

**Business Development Services  
for SMEs:  
Preliminary Guidelines for  
Donor-Funded Interventions**

**SUMMARY OF THE REPORT TO THE DONOR COMMITTEE FOR  
SMALL ENTERPRISE DEVELOPMENT**

**Committee Of Donor Agencies for  
Small Enterprise Development  
Secretariat c/o PSD, World Bank, Room G4-109  
1818 H. Street N.W., WASHINGTON D.C. 20433  
Fax: (202) 522 3183**

# Contents

<b>1. INTRODUCTION</b>	<b>5</b>
<b>2. SME NEEDS</b>	<b>6</b>
<b>3. GOOD PRACTICE</b>	<b>8</b>
3.1 WHAT IS MEANT BY GOOD PRACTICE IN BDS DELIVERY?	8
3.2 PERFORMANCE CRITERIA FOR BDS SERVICES INCLUDE:	8
3.3 BENCHMARKING	9
3.4 ASSESSING GOOD PRACTICE	10
<b>4. BDS INSTRUMENTS</b>	<b>12</b>
4.1 THE MICRO LEVEL	12
4.1.1 Training	12
4.1.2 Extension, consultancy and counselling	14
4.1.3 Developing commercial entities	16
4.1.4 Technology development and transfer	17
4.1.5 Information	18
4.1.6 Business linkages	19
4.2 THE MESO LEVEL	20
4.3 THE MACRO LEVEL.	25
<b>5. GENERAL PRINCIPLES</b>	<b>27</b>
5.1 BUSINESS-LIKE AND DEMAND-LED	27
5.2 SUSTAINABILITY	27
5.3 TAILORING	28
5.4 PARTICIPATORY APPROACHES	28
5.5 MAXIMIZING OUTREACH	28
5.6 BUILDING ON DEMONSTRATED INITIATIVE	28
5.7 SPLIT AND FOCUS	29
5.8 SYSTEMATIC APPROACHES AND PROGRAMME INTEGRATION	29
5.9 RENEWED FOCUS ON COST ANALYSIS	29
5.10 CONTINUED IMPORTANCE OF IMPACT ASSESSMENT AND EVALUATION	30
5.11 SUBSIDIARITY	30
5.12 GENERAL DEVELOPMENT CRITERIA	30
<b>6. THE FUTURE AGENDA</b>	<b>31</b>
6.1 MORE BENCHMARKING: RIGOROUS ASSESSMENT OF CURRENT PRACTICES	31
6.2 ENCOURAGEMENT OF MORE INNOVATION	31
6.3 SPECIFIC ISSUES	33
6.3.1 Creating business-like (non-profit) BDS organizations	33
6.3.2 Building on BDS already being provided by the private sector	33
6.3.3 Developing indigenous networks and associations	34
6.3.4 Developing BDS interventions for disadvantaged group	34
6.3.5 Selecting growth-oriented businesses	35
6.3.6 Achieving the appropriate balance between levels of intervention	35
6.3.7 Entrepreneurship education and training	35
6.3.8 The troublesome subsidy issue	36
6.3.9 Developing generic approaches for later adaptation and expansion	36
6.3.10 The process approach: Implications for design and implementation	36
6.3.11 Getting the private sector to do more	37
6.3.12 The impact of globalization and technological change on SMEs	37
6.3.13 Creating more effective mechanisms for donor coordination	38
<b>7. ANNOTATED BIBLIOGRAPHY</b>	<b>39</b>

## FOREWORD

The Committee of Donor Agencies for Small Enterprise Development has, since 1979, provided a forum for the exchange of information and coordination of activities regarding small enterprise. It encourages consistency among donor programs by distilling lessons of experience into common principles for assistance. A focus on finance in the early 1990s led to the publication of *Micro and Small Enterprise Finance. Guiding Principles for Selecting and Supporting Intermediaries.*

The Committee has since turned its attention to non-financial services. The wide range of business development services (BDS) receiving donor assistance and the lack of a consensus on “best practices” make this an especially complex topic. This working paper represents an initial effort to highlight some of the lessons of experience and the key issues in this field. The purpose is to provide a framework for gathering empirical information through case studies, which in turn will form a basis for guidelines on what works (and what doesn't) in certain types of BDS. These studies will be presented at an international conference scheduled for late 1998 or early 1999, and the findings will be used to further develop and refine this working paper.

The Committee is issuing this summary paper in hopes of stimulating dialogue among donors, practitioners, and governments on the objectives and effective methodologies for supporting services aimed at developing small enterprises. This dialogue and the findings from the planned conference are expected to lead toward more effective interventions to support a dynamic, indigenous private sector in developing countries.

William F. Steel  
Committee Co-Chair

## **PREFACE**

The present Working Paper summarizes the findings to date of the Working Group on Business Development Services, which was initially formed by the Committee of Donor Agencies for Small Enterprise Development at its Annual Meeting in Budapest in June 1995. An initial report by the Working Group, which has been coordinated by the ILO<sup>1</sup>, was submitted to the Donors Committee at its meeting in Frankfurt in April 1996. Based on the discussion at this meeting it was decided to continue the work, and resources were pledged by the German Ministry for Economic Cooperation allowing the Working Group to recruit a group of consultants to do further work.

After the Frankfurt meeting the Working Group met a total of three times at the ILO in Geneva to prepare the terms of reference for the study and to review and comment upon the work done and provide suggestions for the finalization of the report. The consultancy team's analysis has been based chiefly on project documents provided by members of the Donors Committee, on the earlier survey of Committee members, and on discussions with other researchers engaged in similar work.

The results of this work were presented to the Donors Committee at its meeting in Geneva in April 1997, where it was decided to prepare a summary report for publication as a Donors Committee Working Paper. The full report, together with this summary, are available on the ILO's home page at:

<http://www.ilo.org/public/english/65entrep/bds/index.htm>

The Working Group includes representatives of the following organizations: ILO, GTZ, SDC, DFID, UNIDO, UNCTAD. In addition, IDB, DGIS and EU have participated in one or more meetings. Also, several members of the wider Donor Committee, particularly the World Bank, have provided written comments which made very useful inputs to the report.

The Working Group would like to thank a number of people whose efforts were critical in the preparation of the paper. Mr. Simon White was the main person responsible for the first report, and Mr. Alan Gibson (Team Leader), Mr. Roel Hakemulder, and Ms. Meenu Tewari were responsible for the second report, which the present working paper summarizes. We also extend our sincere appreciation to the German Ministry for Economic Cooperation, without whose generous financial support this work would not have been possible, and would also like to acknowledge the generous contribution provided by the Swiss Agency for Development and Cooperation (SDC) towards the production of the initial report. In addition, we wish to thank those members of the Committee who over the last several years have provided additional data and details which have greatly facilitated the work of the consultants.

On behalf of the Working Group,

Michael Henriques

---

<sup>1</sup>International Labour Office, Entrepreneurship and Management Development Branch, 4 route des Morillons, CH-1211 Geneva-22, tel: 41 22 799 69 20; fax: 41 22 799 79 78, <http://www.ilo.org/entreprise>; email: [entreprise@ilo.org](mailto:entreprise@ilo.org)

# 1. Introduction

The development of small and medium-sized enterprises (SMEs) has long been regarded as crucial for the achievement of broader development objectives, including poverty alleviation, economic development and the promotion of more democratic and pluralist societies. Donor support for SME development interventions has increased substantially over recent decades, and donor agencies have accumulated considerable experience in this field. However, recent years have seen major shifts in the approaches adopted.

Donors have supported SME development in a variety of ways. Since the early 1980s, support for financial services has received particular attention, reflecting the widespread agreement that real progress has been made in the design and delivery of financial services for microenterprises. Support for the provision of business development services (BDS) to SMEs has also been popular with donors since the mid 1970s. However, during the 1970s and early 1980s BDS interventions tended to be confined to training and technology and often involved donor and implementing agencies working directly with SMEs. The sustainability of interventions was not given priority, since subsidies were regarded as investments in the future, and little consideration was given to the questions of impact, effectiveness and efficiency.

During the 1980s, the range of services that were supported, in addition to credit, widened substantially to include individual counselling, the facilitation of market access, the development of networks and clustering, the provision of information in a variety of areas, such as equipment, technology and markets, as well as physical facilities and shared services. In particular, as methodologies for the delivery of financial services (savings and micro-credit facilities) to small enterprises have developed they have shown that services to the sector can be delivered in a sustainable manner. Donors, recipient countries, and intermediary organizations have become increasingly concerned about the impact and cost-effectiveness of interventions, and sustainability has become a major objective in terms of both cost recovery and institutional capacity at the country level. *Beneficiaries* have become *clients* willing to pay for the cost of the services provided.

In the early 1990s, big strides were made in turning experience from credit programmes for small businesses into a well-defined set of best practice principles that could be widely replicated, leading to improved levels of impact, sustainability and cost-effectiveness. In 1995, the Committee of Donor Agencies for Small Enterprise Development published a good practice guideline on key principles in finance-based interventions.<sup>3</sup> Recent years have seen a similar effort to identify best practices in the area of non-financial services. However, these services are much broader in their range and more complex in terms of their contents and delivery. Guidelines for BDS interventions comparable to those for financial services have not yet been developed.

The field of BDS delivery continues to change rapidly as methodologies for defining and delivering services become more sophisticated and more rooted in the commercial, day-

---

<sup>3</sup>Micro and small enterprise finance: Guiding principles for selecting and supporting intermediaries, (Committee of Donor Agencies for Small Enterprise Development, 1995)

to-day realities of small businesses. This preliminary guideline is designed to contribute to the development of principles for best practice in BDS delivery by providing a ‘snapshot’ of the current state of the art and identifying the most important gaps in current knowledge. It is grounded on an extensive review of the existing literature.

## 2. SME needs

Just as, to be successful, businesses require a good knowledge of the needs of their customers, BDS organizations have to develop an accurate understanding of the situation of SMEs so that they can respond appropriately to their needs and develop their *offering* to SMEs. This is an integral aspect of the adoption of a business-like approach to the provision of BDS services.

The starting point for the design of any intervention intended to promote SME development is therefore an assessment of their needs and perceptions. Indeed, central to donor support for SME development is the belief that their performance can be improved by changing the various factors affecting SMEs. These include *demand-side factors*, such as geographical situation, consumer attitudes, purchasing power, politics and governance, as well as *supply-side factors*, including skills, networks, access to resources, infrastructure, the availability of information and government regulations and policies. Moreover, experience, for example of the Kenyan NGOs ApproTEC and SITE, shows that SMEs respond positively and are willing to pay for training opportunities which meet an immediate felt need.

