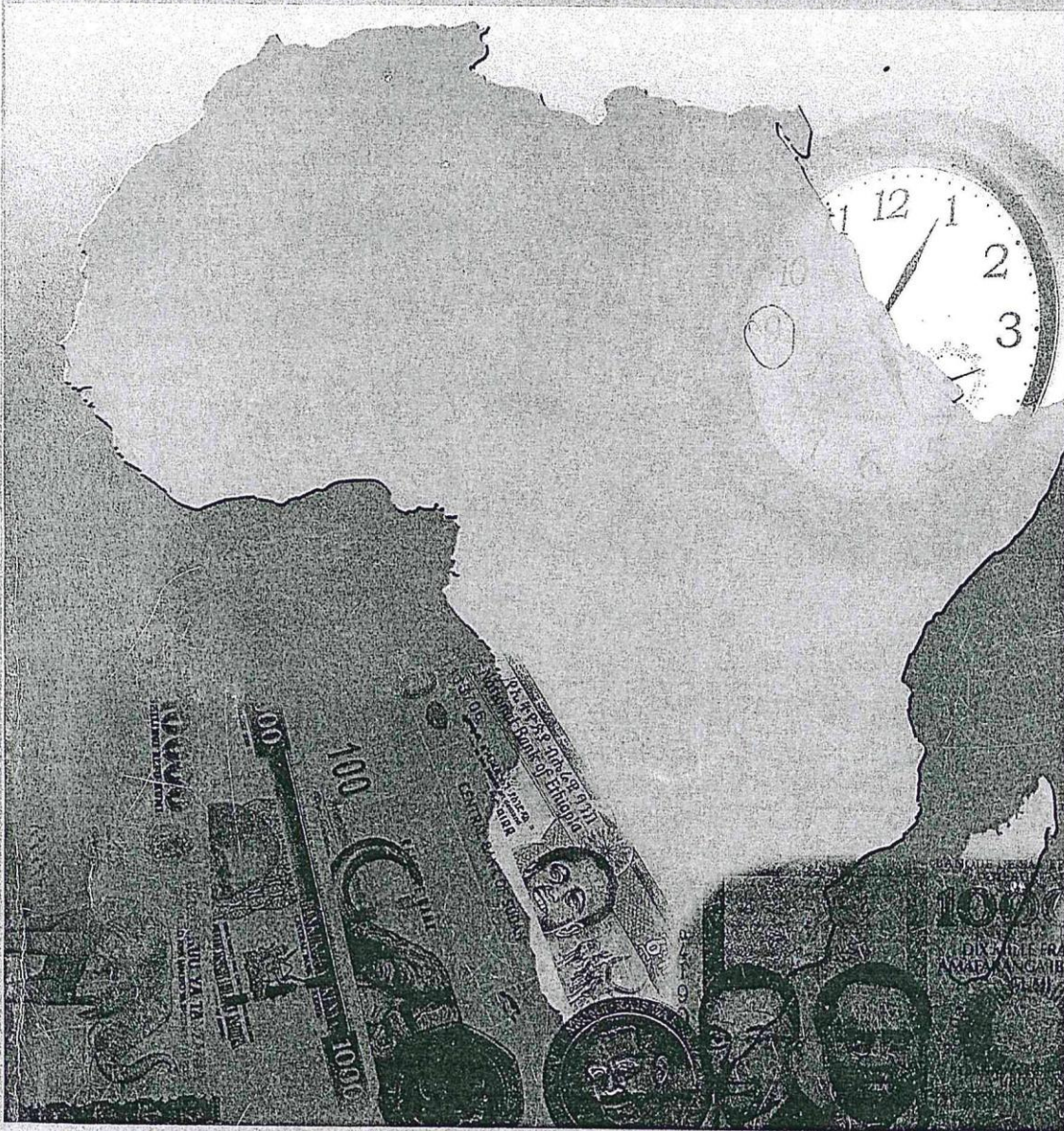


AFRICAN ENTREPRENEURSHIP AND SMALL BUSINESS DEVELOPMENT

Context and Process



Donath R. Olomi (Ed)

