. Filoni is keen on innovation and keeping their technical skills up to date.

## **BDS Provision by the CNA**

103. The last BDS-day of 2003 brought the participants back to the Pisa region where the provincial CNA explained its functions. The president, Mr. Tamburini, welcomed the participants after which Mr. Pampaloni, the general director explained the mission and structure of the provincial CNA Pisa. Despite the economic decline, it is a growing association that with approximately 3500 members is the largest in the region. It represents the small and medium sized enterprises, cooperatives, associations, consortia and retired entrepreneurs and has three roles: it is a union, a services centre and it provides patronage. The CNA is represented in the Chamber of Commerce, which is considered crucial to get access to funding. The membership fee varies according to the enterprise. The CNA has national, regional and provincial bodies. The provincial bodies collect the contributions and remit a share to the national level. Still, fees are enough to cover the operational costs of the provincial CNA. The national CNA is stronger in its union role whereas the provincial CNA, like this one, is more focussed on service provision. Within the CNA are 3 other organizations in which CNA has shares, the service centre that was visited on Monday (CSA), a centre for fiscal assistance (CIED), and a social service centre (CIED-CNA-CAF). It was explained that the business strategy was organised around 4 broad areas: the market, the economy, the society and the institutional environment. There are five strategic areas in which CNA aims to develop services: (1) overall representation in all environments, (2) development services related to markets, (3) economic development, (4) social services, and (5) compliance towards the institutional environment. It was learned that of the 3399 members, only 905 use their service (27%). Half of all craft enterprises of the province are members representing 30% of national CNA members. Retired craftsmen are important members too and CNA considers it its role to keep them involved in society.
104. The strength of CNA is the broad service offer, good physical representation with 5 offices, and its high profile regionally. For new members, the CNA offers

a zero-interest loan of 5,200 Euro. For old ones, they negotiated low interest rates with 15 banks, and offer other financial instruments like the guarantees as were explained on Monday. Mr. Pampaloni stressed that to reduce the risk of loan default for banks was a principle that could be adopted elsewhere. Amongst the free services, 40% of all services given, the CNA does general diagnosis of the member enterprises, provides contracts for employees, gives advice on payment of taxes, and arbitrates in disputes, amongst others. It publishes a newsletter, has an Internet site, and has negotiated discounts with, for example, cell phones. In short, information is free. Amongst the priced services are the more specific ones. 60% of the services, such as consultancies, professional training and quality-related services are fee-paying. In general their services are offered slightly below market prices. The CNA intends to put more emphasis on training in future as it is key to competitiveness.

“I am impressed by the CNA and have now seen that associations have multiple roles in BDS market. Although it certainly is not the Blue Book in practice with its many subsidies, it does seem a plausible and sustainable model to me.”

## Concluding Remarks

105. Mr. Gasser conducted the final session and asked all participants to think about the lessons learned. In order to develop insights to what is key to a successful business they were asked to pinpoint the factors that contribute to the competitiveness of the visited enterprises. Every single participant mentioned one point of particular interest that can be clustered into three areas: the institutional environment, production processes and entrepreneurship.
106. The role of associations was central in the remarks on the institutional environment. The many small enterprises are organised into associations that in turn give the impression of performing effectively in all three functions of (1) representation, that gives small enterprises negotiating power both to public and to private organizations, (2) service provision, that gives small enterprises the opportunity to improve the enterprise, and (3) patronage, as they know how to access public funds, hence can offer cheap credit and other subsidised services to their members. Institutions like the CNA and Chamber of Commerce are able to offer good quality and relevant services. Local government is facilitating and open for dialogue with the representing bodies. Hence, the organization and capacity of the institutions seem to match the needs of enterprises.
107. Then concerning production, amongst the success factors it was stressed that production chains are rather integrated in which subcontracting seems to work well. Small enterprises manage to capitalise on local natural resources and available skills. There is a strong capacity of branding amongst the enterprise what enables them to enter niche markets, reducing competition. The level of craft-based skills appears to be high. Production seems knowledge driven in which skills are key and constantly under development. Entrepreneurship is strongly interwoven with the family what engenders trust and skill development. The CNA aims to draw on the knowledge and experience of retired craftsmen.

108. Concerning entrepreneurship it was remarked that the Italian culture seems to promote and value entrepreneurial thinking and success. The entrepreneurs seem self-assured, proactive towards market opportunities and creative. It clearly shows that the entrepreneurs adapt their traditional skills to modernity and they seem well aware of the advantages of cooperation.
109. After this clarifying session, a walk around the famous tower of Pisa prepared the participants for a final bus ride back to Turin.

“Small Italian firms target niche markets and use craft-based production systems to the flexibility required by custom production. Large-scale production is disappearing overseas. Traditional industrial champions like Fiat are struggling in the face of globalised competition. The small family firms survive by linking individual design to short production runs or by outsourcing production. Examples includes the yacht makers, Rosella Lingerie and Filoni. Thus high costs of labour can be offset by high value production. This helps to explain how small firms can survive. Low value mass production is increasingly non-viable in Italy. This helps to explain why many small firms quickly reach a limit to their growth.”