But it is important for those designing interventions for SME development to be clear about what is meant by SME needs. Although most SME projects now at least *claim* to be based on needs, there are many examples of project interventions in which the identification of needs is in practice something of a half-hearted attempt to justify an approach that the BDS organization had in mind all along. The situation is complicated because discussions of SME needs are increasingly characterized by the use of different terms, which may serve to confuse rather than clarify the issues.

These terms include *felt* or *perceived needs*; *objective, logical* or *real needs*; and *demand*. In the context of BDS:

- **felt/perceived needs** are those which SMEs perceive and state to be their problems and which therefore reflect their own immediate analysis of their situation;
- **objective/real/logical needs** are those that BDS organizations believe to be the needs of SMEs, and therefore reflect the analysis of the situation by BDS organizations; and
- **demand** refers to the willingness of SMEs to pay for a service offered by BDS organizations, thereby reflecting not only SMEs’ analysis of their own (felt) needs, but their willingness to pay for a service that addresses these needs.

This leads to the conclusion that BDS organizations should be principally developing services for which there is a demand from SMEs. There are an increasing number of examples of SMEs paying for services which they perceive as addressing a problem area and likely to bring recognizable benefits. But SMEs do not always know what is in their interests and do not necessarily have a complete knowledge of all the factors pertaining to

their business. Interventions based on an external analysis of SME needs may therefore have to educate them as to the potential benefits of the service offered.

### *Needs assessment*

Over recent years, a number of approaches have been developed to needs assessment based on:

- **closeness to SMEs**, with needs assessments being carried out by persons with experience of SMEs and SME interventions, a ‘feel’ for business matters and a good contact with SME owners;
- **participation**, since the involvement of potential clients in the identification of needs and the design of interventions normally leads to better project design, a stronger sense of ownership and greater sustainability;
- **on-going learning and planning** through regular performance reviews which combine evaluation and the assessment of future needs;
- **a tight focus**, which avoids over-generalized statements of needs and generates specific information on what SMEs cannot currently do but should be able to do; and
- **an emphasis** on not just what SMEs need, but how, when, where and in what format SMEs want BDS organizations to deliver services (which often simply means not during working hours).

Based on these approaches, three needs assessment techniques, which in practice may overlap, have become increasingly popular in recent years. The first of these is **subsector analysis**, which is based on the view that SMEs in the same subsector or trade face common constraints and problems. This approach involves the choice of a subsector in which large numbers of the intended target group are concentrated and the identification of the specific constraints and opportunities of the target group within the subsector. A good example is the Save the Children Fund initiative in the retraso industry in the Philippines, in which large numbers of low-income women use fabric remnants from the garment industry. Subsector analysis revealed that the women usually only had one source of inputs, few institutional buyers and little knowledge of the product specifications of different industries. The project therefore successfully focused on facilitating bulk buying with appropriate scale economies and volume sales to larger buyers.

A second approach, consisting of interventions with an experimental component which seek explicitly to both learn and ‘do’, is known as **action research**. Based on an action-reflection-action cycle, the focus is on user learning with the support of an external facilitator, in the belief that owner managers are more likely to be able to take account of the complexity of their situation and that the solutions that they generate will be more sustainable. Action research, which seems to have been used most commonly in work with associations of entrepreneurs, is now used by a number of donors as a preliminary phase of interventions to test ideas and potential partners.

Finally, the term **participatory rural appraisal** covers a family of techniques used primarily by rural development organizations in which rural people are given an extended opportunity, using a variety of tools, to analyze key aspects of their environment, such as productive resources, environmental trends and wealth ranking. Participatory rural appraisal has proven to be very effective in gaining an accurate insight into the real

situation of rural people, giving them ownership over subsequent interventions. However, its transfer to urban situations has been much less successful.

### 3. Good practice

The aim of donor support for BDS is to improve the performance of SMEs by responding to their operational needs. Although the provision of such support normally has its roots in economic and/or social concerns, its objective is an enhanced business development process in terms of more start ups, better survival and faster growth. Good practice in BDS delivery therefore has to be seen against this overall objective. But BDS is still a relatively undeveloped field and caution is therefore required in identifying ‘good’ or even ‘best’ practice.

#### ***3.1 What is meant by good practice in BDS delivery?***

Good practice in the field of BDS refers to approaches which deliver the most beneficial outcomes. It can be defined in terms of both the impact of BDS programmes on their clients and the performance of the programmes in achieving their objectives. In this context, impact refers to changes in capacity and performance at four levels: the individual enterprise; meso-level institutions; broader changes in society, especially at the household level; and macro-level changes in the policy and regulatory environment.

#### ***3.2 Performance criteria for BDS services include:***

- **outreach**, in terms of the numbers of individuals, enterprises and organizations reached by an intervention;
- **efficiency**, which refers to the cost and rate at which inputs are converted to outputs, although it should be emphasized that ‘efficiency’ in itself is not an indicator of the impact of an intervention;
- **effectiveness** in achieving the various objectives of BDS interventions, which often means the extent to which they are relevant to development goals, including a comparison of impact with cost; and
- **sustainability**, which can be considered in terms of both the extent to which the service provided can be financed through client fees, and the degree of durability of the resulting changes in SMEs and at other levels.

All of these criteria relate to certain aspects of BDS performance. However, there are very few interventions for which it is possible to measure performance in relation to all these criteria. Moreover, there are potential conflicts between some of these criteria. Broad outreach may be achieved at the expense of impact in terms of business development. A high level of financial sustainability may be to the detriment of outreach, especially among more disadvantaged groups.

Although specific indicators of performance and impact (effectiveness) depend on the particular intervention, a number of generic indicators may be singled out, with the proviso that they can never be comprehensive, are interlinked and may overlap. They are also particularly difficult to identify at certain levels, such as the meso level. Indicators of

*outreach* at the various levels would include the numbers of workers, enterprises, institutions, households and policy-makers affected. *Efficiency* can be indicated by the cost per unit (workers, enterprises, institutions, households or organizations) reached, as well as by such measures as the drop-out rate and the number of clients served in a particular target group, such as women. Indications of *sustainability* may be sought in a continued improvement in the performance of the enterprises or institutions concerned, the continued existence of jobs and businesses after a specific period, the durability and improved implementation of policies and regulations, and the sustainable capacity and continued ability to deliver and develop effective services of meso-level institutions.

Important (unsolved) issues for sustainability include: cost recovery when clients may not perceive the benefits or realise them with certainty; and the possible justification for long-term subsidization of certain BDS services in terms of overcoming market imperfections, externalities of training and technology development, and equitable access by disadvantaged groups.

### **3.3 Benchmarking**

Any attempt to identify relatively standardized criteria and indicators of performance for BDS leads to the question of whether more detailed benchmarking of performance might be possible between peers and competitors in the field of BDS services to provide a solid basis for appraisal, evaluation and the improved design of future interventions. Benchmarking has been one of the features of the development of microfinance initiatives and is an established practice in business.

While, in theory at least, benchmarking could clearly be a useful tool for the development of BDS, its application is currently limited by a number of constraints, which include the *inadequacy of data* from projects and the *lack of a standardized approach* in BDS programmes. Indeed, unlike microfinance, where there are considerable similarities between most programmes, there are relatively few generic BDS products, since good BDS practice is to focus services on particular client groups. Moreover, *cost-based indicators* can be misleading, particularly in view of the different costs of living in the various countries. There may be more scope for benchmarking at the national level, although it would be necessary to *define indicators precisely* for this purpose. Finally, formidable problems arise in the *measurement of BDS impacts*, which therefore make them a rather fragile basis for comparison. It should be noted in this respect that benchmarking for microfinance programmes is usually not on the basis of the measurement of impact, but tends to be confined to measures of efficiency and outreach.

In view of the above constraints, only three indicators can be identified for which preliminary range values may be suggested for good practice, all of which are related to training/consultancy:

**percentage of direct cost recovery in training programmes**, which would be around 50% on average, ranging from 100% or over for growth-oriented SMEs to under 50% for smaller SMEs nearer their start-up phase;

**start-up rate** of between 30 and 60% of participants in programmes for new entrepreneurs actually starting a business afterwards; and

**survival rate**, which would be about 80% of businesses surviving one year after the training programme (although this figure is of limited value unless compared with average survival rates).

### **3.4 Assessing good practice**

Evaluation of SME development programmes has emerged as a major and complex area of study in its own right in recent years. Experience has highlighted a number of key points, including the following:

- **the need for a sound monitoring system** based on regular information on costs, clients, fee payments and feedback on service delivery and usefulness;
- **before and after comparison** of the situation of clients, often through client evaluation;
- **the convergence of evaluation with needs assessment and forward planning** (rather than 'traditional' one-off evaluation focusing only on impact), in which importance is given to the acid test of the continued willingness of clients to pay for the services delivered;
- **sound preparation**, especially when using external evaluators, with the drawing up of terms of reference in consultation with the various stakeholders to prevent evaluation being unrealistic or wrongly focused;
- **the adoption of a realistic approach to information collection**, with evaluators adopting a variety of strategies to avoid trying to obtain information that clients either genuinely do not know or may be reluctant to divulge;
- **whether evaluation is internal or external**, with internal evaluations offering advantages such as familiarity, lower cost and empathy with clients, and external evaluations possibly being more objective and sophisticated - a combination of both may provide a useful balance of strengths;
- **evaluation undertaken *with* rather than *on* BDS staff and clients** so that they believe in the conclusions of the evaluation exercise;
- **inclusion of costs as well as benefits** in performance analysis, which has not always been the case in the past;
- **a combination of rigour and practicality** in the methodologies adopted, which should normally include a range of techniques, such as surveys, case studies, rapid assessment techniques, key informants, critical incident analysis and group discussions; and finally
- **evaluation should not be too expensive** and in general should not account for more than 10% of the total budget of the project, and considerably less in major interventions.

Although there may be clear general criteria for the evaluation of BDS interventions, evaluation is by no means a precise science and there are a number of fundamental methodological issues which raise great difficulties in BDS evaluation.

The first of these is the ***additionality problem***, since the performance of businesses is affected by a whole range of factors, most notably the general level of demand in the economy. It is therefore difficult to establish a clear line of causality between service delivery and changes in SME performance, especially positive changes in terms of

profits, sales or employment. A traditional scientific response to this problem would be to use control groups, although there are often serious cost, practical and ethical issues which make it difficult to initiate and manage such groups.

Another difficulty is the *displacement problem*. SMEs exist in competitive markets. Their performance therefore affects not just their customers and staff, but also competitors. The success of an SME may be at the expense of a rival. This is the displacement effect. However, in growing economies and economies in transition, actual negative displacement may be minimal. In assessing the scale of the displacement effect, evaluators have to take into account a whole range of factors, including overall market trends, the situation of competitors and the identity of the market group of SMEs.