BUSINESS DEVELOPMENT SERVICES (BDS)

Otieno, H. and Kiraka, R

INTRODUCTION

•While the role that micro, small and medium enterprises (MSMEs) play in all economies is universally acknowledged, only a small segment of small businesses •is capable of making full use of opportunities and coping effectively with threats without assistance. Smallness confers some inherent competitive disadvantages and same sort of external support is warranted in order for these enterprises to ; [each their full potential (OECD, 2004). Services to promote and enhance MSME • competitive performance accordingly constitute important policy instruments in : many countries including advanced ones, such as the USA. However, programmes and institutions designed to support small enterprises have reached and assisted only a minority of them. This chapter examines the meaning, scope, role and the :changing perspectives of business development services (BDS).

WHAT CONSTITUTES BDS?

The term Business Development Services refers to a wide range of services used by business operators to help them operate efficiently and to grow their businesses. ; The nature of the services required depends on the sector and stage of MSME ! development and relates to the business operator's ability to find customers, design products, enhance productivity, reduce costs, improve administration, communicate effectively and access technology, among other things, while the degree to which these needs are met will have a major influence on business success. BDS can include the following:

Business Consultancy Services

These include business diagnosis, support in developing a business, strategic, marketing, financial and other plans, organisational structure, developing financial, accounting and other policies, systems, procedures, organisational structures, etc.

Assistance with Market Access

This may take many forms, including facilitating the establishment of trading relationships between rural or urban small enterprises. With large, urban-based or international ones; facilitating collaborative marketing, and market research; providing market information; facilitating promotion, including trade fairs and exhibitions as well as developing and implementing mass media or targeted promotional campaigns; analysing value chains and proposing appropriate measures to improve them, etc. These services are mostly provided by business associations, NGOs and government agencies,

Input Supply

Efforts to support small enterprises to access inputs in a cost effective and reliable manner may include providing information about suppliers facilitating collaborative or joint procurement and facilitating negotiations with suppliers, etc.

Technology Development and Transfer

This includes research and development of appropriate technologies; promoting, distribution and installing such technologies, developing distribution channels for the technologies and advising on appropriate technologies. The technologies are often developed as "public goods". Because they are simple and easy to copy, it is hard to commercialise the transfer and hence the development. Product development includes support to small enterprises to develop, test and launch new products or services.

Training and Technical Assistance

Training is one of the most common BDS. It includes developing business or technical knowledge or skills; changing attitudes, such as mindset, bias, cultural values (e.g. gender bias); enhancing awareness and knowledge of policies, laws, regulations, diseases, the environment, gender, etc.

Infrastructure

Provision of business infrastructure includes the construction, operation or maintenance of markets, industrial parks or sheds, business incubators, storage

and cooling facilities, power, information and communication technology (ICT) infrastructure, etc.

Professional Services

Professional services available to small businesses are of various kinds. They include legal, accounting and auditing services. However, the list can be expanded to include engineering, architectural and ICT services,

Policy Advocacy Services

This includes influencing policy makers to improve policies, laws, regulations, procedures or administrative practices and processes, hence improving the business environment. Promoters of BDS often have the broader purpose of contributing to economic growth, employment generation and poverty alleviation. Environments that are conducive to MSME development provide relevant, differentiated services to meet these needs on an informal or formal basis.

TYPE OF BDS PROVIDERS

A range of providers offer BDS to SMEs. These include public, private as well as civil society organisations. Examples of BDS providers are:

Private Businesses

In the most entrepreneurial situations, private-sector companies and formal and informal networks are the most important players in BDS (Miehlradt and McVay, 2003). BDS offered by private companies are both more sustainable and more likely to have an impact because they must be responsive to the needs of business operators. Private BDS providers range from multinational consulting firms, small companies with a national or regional outreach to informal micro enterprises serving local MSEs.