The *definition of costs* also raises difficulties, since there is as yet no widespread consensus as to which costs should be included in measurements of performance. There is therefore considerable scope for distortion between different BDS interventions. Although relatively standard financial management techniques are applicable in BDS organizations, the most immediate challenge is often to view costs in terms of organization resource management, rather than from the perspective of (external) financial accountability, or in other words the difference between a ‘business’ and a ‘project’ approach. Some other common problems to be faced in this respect include:

**hidden client costs**, such as transaction costs and the cost of clients’ time;

**other agency inputs**, with the danger of underestimating aggregate costs where SMEs are clients of more than one BDS agency;

**initial investment costs**, such as the cost of training personnel, developing programmes and improving technologies, which may not be passed on to clients, but still need to be transparent; and

**the apportioning of fixed costs**, such as central administration and support, which are more difficult to allocate to outputs than direct costs, but which may completely alter cost recovery figures.

Finally, there are significant methodological problems in *defining benefits*, in addition to those associated with additionality and displacement. If **intermediary impacts** such as knowledge/skill enhancement and changes in business practices are not assessed and only bottom line indicators such as profits and sales are measured, the danger is that broader economic trends are being quantified rather than the impact of BDS interventions. The **indirect benefits** of BDS interventions through ripple effects, such as copying by peers and competitors, may mean that the overall impact of an intervention is in practice far in excess of the direct benefits noted. Moreover, although it is more difficult to assess **longer-term benefits**, it may well be unreasonable to expect that real change can be brought about in anything except the medium to long term, particularly in the case of advocacy or institution-building interventions.

## 4. BDS instruments

The most common BDS instruments are examined in this section at the micro, meso and macro levels. After a definition and description of each individual instrument, the lessons emerging from good practice are reviewed, as well as any major unresolved issues and interesting developments or ideas.

### 4.1 *The micro level*

The BDS instruments used at the micro level are delivered to SMEs by BDS organizations, but rarely directly by donors. In practice, these instruments are normally delivered in various combinations. However, they are dealt with separately below for the purposes of analysis.

#### 4.1.1 Training

The most common form of BDS intervention, training covers a broad range of teaching-style activities, not usually on a one-to-one basis, involving facilitators, trainers and groups of trainees. It seeks to develop SME knowledge and skills in operational areas such as marketing, book-keeping, production techniques and product development, as well as in dealing with problems (finding new customers, obtaining better prices, reducing material costs) and finding useful intermediaries, such as customers, suppliers and collaborators.

There is broad acceptance that many earlier BDS training interventions suffered from being too generalized and supply-driven, from being delivered by ill-qualified people in an inappropriate top-down teaching style, with insufficient awareness of cost control and the need to encourage trainee commitment and to follow up interventions. Nevertheless, there is evidence that improvements to learning mechanisms in SMEs have a substantial impact on productivity and added value.

A number of well-known semi-generic training products have emerged over recent years and are in widespread use. These include:

- *entrepreneurship development programmes (EDPs)*, originally launched in India and focusing on start-ups, which have been adapted to many other countries;
- *competency-based economies through formation of enterprise (CEFE)*, developed by GTZ and strongly influenced by EDPs, with significant local adaptation;
- *improve your business (IYB)*, developed by the ILO and aimed at existing businesses; and
- *growth programmes*, the most recent product developed originally in the United Kingdom and aimed at SMEs with high growth potential.

## **a. Lessons**

Partly spurred by the example of microfinance, recent years have seen a significant refocusing of training efforts, particularly towards a demand-led, market-oriented perspective. As a result, training is being:

- ⇒ **treated in a business-like manner**, with greater emphasis being placed on defining target groups and meeting their needs, the design of training programmes and assessing the capabilities needed to deliver them;
- ⇒ **separated from financial services**, since the mixture of training and financial services has not generally been successful, with clients often giving priority to the latter;
- ⇒ **designed to respond to client needs**, making simple replication difficult, but leaving considerable scope for the customization of generic models for different client groups;
- ⇒ **designed and delivered in a practical learning style**, based on learning by doing in real SME situations, with emphasis on the participation of trainees, rather than on traditional classroom methods, and therefore being more suited to the process of incremental learning from experience that is the essence of business development;
- ⇒ **delivered by the right institutions and people**, who are closest to SME owner-managers in terms of their values, language and general manner;
- ⇒ **marketed**, for example, through trade associations, the appropriate packaging of training (price, location, benefits) and its adaptation in consultation with clients;
- ⇒ **monitored and evaluated**, with emphasis on follow up visits and the assessment of future needs, rather than feedback forms (often known as ‘happy sheets’); and
- ⇒ **based on the need to ensure client commitment**, particularly by charging for services provided, thereby creating a transactional exchange-based relationship, with which SME owner-managers are familiar and through which they are willing to pay for services that they value.

## **b. Unresolved issues**

One issue about which there are divergent views is *the extent to which the costs of training should be recovered* through fees charged to clients. Although the importance of the payment principle is widely acknowledged, there is no consensus on the appropriate amount that should be charged. On the one hand, benefits from training are seen as being broad, but often only discernible in the long term and usually hard to measure. It is also pointed out that nowhere in industrialized nations do SMEs pay the full cost of training. The opposing argument, towards which conceptions of best practice have undoubtedly moved in recent years, is that training is no different from any other commercial product purchased by SMEs and that if owner-managers are not prepared to pay the full costs they do not really want it.

The question of *how to reach the poor and disadvantaged* is also problematic. The view is often expressed that the principles of good practice have not yet really been applied to disadvantaged groups, nor has there been any systematic attempt to identify their needs and develop appropriate training approaches. Others argue that the poor have to be viewed in the context of the commercial and production sectors in which they operate. If the development of the sector is enhanced, all the participants benefit. Others point to the few real opportunities that are available for enhancing knowledge and skills in the relatively simple enterprises usually operated by the poor, where the only valuable external support is finance to achieve economies of scale in purchasing inputs.

Finally, donors whose primary goals relate to economic development are often concerned to *pick winners*, although this is an exercise in which external agencies have often proven unsuccessful. While a demand-led approach suggests that self-selection should be based on the willingness to pay, self-awareness of potential and resources is not always synonymous with growth potential. To some extent this difficulty can be alleviated by sub-sector analysis, which offers a means of focusing resources.

### **c. Innovations**

Some current interesting innovations include:

- *using vouchers* to educate SMEs in the benefits of training and make training more responsive to demand;
- *organizing training in groups*, borrowing from microfinance approaches, which involves selling training to groups of SMEs, with the added advantage that peer pressure may encourage participation;
- *piggybacking* on other interventions, for example in a sub-sector strategy, so that SMEs develop a better idea of their need for training and its benefits;
- *expanding trainer supply*, reflecting the growth in training supply for larger enterprises, by equipping trainers with analytical tools so that they can offer equivalent services to micro-enterprises;
- *flexible payment schedules* under which, instead of a single initial payment for training, the cost is paid back slowly as the benefits accrue; and
- *using technology to enhance training*, through such approaches as computer-based and distance learning, to improve training quality and outreach.

#### **4.1.2 Extension, consultancy and counselling**

*Extension* is the delivery of any form of advice or material assistance outside a classroom, usually to clients at their place of business. It includes both consultancy and counselling. *Consultancy* is expert advice on specialized technical and managerial issues. It is provided by a skilled and experienced consultant, who appraises the situation of the SME and recommends a course of action. *Counselling* is a guided process of self-discovery, which could also be described as 'coaching'. The counsellor helps the client identify problems, opportunities and resources, define options and select a course of action.

*Consultancy* has long been a traditional instrument of SME promotion, and is often linked to pre-investment activities and loan schemes. However, there has been increased concern over recent years at certain aspects of consultancy, including:

- the requirement of skilled and experienced staff;
- there is often a social and cultural distance between advisor and entrepreneur;
- consultancy is often provided in a standardized manner and is not therefore always fully relevant to the situation of the SME;
- foreign short-term consultants may not be sufficiently aware of the specific situation of individual SMEs;
- consultancy often lacks acceptance by entrepreneurs, particularly where it is free-of-charge or heavily subsidized;
- it is resource intensive, expensive and often an isolated intervention; and

- it has often been used as an instrument of clientelism to attach SME owner-managers to specific (State or parastatal) BDS providers.

**Counselling** was developed in recognition of the deficiencies of one-to-one consultancy and in view of the problems of recruiting experienced staff. However:

- voluntary counselling cuts costs, but may be to the detriment of quality;
- counsellors from different backgrounds may give instructions to SME owner-managers, rather than engaging in a capacity-building process;
- it is difficult to assess the benefits of counselling; and
- because the entrepreneur does not see direct and immediate impact, it is hard to obtain payment for counselling services.

### **a. Lessons**

Acknowledgement of these criticisms has encouraged BDS providers to strengthen indigenous channels for the provision of consultancy and counselling services, such as associations or informal business networks, and to focus on:

- ⇒ **strengthening local consultancy and counselling capacity** through national and local institutions, with the use of foreign short-term experts being the exception;
- ⇒ **professionalism**, in terms of recruiting and retaining staff who are skilled, specialized and experienced and who have a broad, generalist knowledge;
- ⇒ **diagnosis before action**, with the avoidance of standardized and generalized services, so that these expensive instruments are applied only after a thorough diagnosis of the enterprise and their relevance is assured through their focus;
- ⇒ **provision in a business-like manner**, with the willingness of the client to pay for the service being a good indicator of its perceived relevance and having the effect of sharpening the attitudes of both the client and the consultant/counsellor;
- ⇒ **cost efficiency** through the organization of group activities rather than individual consultancy/counselling;
- ⇒ **assuring the quality of extension services**, with quality standards being monitored and a 'code of conduct' being defined for consultants/counsellors;
- ⇒ **piggybacking** with other services in a broader package, both to keep costs down and as an extension of training; and
- ⇒ **linking up with other BDS providers**, so as to maintain specialization while at the same time offering comprehensive assistance to SMEs.

### **b. Unresolved issues**

The relative expense of professional counselling and the difficulty of measuring the benefits that accrue raise the question of the *extent to which professional, stand alone counselling can be supported or justified*. Moreover, the 'products' of counselling and its outcomes are difficult to define and payment systems appear to be hard to implement, which raises the question of whether *counselling can be sustained* and how *consultancy and counselling can be provided by non-State institutions*. There is also the challenge of *developing a counselling capacity in existing voluntary organizations*. The development of a culture of mutual support and the related institutions offers one means of providing the strong private learning mechanisms required by a vibrant SME sector.