Specialised Government Agencies

Many countries have established public agencies that provide some BDS to MSMEs. The main argument is that the market is not sufficiently developed for private providers to offer these services, or that, owing to their smallness, SMEs are unable to pay the full cost of the services. Examples of such agencies are Small Industries Development Organisation (SIDO) and the Board of External Trade (BET) in Tanzania, Small Business Administration (SBA) in the United States, Enterprise Ireland in Ireland and GODISA (incubation) in South Africa.

Many governments create and finance operations of specialised agencies to support implementation of their

SI\ffis, such as building export capacity in certain areas, technology development or transfer, industrial development, business incubation, etc

Non-Governmental Organisations (NGOs)

A wide range of NGOs provide BDS to SI\ffis. These range from international NGOs operating in many countries, to those operating at local level. These are financed by donors and governments, as well as internally generated funds.

Local Government

In many countries, local governments provide a variety of services to SMEs in their jurisdiction. Such services may include information, infrastructure (e.g. incubators, industrial sheds/ parks, markets) investment facilitation, market linkage services, etc.

Development Companies

Some development companies have been established to provide specific support to MSMEs. These are often formed by donors alone or in collaboration with other stakeholders. A good example is the Rural Livelihood Development Company (RLDC) established by the Swiss government to support MSME development in some areas of Tanzania.

Hybrid Companies

Hybrid enterprises are private companies that seek to generate profits while pursuing a social cause (poverty reduction, environmental conservation, etc). A good example is Honey Care, a Kenyan company, which buys, packages and markets honey produced by poor rural communities. In order to get quality raw materials reliably; Honey Care seeks support from development agencies to build the capacity of the rural producers.

Business Associations

These are membership organizations of businesses. They typically provide information and policy advocacy on behalf of members. Others extend the range of services to training, licensing, workspace, access to ICT, etc. For example Tanzania Food Processors Association (TAFOPA) maintains a display centre for its members' products in Dar es Salaam city centre and plans to import packaging materials in bulk for sale to its small-scale producers who cannot afford to

Women business operators Association

(AAWBOA) has established a permanent display centre, an electronic database and a website, which members can use to advertise and sell their products. Sudanese Business Women Union (SBWU) and Sudanese Women Engineers Association have set up business incubators which support new members' businesses at the early stages of development.

Individual Providers

There exist many individual providers of training, advisory, accounting and other services to SI\ffis. Some of these are licensed, while others operate informally.

In terms of sectoral concentration, BDS can be sub-sectoral, sectoral or multisectoral. For example, while a skills training or marketing service could be sector specific, a business training service is likely to be more multi-sectoral in nature. A sector-specific service is most relevant when the constraints are also sector specific. For example, Akili and SITE of Kenya, both of which offer training to SMEs, adopt a sub-sector approach that allows them to focus their support on production skills, new products, and quality within a specific sector. A subsector is defined by the final product or commodity.

Levels of BDS Development

The BDS interventions are offered at least at three levels namely; enterprise, meso (intermediate) and macro. At the enterprise level, programmes focus on building capacities of owner-managers, their employees and the business itself. The latter include setting up or improving operational systems.

At the intermediate level, BDS programmes concentrate on building and strengthening the capabilities of the BDS providers themselves through human capital development, technology, infrastructure, etc. For example, SNV, the Netherlands Development Organisation, has recently shifted emphasis from directly serving SI\ffis to supporting intermediary organisations, such as business associations and other BDS providers. The University of Dar es Salaam in Tanzania, Eduardo Mondlane University in Mozambique and Hawassa University in Ethiopia have established a business incubator to support newly established BDS enterprises. Associations of BDS providers can also play a big part in providing members with important BDS, including advocacy.

Macro-level interventions deal with building an enabling policy framework, creating an environment conducive to growth of BDS enterprises, including eliminating barriers and administrative burdens imposed by legal and regulatory systems, and enhancing access to markets, etc.

Scope of BDS Programmes

In terms of scope, BDS programmes can be minimalist, with single intervention such as training-only, technology-only or marketing-only services or a package where a number of different services are combined or linked (Esim, 2001). The minimalist strategy often fares better in terms of cost effectiveness and sustainability. While integrated strategies can have greater impact, they cost more and often must be subsidised. BDS also differ in their strategic focus of service. Where income generation is the focus of a given programme, the rationale of the beneficiaries is mainly welfare and poverty alleviation. These programmes tend to offer lower quality products using traditional approaches and skills and lack a focus on the market. On the other hand, an enterprise development focus in BDS is based on demand-driven and market responsive provision of services. Efficiency and effectiveness are the guiding principles in such programmes (Esim, 2001).

DEMAND FOR BDS

Markets are effective when there is an exchange between supply and demand at a market price. For this to happen, customers must be ready to purchase something (effective demand) and providers must have something to sell (effective supply). However, market failures may prevent this from happening. Small firms in developing countries may not use BDS for a number of reasons. First, because of their low knowledge and capacities, they "don't know what they don't know". Secondly, unlike large firms, SMEs don't recognise that these services can raise their productivity and growth because they lack information or because they fear that these benefits will not occur. Thirdly, even when they are aware of what they need and the value thereof, they may not be able to afford quality BDS. Fourthly, because of their limited demand for services, what is available in the market may be unsuitable for their needs. Finally, individual MSMEs may not be motivated to pay for certain BDS if either businesses and society in general benefit from them.

For example, attributes of technology (such as techniques, information and new organisational ideas) means that enterprises engaging in R&D or importing new production techniques and organisational structures do not fully benefit from their investment, as some of the benefits "spill over" to other firms free of charge. Experience in Tanzania and other developing countries, for example, suggests that companies are unwilling to pay for the exclusive right to use technologies developed by R&D institutions or to engage such institutions to develop such technologies as there is no effective protection of their property rights.

The inability of enterprises to fully benefit from such investment means that society generally benefits more from technology transfer than any individual firm that undertakes it. As a result, the private sector will invest too little in technology transfer relative to what is socially optimal. Similarly, firms investing in worker or manager training (particularly basic training) may not receive the full benefits of their investments because workers or managers may leave the firm taking some of the benefits with them to other firms. Again this may cause firms to underinvest in upgrading the skills of their employees (Beyene, 2002).

Therefore markets for BDS need to be "facilitated" to strengthen and create additional learning for small firms. Facilitation of the market means the development of appropriate low-cost services that meet the needs and willingness-to-pay of the small-scale clients (Gibson, Hitchins and Bdr 2000). It is important to note that programmes supported by donors to provide free or subsidised services supposedly to address this market failure may also contribute to weakening demand.

EVOLVING BDS PARADIGMS

Until the early 1990s, the business support model was heavily supply driven: support was predominantly centrally organised and administered by governments, and heavily financed by foreign donors. Projects for new start-ups were conceived by bureaucrats in their offices, who would then search out a person, whom they considered worthy of turning the factory key, taking charge of operations and transforming him/herself into a business person. These top-down programmes suffered from widespread corruption and inefficiency, and lacked outreach, impact and relevance. This 'conventional' approach to BDS emphasized donors' (supply side) view of what was good for SMEs, and focused on training and counselling. Under this approach, recipients were seen as grateful beneficiaries of charity. The key providers of BDS were government organisations and NGOs while BDS were primarily public goods financed primarily by the state or donors (SDC, 2000).

This approach was deemed appropriate in many developing countries, where markets for BDS suffered from lack of information among SMEs about the benefits and their potential benefits. Facilitators responded to this problem by initiating programmes to raise SMEs' awareness of existing BDS suppliers and their products. For years BDS practitioners stated that small enterprises were not always aware of the benefits of BDS because so few had experienced them. BDS therefore needed to be subsidised and promoted and sometimes were even required to access finance until such time that the business operators in a community realised the value of the BDS. However, that time has not come.

Despite the participatory rural planning methods and expensive surveys assessing the needs, too many BDS programmes continued to supply services that were not valued by business operators. The impact of the services could not be demonstrated and business operators were not willing to pay for the services.