### **c. Innovations**

Current interesting innovations include *linking counselling with meso-level interventions* designed for business associations. *Group-based counselling* can also reduce the cost of counselling per client. Some agencies are endeavouring to *make counselling more consultancy-like* by placing emphasis on the provision of specific proposals or solutions, or by adopting a combined approach in which *counselling is used as an 'entry' for consultancy services*.

#### **4.1.3 Developing commercial entities**

Designed to cover a perceived gap in the market, this BDS instrument involves the development of commercial entities as 'brokers' to buy inputs or sell outputs to the greater advantage of the SMEs involved. While the rationale behind them may be somewhat vague, some NGOs have become major market players through such activities, which are sometimes designed to offer 'fair' conditions, including prices, to producers in developing countries which export to industrialized nations. Although the experience of BDS providers in this area is fragmented, more of them are taking initiatives along these lines through interventions which offer the possibility of eventually covering costs and becoming financially self-sufficient.

#### **a. Lessons**

Experience shows that it is necessary to:

- ⇒ **be clear about the rationale** behind this particularly interventionist approach, which may involve, for example, filling a supply side constraint as a marketing 'broker' (either because there are not enough of them or their practices are monopolistic or exploitative), or as a supplier realizing economies of scale in purchasing;
- ⇒ **act as a business from the outset**, with sufficient prior analysis of the market, since the success of this type of intervention is entirely dependent on its performance as a business;
- ⇒ **place ethics in a consumer context**, since experience shows that success has mainly been achieved through a brand identity with ethical criteria, in addition to the usual consumer criteria such as quality and safety;
- ⇒ **think ownership and management** in order to create strong personal ownership, which is a feature of SMEs, through the separation of the new entity from the BDS organization, the discouragement of group management and the provision of considerable operational freedom through performance-related incentives; and
- ⇒ **the provision of financial support (if any) on a commercial basis** to enhance accountability and ensure that the support provided is not perceived as a hand out.

#### **b. Unresolved issues**

Although it is not a straightforward process, where there is no alternative it may be necessary *to set up a new commercial structure*. However, it is also possible to explore the possibility of working with partners which are simply not aware of the opportunities available. It is also difficult for BDS organizations to know *when to let* go of market enterprises that they have established. The competitive nature of markets means that, when setting up such commercial entities, there will normally be some negative

displacement. In view of the strong possibility of market distortion, care therefore needs to be taken to ensure that such an initiative *is fair*.

#### 4.1.4 Technology development and transfer

Technological interventions aimed at improving the lives of the poor originate from the appropriate technology movement of the 1970s. With some notable exceptions, it is widely believed that much of this effort did not achieve the impacts once anticipated, largely because the need to use technology through market mechanisms was given insufficient attention. Approaches to technology development and transfer are currently polarized between two views.

The first of these emphasizes the importance of professional technical expertise in technology development, its application in a demand-driven process and the need for strong marketing skills and systems to ensure its widest possible use in a *corporate* approach that mirrors the manner in which a commercial organization would develop and deliver a product. The overall thrust is towards the delivery of useful technologies to a large number of end users through the channel of a relatively small number of SMEs. The approach involves high initial development costs, but should be sustainable once set in motion.

The second approach is *indigenous* and emphasizes the importance of SMEs themselves in developing technologies on the basis of their own capacities and the spread of the technologies through a process of inter-enterprise learning. The initial costs are likely to be low, with the BDS organization playing a facilitating role that strengthens the natural process of technological development and emphasizes the incremental and sustainable development of SME capacities.

##### a. Lessons

For the *corporate* approach it has been found advisable to:

- ⇒ **put technology in the marketplace**, since the potential benefits of technology can only be realized when it is manufactured, distributed, sold and used in a market context;
- ⇒ **make technological development market led** by identifying markets, testing and planning production and developing marketing distribution systems;
- ⇒ **develop a business-like message** in which end users are regarded as customers through the adoption of incentives, marketing techniques and the recruitment of staff with a feel for business; and
- ⇒ **insist on self-financing**, after the initial development costs, to ensure that the system is sustainable.

In the case of the *indigenous* approach, many of the instruments used are related to training and information. The difficulties include identifying SMEs that are *winners* and therefore capable of developing a natural process of technological learning. Another difficulty is to create a good balance that facilitates technology development, rather than just delivering the technology directly.

## **b. Unresolved issues**

The private sector may not be developing commercial products that are of benefit to the poor because the poor are not seen as a credible commercial opportunity or because the extent of the required investment in capacity may be too great. It is still unclear to what degree the relevant interventions encourage SMEs to look at the market opportunities and potential benefits of these types of technology. Moreover, without the development of the design skills which underpin technological change, it is difficult to see how SMEs will be able to develop or adapt the next wave of technologies for low-income customers. Finally, it may also be difficult to know when a system of technology development and transfer has reached a stage where it requires no further external support.

## **c. Innovations**

This is a dynamic area in which good practice is being developed, including collaborative projects with larger private sector enterprises which may have the technical capacity to develop products. In the case of the *indigenous* approach, the enhancement of natural processes of SME technical learning is of particular interest in terms of broadening the scale of interventions.

### **4.1.5 Information**

A wide range of donor-supported activities have been undertaken to improve the information environment of SMEs so that they are able to respond more readily to market signals. These include support for attendance at trade fairs and exhibitions, one-stop information shops, the distribution of printed information, support for learning visits to SMEs in different locations and interventions to improve the information flow from business associations. It is difficult to assess donor experience in this respect. Until recently, there has been little use of the willingness-to-pay criterion. Moreover, initiatives that assume that SMEs will seek out rather passive BDS providers of information have not been successful. However, there have been some innovative developments more recently.

#### **a. Lessons**

Experience provides a number of lessons:

- ⇒ **information has to be needs-based and focused** so that its benefits are transparent to SMEs - sub-sectoral analysis can be useful in developing this type of information tool;
- ⇒ **importance needs to be attached not only to what is presented, but to how it is presented**, especially since many SME owner-managers are not used to learning from printed materials;
- ⇒ **information suppliers have to be credible**, since SME owner-managers are more likely to learn from people who are close to them;
- ⇒ **there is emerging evidence that SME owner-managers are willing to pay** for information of the right kind that appears to offer a chance of tangible gain;
- ⇒ **initial investment in client awareness** is needed to overcome scepticism of the value of information;
- ⇒ **information is a product to be sold** once initial scepticism has been overcome; and
- ⇒ **trade fairs are perceived as being valuable** as a major source of market information for export-oriented SMEs.

## **b. Unresolved issues**

The main unresolved issue is how to assess the sustainability of information interventions. Some indicators include the copying of printed materials and the maintenance of exchange arrangements. However, it may be unrealistic to expect SMEs to finance the cost of developing an information-rich environment, such as those in industrialized countries.

## **c. Innovations**

There is some evidence to suggest that SMEs will continue to organize *exchange visits and meetings* with other SMEs in different locations once the initial arrangements have been made. It has also been found useful in some cases to bring together producers and customers for a frank exchange on how products might be improved. Finally, there are some initiatives to produce technical booklets, including drawings, financed by customers and advertisements.

### **4.1.6 Business linkages**

Interventions to improve commercial linkages between SMEs focus on three main types of linkage: subcontracting, franchising and business clusters.

There has been a major move towards *subcontracting* or outsourcing arrangements in industrialized nations in recent years. These usually involve a large customer contracting out work to smaller suppliers, although they also include a complex range of linkages in which small firms contract work out to other small firms. In some cases, subcontracting can be a major source of learning for the subcontractor, while in others it is a more transient relationship. There have been a number of attempts by BDS organizations to promote subcontracting, although the results have been mixed and some have proven to be over-regulated and unpopular with SMEs. However, there are now signs that subcontracting is receiving more attention from donors, and particularly UNIDO.

In the case of *franchising*, which has also become more popular in industrialized countries in recent years, one enterprise sells another the right to produce or sell a commodity under the standards and procedures laid down by the franchiser. Although franchising is a simple way to start a business and encourages learning by novice owner-managers, it is relatively static in terms of its potential. Franchising is advancing in developing countries, although it is not yet clear what role donor interventions may have in encouraging it.

*Business clusters and collaborative production networks* refer to complex production arrangements involving a broad range of firms of varying sizes, as well as other actors, such as business associations, research and development networks and specialist service providers. These arrangements are differentiated from subcontracting by the sheer scale of the arrangements, which offer the potential for small enterprises to overcome the limits of their small scale by joining with other firms. These arrangements have generated a great deal of research interest recently, which is to some extent mirrored in the rise of sub-sector analysis. While there have been successful cases of interventions based on sub-

sector analysis, it is not yet clear how donors can support the development of the complex business clusters that have evolved spontaneously in many countries.

### ***Lessons***

There is insufficient experience to make any comments on franchising. However, the following general lessons apply equally to subcontracting and business clusters:

in facilitating the establishment of subcontracting arrangements in which potential partners can meet, it is important to refrain from over-zealous interference and from **setting too many rules**;

networking and subcontracting only work if they are based on sound mutual advantage: they therefore have to be **built on a commercial logic** and there is no point in trying to force relationships against the logic of the market;

in cases where subcontracting and networking have not developed, there may well be a case for limited short-term interventions to **overcome market distortions**, such as a lack of information or business communication, or to develop business practices that create trust between partners (such as payment terms);

despite the useful complementarities in cross-sectoral approaches, recent initiatives suggest that a narrow **sub-sectoral approach** may be successful for the development of subcontracting and networking arrangements;

although **bringing potential partners together** is a key role for BDS interventions in this context, interventions may be needed to overcome more fundamental inhibiting factors, such as inexperience with legally enforceable contractual relationships or, if the gap between the parties is too great, encouragement to SMEs to come together in a new entity designed to organize the cluster for them; and

real participation by key actors, such as business associations and chambers of commerce and industry, in the planning of interventions promotes **greater ownership**.

Despite considerable interest by SMEs in this area, *unresolved issues* include the extent to which donors can intervene to promote other forms of business linkage, such as franchising. In this relatively young and fluid area, *interesting innovations* include the use of a sub-sectoral approach to promote improved business linkages, sometimes through local business associations. However, where associations are weak, as they are in many African countries, for example, it is difficult to find the appropriate vehicle for intervention.

## ***4.2 The meso level***

Most donors involved with SME development no longer deliver services directly to enterprises, but tend to focus on the development of local and national BDS organizations, which are often known as *intermediaries* or *counterparts*. There is growing consensus that the appropriate function of donors is to develop the capacity of these organizations for service delivery to SMEs, partly on the grounds of their greater sustainability and partly because, as indigenous organizations, they tend to have a better knowledge of the needs and expectations of client groups. The objective of meso level interventions is to enhance the efficiency, effectiveness and sustainability of local or national BDS organizations through *institutional development* or *capacity building* with a view to improving their services, adding new services or expanding their target groups,

as well as, in some cases, establishing new organizations or developing networks of organizations.

Meso-level BDS organizations fall into two principal categories. These include non-profit *membership organizations* created or owned by SMEs to represent their interests and provide their members with services. These may be small or nation-wide, informal or with a specific legal identity. They include chambers of commerce, business associations, trade or sectoral associations and cooperatives and are normally financed by fees from their members, although they may also receive government subsidies or donor support. A less common type of membership organization, which occurs more frequently in transition and middle income countries, consists of associations of SME development professionals providing commercial services for SMEs.

The second type of local BDS organizations are *service delivery organizations*, set up and owned by agents other than entrepreneurs to provide specific services to SMEs and sometimes to represent their interests. These may include government or semi-government organizations, not-for-profit or non-governmental organizations and commercial private sector enterprises, such as consultancy firms and private training institutions. They range between organizations offering a single service, such as training, to those for which SME development is part of a broader development mandate. An important distinction can also be made between those which combine financial and non-financial BDS and those which do not.

A number of capacity-building instruments are commonly used to develop meso-level organizations, including: guidance, advice, consultancy and technical support from experts; training of staff and management, including members: and financial support.

It should be noted in this respect that most interventions at the meso level have been focused on the development of technical capacity. However, only limited attention has been paid to managerial and financial issues, and very little to the broader aspects of institutional development, with the result that most donor interventions in this area are piecemeal and tend to try to graft an efficient service onto a weak organization, which is not sustainable in the long term.

### *Lessons*

Experience has shown a number of factors to be important in creating business-like meso-level BDS organizations, including:

- ⇒ **organizational capacity**, which requires a business-like vision and corporate culture, with the definition of a target group as clients or customers in a transactional relationship which is offered at a price, based on the principle that, no matter how disadvantaged, all categories of people can still be valid clients;
- ⇒ **managerial capacity**, to ensure the continued existence of the organization based on its performance, with decentralized structures that give staff the authority and responsibility to interact with clients at the local level, ensure a high degree of autonomy from government, provide for the inclusion of representatives of clients in the organizational structure and allow flexibility and participatory management systems based on market mechanisms;
- ⇒ **technical capacity** specialized in core areas of expertise, with the capacity to develop new products in response to changing needs and demand;

⇒ **financial capacity**, in the sense of developing transactional relationships by charging fees for services, diversifying sources of funding, managing to achieve economies of scale and reducing costs, particularly by keeping staffing levels low, computerizing management systems and, where feasible, providing services to groups rather than individual enterprises. In this context, it is almost universally agreed that, if services are provided to micro and small enterprises, and to disadvantaged groups such as the poor or women, and if national per capital income is low, it is not feasible for some services to be fully self-financing. However, in some cases it has proven possible to subsidize some services from the surplus income from others.

On the question of the relative appropriateness of the various types of meso-level organization, experience has shown that *membership organizations* offer the advantage of being close to SMEs and have a proven potential to represent their interests. However, their vision is often undeveloped, particularly in terms of their membership, while larger organizations tend to be dominated by the interests of larger enterprises. Their managerial and technical capacity also tends to be weak. The strong traditions of association in South America and Asia have meant that membership organizations are more successful there than in East and southern Africa.

Global experience would suggest that *government or semi-government organizations* are not good BDS providers. They are not business-like, often suffer from a general lack of vision and motivation, and are subject to political and bureaucratic interference. However, *not-for-profit or non-governmental organizations* have often proven themselves in the market for both donor funding and SME services. Nevertheless, the fact that they often have a charity orientation can be antipathetic towards business. Their overall managerial and technical capacity is often weak, although they usually demonstrate a good sense of ownership and motivation.

*Commercial organizations* are the most successful providers of services to SMEs and extending the range of commercial BDS provision is an important current trend. However, they do not generally provide the same services as NGOs and government organizations and may not therefore offer appropriate mechanisms for achieving the objectives of donors.

The experience of BDS providers would therefore suggest the following **general principles which underpin capacity building**:

- ⇒ *comprehensive and systematic institution-building* often requires an initial intervention designed to develop the organizational capacity to adopt a business-like approach to identifying and responding to SME needs;
- ⇒ successful interventions should be conceived and implemented *as part of a dynamic process* meeting continuously assessed and changing needs;
- ⇒ interventions should be planned and implemented *in partnership* with the SME development agency, which should have the last word on planned interventions, with the donor retaining the option to discontinue support;
- ⇒ *long-term commitment* is needed from both donor and counterpart to a process that normally requires caution and time, not uncommonly in the range of five to ten years;
- ⇒ an initial *orientation phase* can be important in giving shape to the overall strategies and avoiding pitfalls;

- ⇒ it is necessary to **think sustainability** from the very start, without postponing hard decisions on matters such as charging fees, before dependence on foreign funds and expertise becomes ingrained;
- ⇒ from the start, final responsibility should lie with the counterpart BDS organization, with **donors taking no direct responsibility for service delivery**, thereby forcing both donor and counterpart to place emphasis on capacity building;
- ⇒ there is a need for **consistency in relationships** between donors and BDS organizations, with the establishment of reporting arrangements, flexibility of action and the setting of targets;
- ⇒ although counterpart organizations are often dominated by an individual and will eventually have to establish management teams to permit further development, it is important for donors to **recognize and strengthen individual vision**, rather than undermining it;
- ⇒ meso-level organizations have to **use financial support with caution** in tandem with institutional development interventions tied to a planned decrease in funding over time;
- ⇒ since governments in many countries view NGOs with suspicion, donors can play an important role in **enhancing the legitimacy of private sector BDS providers** by convincing governments of their effectiveness and developing more constructive relations between them;
- ⇒ as specialized providers of services have been found to be more effective in providing services to SMEs, it is important to **increase specialization while at the same time maintaining a broad offer of services**, for example by developing networks of organizations with different specialities; and
- ⇒ it is important to apply the basic business practice of maintaining a **tight fixed cost base**, with a view to sustainability while at the same time increasing capacity.

Although the above principles are valid for capacity building interventions in all SME development organizations, it has to be recognized that **membership organizations** are, in many ways, a special category. Made up of SMEs themselves, their primary objective is generally advocacy and they tend to suffer more than other groups from a lack of technical capacity. In their case, it is therefore important to develop capacity gradually and cautiously, while refraining from interfering with their autonomy and limiting financial assistance to a minimum, so as to avoid developing dependency, which tends to detract from their sustainability and kill initiative. Organizational and managerial capacity should be built from the base up, particularly through the development of more transparent procedures for the election of leaders, better machinery for the participation of members in decision-making and the establishment of two-way communication between members and management.

Advocacy is seldom sufficient in itself, and donors can play a very useful role in developing the technical capacity of membership organizations, but should not expect them to deliver the full range of services required by SMEs. Moreover, small membership organizations have often proven to be more successful, more entrepreneurial and less hindered by bureaucracy than larger organizations, despite being less able to deliver economies of scale and therefore more costly. Finally, donors should beware of highly politicized organizations, in which political concerns tend to prevail over the interests of members.

### ***Unresolved issues***

One fundamental issue that remains unresolved is ***the extent to which meso-level organizations are necessary***. The normal process of the development of SMEs is through peer emulation and informal learning on both a commercial and a non-commercial basis, as well as through learning from their customers. When industrialized countries were at comparable levels of development, there were few formal learning mechanisms available to SMEs. Moreover, as with microfinance, it may be that ‘indigenous’ approaches to BDS should be given much more consideration, particularly with a view to avoiding the danger of donors loading an unrealistic cost base onto the unresourced framework of weaker economies.

Another unresolved issue is that, despite the emerging consensus on how capacity building should be undertaken, there is much less agreement on the ***effectiveness of the various meso-level instruments***, such as training, technical and financial support. It would be useful to find out more about the performance of the various instruments.

### ***Innovations***

A small number of SME projects are experimenting with ways of improving ***informal learning networks***, in which the copying of business or technical improvements may not require SME development organizations. However, even interventions aimed at private sector replication require an initial project or organization, suggesting that BDS organizations would still have an essential role to play as innovators, facilitators and catalysts.

Although most donors now, emphasize the need to be ***business-like***, it is often difficult to actively encourage BDS organizations to behave in this manner. There are now some innovative projects in which donors are trying to develop ways of forming incentive-based, mutually beneficial and target driven relationships with BDS organizations, for example through the establishment of a bidding process for certain contracts and payment on a performance basis.

Despite the fact that this area is as yet relatively unexplored, the corollary of being business-like is to ***get the private sector involved*** and work with existing commercial entities or set up new ones.

In an approach that is most relevant for transition and middle-income countries, initiatives have been introduced to improve the consistency and quality of BDS services by developing ***SME professional associations*** to establish and apply quality assurance standards through a system of accreditation of SME development consultants.

### 4.3 The macro level

All donors acknowledge the importance of macro-level policy and regulation in the development of SMEs. The desired macro-economic picture is characterized by a less intrusive role for government and is based on four main pillars:

- **a stable macro-economy** based on financial discipline by governments, prudent fiscal management and low inflation, tax and financial sector reform, exchange rates that reflect the strength of the economy and the privatization of state enterprises;
- **a competitive micro-economy** in which free prices and markets provide clear signals to producers and consumers, a regulatory framework that favours competition and eliminates unnecessary barriers to market entry, legal and property rights that facilitate the enforcement of contracts, and information and physical infrastructure (such as transport) that minimizes transaction costs;
- **global linkages** based on an openness to trade, investment, technology and ideas, a reduction of trade barriers, the relatively free movement of people and the encouragement of exports through a realistic exchange rate;
- **investment in people** in terms of health, education and nutrition, with particular emphasis on primary education and preventive health care.

While most donors do not disagree with this approach, there is no consensus on the adequacy of these measures in themselves to generate the conditions for SME development. Some donors, pointing to the lack of a vigorous response to measures of this nature in Africa, propose a more pro-active role for government. In view of the success of favourable tariff and non-tariff shields in East Asia, some advocate *protection for infant industries*. One argument against such measures is that, in some countries, they have tended to make business more isolated and less competitive. Moreover, there are doubts about the capacity of the public administrations in many countries, especially in Africa, to implement trade protection measures effectively. Indeed, the interventionist successes of East Asian economies can largely be attributed to the efficacy of their civil service.

Other areas of relative consensus include government recognition of the informal sector, relatively liberal policies on the zoning of economic activity, the reduction of specific barriers to entry in some trades, relatively unrestricted labour markets and the use of the education system to promote an *enterprise culture*.