In response to the above failures, a new 'commercial approach' to BDS was developed. In contrast to earlier schemes, a key feature of BDS was that service delivery was organised along commercial lines with an indirect facilitative role of donors, NGOs, government and developmental agencies. These BDS facilitators targeted private sector service suppliers (BDS providers) with technical assistance and incentives to encourage them to initiate and launch new services and enter new markets (Miehlradt and McVay, 2003). The role of the different actors in the BDS market under this paradigm was as follows:

- MSMEs, the demand side of the market, are micro enterprises and SMEs that are mostly profit-oriented and are the actual potential clients of BDS providers.
- BDS providers who provide services directly to MSMEs may be individuals, private for-profit firms, NGOs, industry associations' etc. The BDS providers are the supply-side actors that are in direct contact with small enterprise clients.
- BDS facilitators support BDS providers. They develop new service products, promote good practice, and build provider capacity. BDS facilitators can also work on the demand side, for example by educating MSMEs about the potential benefits of services or providing incentives to try them. BDS facilitation functions include external evaluation of the impact of the BDS providers, quality assurance, and advocacy for a better policy environment for the local BDS market. Actors at this level can be either private or public, including government agencies and donor-supported projects.
- Donors provide funding for BDS projects and programmes.
- Governments, like donors, may provide funding for BDS projects and programmes. Beyond BDS interventions, the principal role of governments is to provide an enabling environment for MSMEs and BDS providers, as well as public goods, such as basic infrastructure, education and information services and quality assurance.

Under the commercial approach, unlike earlier programmes, stringent commercial criteria were imposed. New services had to quickly prove their worth in the market by means of a demonstrated willingness to pay on the part of small enterprise clients. Services that failed to pass this test within a short time (typically

months), after their launch automatically disappeared as BDS facilitators withdrew their support from BDS providers.

Some successes have been achieved by applying these organizational principles (see www.seepnetwork.org/bdsguide.html), although the commercial approach too has proved to be especially inept in reaching the poorest segments of the small enterprise spectrum (Caniels and Romijn, 2005). Despite the interest, evidence suggests that the majority of programmes and institutions designed to support small enterprises have reached and assisted only a small minority of them. It is probably due to the above reasons that some people argue that, rather than providing direct assistance to smaller firms, governments should concentrate on creating a business environment conducive to small and medium business growth, and promoting the provision of BDS by the private sector.

The Market Development Paradigm

The BDS market development approach originated in the early mid-1990s, when it became clear to many development agencies that in comparison with the results of microfinance, BDS, after many years of funding and endeavour, had produced disappointing results, especially with regards to outreach, impact, sustainability and efficiency:

- Outreach - only a small number of MSMEs were being reached with officially-supported services. Most were untouched.
- Sustainability - public organisations supported to deliver services consumed resources but, with little or no income from MSME clients, depended on aid.
- Impact - there were few signs of a major impact as there seemed to be little perceived value on the part of MSME clients.
- Efficiency - the cost bases of providers and their ways of working seemed more appropriate to the world of donors than those of SMEs.

Drawing on the microfinance experience, in which open comparison and learning had been a key foundation of progress, practitioners instigated a major review, resulting, in the first instance, in preliminary guidelines based on core principles of good practice.

The Market Development Programme recognises that the provision of operating subsidies to particular suppliers may crowd out other, private sector suppliers who do not receive subsidies. Thus the programme tends to promote as many suppliers as the market can bear. The programme proposes a new vision for success, one that looks like a healthy, private-sector, business service market with numerous competitive BDS suppliers who sell a wide range of BDS

commercially to large numbers and types of MSIVIEs. Programmes start by developing an understanding of the existing supply of BDS from the private sector, donor-supported programmes and government, and the market failures that lead to a gap between supply and MSIVIE demand for services,

The goal of market intervention then is to overcome these market failures and take advantage of opportunities to expand the service market for MSMEs. The desired result is that numerous MSIVIEs buy the BDS of their choice from a wide selection of products offered (primarily) by unsubsidised, private sector suppliers in a competitive and evolving market. Paying fees for services is one clearway business operators can express their desire in, and felt value of, a service. If the service adds value to their business and is worth the investment, they will pay. If not they won't. In addition, when people pay for something, they expect quality service in return. Thus, based on this approach, the definition of BDS is one that reflects SMEs' own view (demand-side) while SMEs are seen as discerning consumers of BDS which are regarded as private goods and services. Under this approach, the key providers of BDS are the private sector in functioning markets, while BDS are financed through the transactions of consumer-provider,

Accordingly, programmes in developed and in developing countries, such as "matching grant schemes," which fund cost-sharing grants to firms to stimulate R&D efforts or technology transfer programmes as well as programmes to promote enterprise training in various ways such as voucher programmes, are attempts to correct problems of under-investment in technology and training (Beyene, 2002). Matching grant and voucher programmes are two market development strategies designed to increase demand for BDS. In both programmes, the strategy is to provide information and temporary subsidies to link MSMEs with BDS suppliers. The information is designed to increase MSME awareness and understanding of available services while a subsidy is meant to encourage them to try a service that they might be too risk averse to try at the full price. Increased demand from MSMEs is meant to stimulate suppliers to develop and improve service products for the MSME market. The vision is that, once both parties experience positive business transactions, they will continue to exchange BDS without further subsidy (Mc Vay and Miehle, 2001).

Market assessment should precede any voucher programme. On the demand side, vouchers address MSMEs' risk aversion to trying the services at full cost. However, if this is not the primary demand-side problem, vouchers may distort a market more than necessary by fostering MSME dependence on external support. For example, the Voucher Training Program (VTP) in Kenya had a negative impact on the willingness to pay for training because MSMEs came to expect that training would continue to be subsidised in the future (World Bank, 2005). Service providers must develop strategies for differentiating commercial services from subsidised services

However, in some instances subsidised or free services provided by government agencies or NGOs may help to stimulate demand. For example, in a post-test survey in Ukraine, users of two voucher programmes designed to temporarily spike demand for BDS reported that they would have paid the full cost of training if they had known of the availability of these services. Service providers valued their new relationship with the business associations that administered the programmes, because these associations kept them in touch with the requirements of their MSME customers. The findings suggest that the use of vouchers overcame the demand-side problem of limited information which inhibited SMEs from recognising a business problem and seeking an appropriate solution (Gibson, *et. al.*, 1999).

CONCLUSION

The market development approach to BDS undoubtedly represents a move forward in an attempt to address some of the shortcomings of earlier large-scale publicly funded programmes; in particular a focus on demand-driven services which respond to market realities rather than top-down supply-driven training and participatory methods which build on people's existing experience and skills (Mayoux, 2006). However, empirical evidence shows that even now many small enterprise programmes based on the new philosophy continue to struggle to make an impact (SDC, 2000).

In many BDS markets (particularly in the rural areas) services are still weak, with a mismatch between BDS supply and demand and discrepancies between the need for new services and willingness to pay (de Ruijter de Wit, 2003). This is especially the case in developing countries, particularly in Africa where there are weak and 'missing markets,' as well as poor infrastructure, and weak legal and regulatory systems. In particular, the market for BDS is still fragmented. However, anecdotal evidence in several countries shows that there are some local for-profit BDS providers who have succeeded in creating effective markets for their services without donor intervention. There are also some state and/or donor-supported programmes that have had an impact without significantly distorting the market

BIBLIOGRAPHY

- Barasa, E.S. *et al.* (2001): "Fallacies in Policy and Strategies of Skills Training for the Informal Sector: Evidence from Jua Kali Sector in Kenya," *[Journal] Education and Works*, Vol. 14, No. 3.
- Beat, M., Gibson A., Hitchens, R., (2003): "From Principles to Practice: Ten Critical Challenges for BDS Market Development." *Small Enterprise Development*, Vol. 14 No. 4, 10-24.
- Bycine, A., (2002): "Enhancing the Competitiveness and Productivity of Small and Medium Enterprises in Africa: An analysis of Differential Roles of National Governments through Improved Support Services." *African Development*, Vol. VII, No. 3