Most donor interventions at the macro level are undertaken with governments, either in the context of the policy reforms required under structural adjustment programmes, or through the provision of technical assistance. Donors also work with organizations outside the government to help create a stronger advocacy voice and capacity in the SME community. A number of related instruments have been used at the macro level for this purpose, including:

- **setting up national SME agencies** to develop an overall strategy for SME development, including the coordination of donor initiatives;
- **supporting conferences, meetings and publications** to bring SMEs onto the national agenda;

- **establishing regulatory committees** to monitor regulations that affect SMEs;
- initiatives to **decentralize SME development policy** to the local level;
- **support for national and local dialogue** on SME promotion strategies and measures;
- improved procedures for **SME access to public tenders, export and bank credits**, etc.;
- initiatives to develop a **cultural environment conducive to SME development**, for example through education and media campaigns; and
- interventions to **strengthen the advocacy capacity of trade associations**, employers' organizations and other representative organizations.

### *Lessons*

Although it is very difficult to be precise about good practice in the area of policy reform, experience would suggest the following:

- ⇒ applying the principle of subsidiarity, or the delegation of responsibility to the lowest level, government *services should be decentralized* and, where possible, private sector organizations should take responsibility for the delivery of SME services;
- ⇒ *creating permanent pressure* through a more general movement for change may be better than targeting specific individuals in view of the fact that civil servants in key positions may change;
- ⇒ finding a *champion*, since advocacy is more likely to be successful when a key individual assumes the challenge on a personal basis;
- ⇒ *encouraging harmony in business associations* and ensuring that the common interest is not undermined by narrow vested interests and politicized organizations;
- ⇒ *providing hard evidence for advocacy* through an objective statistical hard core;
- ⇒ *targeting advocacy at the top*, since key individuals often exert huge influence;
- ⇒ *promoting public awareness* by using the media effectively to transmit the collective voice of business, which can be a very strong voice for change; and
- ⇒ *not expecting significant payment*, since advocacy activities are seldom able to cover their full costs.

### *Unresolved issues*

One unresolved question is *the extent to which governments should adopt a pro-active approach to creating a conducive environment for SME development*. In some cases, there has been an attempt to recreate aspects of the East Asian experience. However, traditions and capacities differ in each country and it remains to be seen how transferable this approach is to other situations. Another issue is the manner in which donor coordination can be used as a more effective tool for influencing governments. To be effective in this respect, donors would have to make allowance in their budgets for this kind of activity and agree to *work* together, rather than just sharing information.

Finally, relatively little is known about the relative merits of the different approaches to macro-level change. For example, is it better to work with civil servants, politicians or business associations? Does 'hard' conditionality or a more persuasive approach yield the most sustainable results?

## 5. General principles

Based on the analysis contained in the preceding sections, eleven broad lessons emerge which appear to apply across all (or most) BDS instruments and which constitute a set of principles embodying the current *state of the art* of BDS. These are supplemented by three development principles that cut across all BDS interventions, namely gender, environment and working conditions.

### 5.1 Business-like and demand-led

Theory and experience show that the fundamental principle which decisively shapes all the main BDS instruments is that the *BDS organizations that are best at supporting SMEs are themselves like those SMEs in terms of their personnel, systems and values*. Nevertheless, adopting a business-like and demand-led approach relates only to the manner in which objectives are pursued, and does not therefore require the abandonment or dilution of social objectives. In practice, the pursual of this principle implies:

- **for donors:** selecting partner organizations that are able to deliver services in a business-like manner; developing BDS organizations with the vision, culture, motivation and attitudes which reflect a commitment to a business-like approach; encouraging BDS organizations and individuals to develop ownership and responsibility for their work; and allowing for flexibility in implementation so that BDS organizations are not too restricted in pursuing their objectives.
- **for BDS organizations:** regarding beneficiaries of BDS instruments as discerning clients, rather than pliant recipients; developing transactional relationships with clients (based on exchange, not charity); developing a sound understanding of the needs and situation of clients; regarding BDS instruments as products and adopting a rigorous approach to their measurement in terms of both costs and income; and maintaining close contact with clients so that the demand-driven approach is not weakened.

### 5.2 Sustainability

All the principles of good practice highlighted in this guideline are designed to achieve sustainability in the impact of BDS on SMEs. But there is no consensus as to the specific meaning of sustainability at the level of BDS providers. In considering how the sustainability principle should be applied, BDS providers should support interventions which offer a credible path through sustainability, for example through their incorporation into privately delivered learning mechanisms or through the commercialization of services. Interventions should therefore offer a realistic end to donor involvement. Interventions which are not finite need to have a clear rationale and a realistic strategy for long-term support.

### **5.3 Tailoring**

In view of the complex and variable environments in which SMEs work, an essential feature of BDS interventions is the identification of what an intervention is trying to do and with whom. In this sense, ‘tailoring’ an intervention means making it specific and relevant. The tailored approach has been dominated in recent years by the increased use of subsector analysis, in accordance with which SMEs are analyzed in terms of the specific economic characteristics of their subsector. However, a subsectoral approach does not preclude socio-economic targeting. Indeed, there are a good number of examples of specific groups, such as women, being the main players in interventions developed on the basis of a subsectoral approach.

### **5.4 Participatory approaches**

A participatory approach to the planning of BDS interventions offers the advantages of: a better understanding of SME needs; greater ownership of the intervention by BDS personnel, clients and participating organizations; and the increased possibility of longer-term sustainability. In practice, emphasis on a participatory approach has questioned the value of some ‘traditional’ social science approaches, such as large surveys, in favour of more rapid methods that are more integrated with action.

### **5.5 Maximizing outreach**

With some exceptions, BDS interventions are non-standardized and can seldom be replicated in the same way as, for example, microfinance projects. However, there are a number of approaches that are being attempted to maximize the impact of BDS interventions, including:

- *subsector approaches*, through which in some cases relatively small and focused inputs can have a considerable impact on a whole subsector;
- *support for indigenous and private systems of learning*, so that entrepreneurs can be encouraged to learn from the demonstrated achievement of others through natural processes of learning that emulate the well-established private networks of exchange and learning that exist in countries with successful SME sectors; and
- *macro-level approaches*, in view of the huge influence of macro-level policies on SMEs in terms of economic signals and the shaping of cultural attitudes towards business through education systems.

### **5.6 Building on demonstrated initiative**

If BDS interventions are to be both sustainable and locally owned, they have to build on what is already there rather than supplanting it with imported visions or models. This means that they have to respect the vision of individuals and their close personal involvement with their ‘organizations’. The scale of resource commitment, particularly in terms of finance and equipment, has to reflect the capacity of local partners so as to support, rather than overload their development. And private sector experiences in fields such as vocational learning should be assessed and used as models, in much the same way that the microfinance ‘revolution’ was based on learning from the practices of informal credit schemes.

## **5.7 Split and focus**

In the same way that there has been a trend among businesses over the past decade to refocus on what they perceive to be their core role, it is better for BDS organizations to focus on what they do and to do it well, rather than diversifying into activities of which they have less understanding. A focused intervention and the delivery of a limited range of instruments leads to a simpler and more effective relationship with clients, with less chance of the type of mixed measures that can result, for example, from the combination of credit and counselling. However, innovation and change are important features of any BDS organization. This does not therefore imply a fixed, unchanging view of BDS, nor that BDS organizations should not seek to coordinate and develop networks.

## **5.8 Systematic approaches and programme integration**

Despite the need for a significant focus in the activities of BDS organizations, this should not be to the detriment of their broader strategic awareness. Three approaches can prevent BDS instruments from creating an overall imbalance in the SME development environment:

- **coordination between donors:** the existence of other donor-supported BDS initiatives in neighbouring areas is only problematic if their methods of work are in contrast, for example as regards the charging of fees for particular services: liaison between donors with regard to their activities and consensus over the methods adopted is therefore important;
- **networks between different providers:** just as SMEs sometimes need to collaborate for their mutual benefit, the interests of BDS organizations may be served by common action since, despite the overt or other competition that may exist between them, they need to retain a wider view of their clients overall needs; and
- **joint ventures/subcontracting arrangements:** the signs of nascent relationships between, for example, generalist development organizations and specialist BDS providers are a positive indication and offer considerable benefits of focus and specialization, while maintaining a wider perspective.

## **5.9 Renewed focus on cost analysis**

Many BDS organizations have neglected to include costs in their own analysis of performance, with the result that their own view of their work and of that of others has been unhelpfully distorted. This has meant that BDS managers have not had the right kind of information for their decisions, that BDS organizations have not been very financially transparent. It has also prevented progress with comparability and benchmarking and has offered a misleading picture of what a BDS instrument is in practice, implying that it has no cost. Although costs should not be seen as more important than outreach or impact, financial analysis should be used as a tool for the improved management and delivery of instruments.

## **5.10 Continued importance of impact assessment and evaluation**

BDS interventions should always have an element of impact assessment built into them. However, evaluation has traditionally been a one-off, end of project event. A new way of thinking about evaluation is to combine retrospective and prospective analysis, or evaluation and needs assessment, as part of the normal activities of an intervention. This offers a good basis for improving the design of instruments in response to pressure from clients, as well as for comparability and benchmarking, which facilitate decisions by donors on types of interventions and BDS providers.

## **5.11 Subsidiarity**

A key principle in SME development, particularly as regards the role of the State, is *subsidiarity*, or the common-sense concept of *who can do what best*. In terms of BDS, this usually means delegating responsibility to the lowest possible level and to those that are closest to SMEs, both geographically and socially.

For the State, subsidiarity implies that its primary role is to create a conducive environment for SME development through: sound macro-economic management, including fiscal and monetary control; a relatively liberal economic system in which regulations are not an onerous burden or highly distorting; and the competent delivery of public services, especially education. In view of the difficulties experienced by Government services in being business-like, the State should not normally seek to be a direct provider of BDS for SMEs. Moreover, building upon some aspects of the East Asian experience, but depending on government capacities and broader traditions, the State may be able to play a leading pro-active role in shaping a national framework of policies, practices and institutions to guide SME development. Beyond this, there is less consensus on what the State should do, although there are good general arguments in favour of subsidies to give disadvantaged groups access to particular services.

## **5.12 General development criteria**

Most development interventions are assessed according to a number of general criteria, including:

- *gender*, with the over-riding concern that interventions should contribute to greater gender equality by taking account of women's interests in project design, facilitating their participation, collecting gender-specific data and assessing the implications of the project for women in terms of production and markets, income, workload, division of work, their role in the household and community, and education and training;
- *environment*, with consideration being given to both overall environmental impact and specific environmental issues, depending on the sector; and
- *working and employment conditions*, based on the argument, as advocated by the ILO, that improvements in working conditions and environment, an equitable distribution of income and the security of social protection can be key ingredients in business efficiency and competitiveness, and that conditions of work and employment are generally worse in SMEs in developing countries, and particularly in the informal sector, than in larger enterprises. Political and consumer pressure on SME exporters to

comply with international standards is having some impact, for example on some multinational enterprises' relations with SME suppliers, and some success has been achieved by the ILO's Work Improvements in Small Enterprises (WISE) programme, although in general support for the improvement of working conditions is not yet strong enough to engender widespread change.