- Caniels, M. and Romijn H.A. (2005): "What Works and Why in Business Development Services . Provision for SMEs- Insights from Evolutionary Theories". *Wortkil- Paper*, Eindhoven Centre for Innovation Studies (ECIS), Eindhoven University of Technology.
- Committee of Donor Agencies for Small Enterprise Development, (2001): *Business Development for Small Enterprises: Guiding Principles for Donor Intervention*. World Bank Group, Washington, D.C de Ruijter de Wildt, M., (2003): "The BDS Seminar 2003: Testing the Guiding Principles," 4th Annual BDS Seminar Report, Turin, 8-12 September 2003
- Esim, S., (2001): "See How They Grow: Business Development Services for Business Growth." International Centers for Research on Women.
- Gibson A, (1990): *Market Development: Small Business Development Services: Where we are and How to go Forward*: ILO: Geneva.
- Hallberg, Kristin, (2000): "A Market-Oriented Strategy for Small and Medium-Scale Enterprises", WorldBank. Washington, D.C, International Finance Corporation, Discussion Paper Number 40 Hileman and Tanburn, (2000): *The Wheels of Trade - Developing Markets for Business Services*. London: IT Publications.
- ILO, (2003): *Learning and Training for Work in the Knowledge Society*. Geneva: ILO.
- Jahangir Hossain Sarder & Peter Rosa (1994): "Support Services to Small Enterprises in Bangladesh," in Obrecht J.J. and Bayad, M., (eds); *Small Business and its Contribution to Regional and International Development*. Strasbourg, France: Institute of Business Management.
- Jahangir Hossain Sarder, Dipak Gosh & Peter Rosa (1997): "The Importance of Support Services to Small Enterprise in Bangladesh." *Journal of Small Business Management*: (April), pp 26-36.
- Marjolein Caniels & Henny Romijn, (2005): "What Works and Why in Business Provision of SMEs : Insights from Evolutionary Theory," Eindhoven Centre for Innovation Studies, The Netherlands, Working Paper 05.03
- Mayoux, L., (2006): "Learning and Decent Work for All: New Directions in Training and Education for Pro-Poor Growth." Draft Discussion Paper, January 2006.
- McGrath, S. et al., (1995): "Education and Training for the Informal Sector," V01.1-2, Serial No. 11 London, Department for International Development Administration (ODA).
- McVay, M., Miehlsbradt, A.O., (2003): "Business Development Series Background Reader," 2nd Annual Seminar, ILO, Turin: Italy.
- Miehlsbradt A.O. & McVay, (2003): "Seminar Reader. Business Development Services: Testing the Guiding Principles." BDS Update. Turin: ILO, Small Enterprise Development Programme. Miehlsbradt A.O. & McVay, (2003): "Seminar Reader, Developing Commercial Markets for Business Development Services." BDS Primer', 4th annual BDS seminar, Turin, September,
- Ngugi, Joseph (1999): "Business Development Services." In Andrew Muelli & Crispin Bokea (eds), *Micro and Small Enterprises in Kenya: Agenda for Improving the Policy Environment*. The International Centre for Economic Growth, Nairobi.
- OECD (2004): "Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Toward a More Responsible and Inclusive Globalization". Istanbul, 3-5 June 2004.
- OECD (2004): "Promoting SMEs for Development" 2nd OECD Conference of Ministers Responsible for Small and Medium-sized Enterprises (SMEs).
- SDC (2000): "Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions, *SED Issue Paper* No. 5, SDC, Berne,
- Sundbo, J. & Gallouj, F., (1998). 'Innovation in Services' S 14S S2, Step Group, Oslo.
- Thyra A Riley and William F. Steel, (1999): "Voucher Programme for Training and Business Development Services." Kenya Micro and Small Enterprise Training and Technology Project.
- World Bank, (2005): *World Development Indicators*. World Bank, Washington DC