## 6. The future agenda

It is clear that the broad set of principles for the design of BDS interventions developed in the previous sections form a relatively loose framework, which is certainly not prescriptive. While many of these interventions are useful, very few comply with all the criteria for SME needs set out in section 2. Moreover, there remain many unresolved issues associated with BDS.

A realistic assessment of the current state of the art in BDS therefore acknowledges that, although a considerable amount is known, there are possibly just as many questions left to answer. To improve practice in BDS, it is important for these weaknesses to be overcome. *The main objective of this future agenda for donors and BDS organizations is to advance collective learning on good practice.* In particular, there are two main themes which should underpin future activities in this respect.

### **6.1 More benchmarking: rigorous assessment of current practices**

There is little more to be learned from further analysis of the existing documentation on current BDS experience. The characteristic lack of specificity of data and the vague definition of costs and impacts means that there is little scope for valid comparison. However, the current weaknesses in BDS data should not be confused with a weakness in the *idea* of benchmarking. Admittedly, BDS analysis is not reducible to a series of boxes and there are limitations to the use of seemingly objective indicators, such as "cost per job", which is prone to a variety of interpretations (and manipulations). There are also legitimate concerns over proposals to abandon the development of qualitative aspects in favour of the apparent simplicity of quantitative measures.

Nonetheless, there is scope for much greater use of benchmarking, starting with cost-based measures related to operational efficiency. These suffer from fewer methodological difficulties associated with impact and offer a means of addressing the historic (and mistaken) separation of costs from outputs in BDS.

### **6.2 Encouragement of more innovation**

While there are emerging examples of interesting BDS practices, there is a great need to expand the stock of innovative projects from which donors can learn. Based on the principles set out in section 5, donors should be supporting BDS organizations which seek to develop new approaches, learning from this experience and disseminating the key

lessons. In this respect, based on the experience of innovative BDS development programmes, notably the FIT Programme, there are a number of other complementary factors which should be taken into account in design, implementation and assessment.

- ***The right geographical location.*** Although many donors prioritize the lowest income countries and the most disadvantaged groups for their support, interventions which are seeking to “try something out” are best located where conditions are generally conducive to SME development, which means where economies are growing and opportunities exist. Innovative ideas put into unfavourable situations are more likely to be still-born. In practice, the route from development idea to workable instrument invariably runs from growing/dynamic area to poorer region.
- ***Flexible planning and implementation.*** Innovative interventions require considerable flexibility during implementation. The planning framework within which staff work therefore has to be sufficiently adaptable so that staff can regularly change the manner in which they work in the light of on-going assessments. Reporting systems need to be sufficiently flexible to capture unexpected results.
- ***Mechanisms to allow appropriate guidance.*** Like all BDS interventions, those focused on being innovative have to be driven by demand. It is therefore important to find ways of allowing SMEs to contribute to the design and on-going evaluation of programmes. Unfortunately, SMEs are sometimes understandably reluctant to commit more of their time to research activities which may appear to offer no benefit to them. The classic response is to invite representatives from key stakeholder organizations to be official guides to the analysis. However, experience suggests that not only do these organizations often have their own (competing) agendas, but that they may be remote from SMEs themselves. Instead of organizations, one response may be to approach individuals of proven commitment and insight to provide guidance for the innovation process.
- ***Priority setting.*** Learning agendas can become jammed with multiple and sometimes conflicting objectives. Focus is therefore important and the various objectives should be given clear weighting so that programme staff can prioritize interventions.
- ***On-going assessment.*** The learning objective of innovation projects can only be met if there is a commitment to on-going monitoring that seeks to capture expected and unexpected outcomes and apply rigorous cost measurement. Although control groups can provide a reference point against which to measure change, they may present problems in *practice* (finding comparable enterprises and people, talking with but not influencing them and providing incentives for their participation), with regard to *resources* (time for control group consultation) and of an *ethical nature* (controlling people in poverty).
- ***Using “experts”.*** The advantages offered by external specialists in an innovation process include bringing external experience to a local context, providing a capacity-building technical input to local partners and facilitating the exchange of results between countries and organizations

## **6.3 Specific issues**

While benchmarking and innovation form the *broad* challenges for donors and BDS organizations, there are a considerable number of more specific gaps in understanding of good BDS practice. A number of these are presented below.

### **6.3.1 Creating business-like (non-profit) BDS organizations**

In some ways, meso-level interventions have become the core issue for donors. From a donor perspective generally, much of development is about finding and developing good partners. SME development is no different. The general message is clear: the best organizations and people are business-like. However, there is a danger of this being accepted as a bland truism or “buzzword”, without thinking about its practical application. Indeed, there has been *comparatively* little attention to BDS institutional development, which is more commonly regarded as an appendage to delivery-oriented interventions. How should donors help develop partners? Some aspects are particularly important:

- creating the right funding environment
- building on the right people
- allowing them to learn incrementally
- building incentives
- supporting their own product development process

However, there is an absence of detailed knowledge over what these may mean in practice. For example, does the stimulation of BDS supply in both qualitative and quantitative terms also stimulate demand for BDS services? Can specific institution-building instruments be identified which show particular promise?

### **6.3.2 Building on BDS already being provided by the private sector**

In many countries, SMEs receive almost all of their support services from the private sector. These include training, the supply of raw materials and equipment, access to information and marketing services, which are provided without any subsidy and are therefore self-sustaining. The enhancement or replication of these services through private sector channels is very attractive in terms of reaching far more SMEs than could be reached by NGOs. However, this approach has a number of implications for the research agenda:

- Firstly, there is probably as yet insufficient knowledge about how these services are provided. For example, studies such as those by Peter Kilby indicate that the traditional apprenticeship system is deeply embedded in the local culture. Moreover, many services, such as the provision of commercial information, are largely provided informally, for instance by relatives or neighbours. Interventions that are not based on a clear understanding risk damaging these mechanisms, particularly by installing a subsidized and therefore temporary alternative.

- Secondly, where the intention is to build on private sector initiatives, the traditional donor-funded entry points may not be appropriate. Businesses which provide BDS to SMEs understand approaches that involve a clear gain for all involved, such as joint ventures in which both investors benefit. In this context, concepts such as ‘temporary subsidies’ and ‘impact’ can be confusing.
- Thirdly, donors may need to review their traditional portfolio of partners. These generally include local government or institutions which are clearly not-for-profit. Donors will therefore probably need to persuade their constituencies at home and host governments of the merits of a business-like approach.

The design of BDS which are both profitable and of value to SMEs will require innovative and creative approaches. A major opportunity is to identify services that are of particular value to SMEs and/or are particularly viable when offered to SMEs, for example through economies of scale that can be achieved by providing services to thousands of SMEs, but which could not be achieved through providing services to a smaller number of large businesses. Donors can also play a catalytic role in establishing linkages between participants in the private sector. Sufficient experience has now probably been gained to begin to generate some comparative data, for example on programmes that link companies in-country (e.g. sub-contracting exchanges) and programmes that link local companies with companies in the donor country (e.g. sister industry programmes).

### **6.3.3 Developing indigenous networks and associations**

Successful rapid growth economies are all lubricated and driven by private learning, exchange and mutual support mechanisms. Given the inability or reluctance of the State in many countries to subsidize them, the creation of learning institutions is a key priority and offers the opportunity to create sustainable learning capacities. But traditions differ with regard to business associations and BDS in industrialized nations and, unsurprisingly, experience is mixed with regard to donor interventions in developing countries. For example, there have been some promising interventions in Latin America, but experience is generally less successful in Africa.

How can these associations be supported without bestowing on them the cost base and mentality of a dependent bureaucracy? How can genuine capacity be created without raising costs? How can associations be supported without undermining the indigenous quality which is their most distinctive feature?

### **6.3.4 Developing BDS interventions for disadvantaged groups**

How does the rigorous application of the business-like principle affect donors’ general concern over distributional questions and their commitment to disadvantaged groups? One school considers that:

- using a more demand-led approach inevitably means that those with greater demand (better-off owner-managers) will benefit most;
- the self-selection implied by this approach means that those with most ability, drive and resources select themselves and leave behind those without these qualities;

- the self-employment into which many people have fallen in developing countries is a reluctant state and many would gladly go into employment. Their businesses are therefore useful in a welfare sense, but are unlikely to contribute significantly to economic growth;
- most businesses operated by poor people are relatively simple and there is actually little scope for BDS to help them;
- if the poor do benefit from BDS it is primarily as indirect beneficiaries through their work for larger SMEs.

An alternative view is that BDS providers can deliver useful products to disadvantaged groups if they are designed appropriately (examples of successful interventions aimed at the poor include BRAC's poultry programme). The point is to identify a group and identify their needs.

The above discussion mirrors the (as yet unresolved) debate in the microfinance sector. Future interventions need to be clear about whom they are seeking to assist.

### **6.3.5 Selecting growth-oriented businesses**

Although donor interest in the poor remains strong, there is also interest in achieving increased efficiency by identifying and selecting "winners" which have the capacity to make best use of BDS such as training. However, external agencies do not have a good record here. If growth-potential businesses are as significant as they are believed to be, there may be a need to try and develop additional ways of identifying these SMEs.

### **6.3.6 Achieving the appropriate balance between levels of intervention**

Achieving a balance between different types of interventions is difficult, with little "hard" data to guide donors. Indeed, some interventions, such as those with existing SMEs, may well be trying to address problems whose source (and real solution) is more fundamental. For example, efforts to improve product design and development in SMEs in many countries are often hampered by the basic lack of engineering drawing and design skills, which cannot be developed easily by a BDS organization, but require sustained training and education.

Similarly, while it is widely recognized that a supportive policy and regulatory environment is a prerequisite for successful interventions at the meso and micro levels, there is little hard evidence of which interventions are most critical and the balance that should be struck between macro, meso and micro level interventions in a given country.

### **6.3.7 Entrepreneurship education and training**

SMEs perform best in countries and cultures which encourage and support entrepreneurship. While it is widely assumed that education and training systems have a role to play in developing entrepreneurial values, attitudes and behaviours, it is not known to what extent this is the case nor how it can be achieved most effectively. More work is needed on assessing the impact of programmes that have been implemented and identifying strategies for further development and to meet such challenges as curriculum design and development and teacher training.

### **6.3.8 The troublesome subsidy issue**

For most donors, one of the most difficult issues associated with BDS is that of subsidies. In general, interventions which require a relatively short-term period of external intervention to create capacity and then have a realistic chance of being sustainable, such as technology development and transfer, the development of new market entities and business linkages, appear to be worthwhile investments. They appear to respond to a market gap or opportunity. However, effective long-term self-financing appears unlikely, or at least more difficult, for other types of intervention, such as business training.

Common practice in industrialized nations may not be hugely relevant in this context. Defining a “legitimate” role for the State cannot be divorced from what the State can afford. If there is no significant possibility of a government taking on the role of supporting BDS financially, how can donor support be seen as anything more than a short-term palliative or as one of a series of donor subsidies? This concern would seem to point future interventions in two possible directions:

1. seeking to minimize or eliminate external financial subsidies; or
2. developing cheaper and less distorting ways of offering State support, such as vouchers.

### **6.3.9 Developing generic approaches for later adaptation and expansion**

The growth of BDS has been constrained by the contradiction between the need for focus and specialized products to meet specific client needs and the aim of achieving economies of scale. Current approaches to increasing the impact of interventions are concentrated around subsector analysis and networks. However, it may also be possible to develop more standardized approaches which can be adapted and delivered with relatively little development cost. The dangers of thoughtless replication of “models” are well known, but there is also increasing recognition that some specific products, such as CEFÉ, may be scaled up with low cost adaptation.

### **6.3.10 The process approach: Implications for design and implementation**

One great strength of the SME sector is that it is flexible and can respond very quickly to changing market demands and macro-economic environments. Meanwhile, donors have to show that their funds have been used for the purposes for which they were committed. This requirement may well have stifled beneficial initiatives. There is consequently increasing interest in process approaches over blueprint approaches.

One potential solution is to quantify the impact achieved through BDS delivery. The ability to demonstrate benefits may defuse criticism that a project did not do what it set out to do. However, methodologies for quantifying impact reliably are still at the development stage.

Another potential solution is to provide BDS which are so flexible that they can be adapted to specific needs. This is a lesson from the micro-credit field, where loans are clearly used by clients for a very wide variety of purposes and the lending agency has little direct interest in what that usage actually is. Examples in the BDS field might

include networking opportunities for SMEs, in which clients choose whom they meet and what they discuss to suit their current needs. However, little work has yet been done on the provision of a sustainable and systematic service in this area.

A third solution might be to allocate funds to organizations that are considered trustworthy and competent and to rely on them to achieve the best results. One difficulty is that BDS organizations tend to be small, and indeed smaller organizations are often considered more effective. Another difficulty is that flexible funding can begin to look like core funding, the anaesthetic effects of which are now well known.

Even donors which are in a position to support projects adopting a process approach are often limited in their capacity to supervise such projects. The technical input required to enhance achievements may be high, including an international perspective and links with knowledge, expertise and resources in other countries. Arrangements which involve sub-contracting the 'mentoring' function to appropriate organizations or individuals may make the process approach more viable for many donors.

### **6.3.11 Getting the private sector to do more**

Many BDS interventions are concerned with highlighting areas where markets have failed to deliver good services. While this can often be attributed to a basic lack of purchasing power on the part of consumers, there are also occasions where this market failure is attributable to the supply-side's basic lack of creativity in developing solutions to problems. BDS organizations, with donor support, are sometimes in a position to innovate approaches which may even have the potential to become sustainable from market demand.

Having shown that there can be profitable opportunities in serving SMEs or, perhaps more relevantly, developing technologies which SMEs can service or manufacture, there may be an opportunity to stimulate the private sector generally into looking at previously unfashionable areas (appropriate technologies) in a serious commercial sense. The "private sector" here may include self-help groups, microenterprises and businesses at the upper end of the SME range.

### **6.3.12 The impact of globalization and technological change on SMEs.**

The increased competition resulting from the globalization of financial, product and labour markets has led to firms engaged in global sourcing pulling even remote regions into world-wide supply networks. At the same time, all countries are becoming markets for other countries' exports. As the world economy becomes more integrated, local standards are no longer competitive and the pressure to reach international standards is increasing. There have also been profound changes in the organization of production. Economies of scale have been declining as techniques such as lean manufacturing and just-in-time production have shifted attention to timeliness, and computerized production has allowed smaller factories to produce customized goods at mass-production prices. The plummeting prices of information technology allow SMEs to compete with the giants and give them the added edge of flexibility and information-dependent innovation. The Internet is opening up tremendous potential for small enterprises to access mass markets in highly cost-effective and competitive ways.

These changes profoundly affect the context in which SMEs compete. They are bound to have a major impact on the types of support interventions which are required by SMEs and the way in which such interventions can be designed and delivered.

### **6.3.13 Creating more effective mechanisms for donor coordination**

While all donors are committed to finding effective ways of working together, in practice efforts at active collaboration are still relatively rare. Many donor agencies still pursue a comparatively lonely learning curve, through awareness of some of the lessons emerging from elsewhere, but without learning especially quickly or substantially. One central problem facing donor agencies engaged in the promotion of BDS is how a genuine commitment to greater collaboration, exchange, joint projects and agreements on practices can be turned into a tangible reality. For this to happen, practical planning and coordination mechanisms need to be agreed at the various levels, both in-country and “corporately”.

## 7. Annotated bibliography

1. **Allen, J. (1991);** *Solomon Islands; Promotion and development of small and medium-scale industries. Terminal report*, UNIDO, Vienna, Austria.
2. **Awasthi, D. N., Murali, B. P. and Bhat, B. N. (1990);** *Entrepreneurship development and new enterprise creation: Experience of the Entrepreneurship Development Institute of India*, ILO, Geneva, Switzerland.
3. **Biggs, T., Shah, M. and Srivastava, P. (1995);** *Technological capabilities and learning in African enterprises*; World Bank Technical Paper No.288, Africa Technical Department Series.
4. **CEDEFOP and Durham University Business School (1993);** *Training as an entrepreneurial business*; CEDEFOP, Berlin.
5. **Chambers, R (1997);** *Whose reality counts: Putting the last first*; Intermediate Technology Publications, London.
6. **Chen, M.A.(ed.), (1996);** *Beyond credit: A subsector approach to promoting women's enterprises*; Aga Khan Foundation, Canada.
7. **Committee of Donor Agencies for Small Enterprise Development (1995);** *Small and micro-enterprise finance: Guiding principles for selecting and supporting intermediaries*; (No objection draft) Unpublished working paper.
8. **Development Cooperation, Ministry of Foreign Affairs, the Netherlands (undated);** *Small-scale enterprise*, Policy Document Number 3, The Hague, Netherlands.
9. **Dias, S. (1991);** *Sub-contracting in small-scale industries: The case of Sri Lanka*; UNIDO, Vienna, Austria.
10. **Duval, A. and Waterfield, S. (1996);** *Partnership tools: Working with local institutions for microenterprise development*; CARE, Atlanta.
11. **Edgcomb, E., Cawley, J., (eds), (1993);** *An institutional guide for enterprise development organisations*; The Small Enterprise Education and Promotion Network (SEEP).
12. **Gagel, D. (1995);** *Action research and small enterprise promotion; Participative and process-oriented methods in developing cooperation*; GTZ, Germany.
13. **Gibb, A.A. (1988);** *Stimulating new business development (what else besides EDP?)*; ILO, Geneva, Switzerland.
14. **Gibb, A.A. (1989);** *Stimulating entrepreneurship and new business development*, ILO, Geneva Switzerland.
15. **Gibb, A.A. and Manu, G. (1990);** *Design of extension and related support services for small scale enterprise development*; International Small Business Journal, Vol. 8, No.3.
16. **Gibb, A.A. (1991);** *Defining success in entrepreneurship development programmes: A guide to a model approach*; ILO, Geneva, Switzerland.
17. **Gibson, A. (1997);** *Monitoring and evaluation of small enterprise development projects in south Africa: A guide for NGOs*; ODA.
18. **Goiburu, R.T. (1981);** *Mass communication media for management training in small rural enterprises*. ILO, Geneva, Switzerland.
19. **Grierson, J.P. and McKenzie, I. (eds.) (1996);** *Training for self-employment through vocational training institutions*; International Training Centre of the ILO, Turin.
20. **GTZ (undated);** *Private sector promotion in national economies in transition*; GTZ, Germany.
21. **Guthrie, C (1989);** *Group training methods in management development with special reference to small-scale enterprises*; ILO, Geneva, Switzerland.

22. **Harper, M. (1983);** *Selection and training for entrepreneurship development*, ILO, Geneva, Switzerland.
23. **Harper, M. (1995);** *Small enterprise development: Value for money?* ILO, Geneva, Switzerland.
24. **Havers, M. and Gibson, A. (1994);** *The role of small business membership organisations (SBMOs) in small enterprise development*; Small Enterprise Development Fund, ODA.
25. **Henriques, M. (1994);** *What is sustainability in a small enterprise development context?* Paper presented in the Hague, 2 December 1994, ILO, Geneva, Switzerland.
26. **Hoppers, W. (1994);** *The promotion of self-employment in education and training institutions. Perspectives in East and Southern Africa*; ILO, Geneva, Switzerland.
27. **Humphrey, J. and Schmitz, H. (1995);** *Principles for promoting clusters and networks of SMEs*, Discussion Paper 1, UNIDO Small and Medium Enterprises Program, Vienna.
28. **ILO (1986);** *Interfirm comparison for improving performance: How employers' organisations can help the business community*; ILO, Geneva Switzerland.
29. **ILO (1987);** *Guidelines for the development of small-scale construction enterprises*; ILO, Geneva, Switzerland.
30. **ILO (1989);** *Women's role in small enterprise development in Lesotho*, ILO, Geneva, Switzerland.
31. **ILO (1995);** *General conditions to stimulate job creation in small and medium-sized enterprises*; Report V (1), ILO, Geneva, Switzerland.
32. **International Donor's Coordination Group on "Small and Micro Enterprises Promotion in Pakistan" (1995);** *Promotion of small-scale enterprises in Pakistan*.
33. **Kochendorfer-Lucis, G. and Wolf, J. (March, 1992);** *Cross-sectoral analysis of project evaluations in the field of micro and small enterprise promotion in the crafts sector*; Swiss Development Cooperation, Bern, Switzerland.
34. **Kogi, K. (1994);** *Introduction to WISE (work improvements in small enterprises) methodology and workplace improvements achieved by the methodology in Asia*; IEA.
35. **Kolshorn, R. and Boschmann, N. (1995);** *Understanding entrepreneurship and how to promote it*, GTZ, Germany.
36. **Kolshorn, R. and Tomecko, J. (1995);** *Competency based economies, formation of enterprise (CEFE): A manual for trainers*; GTZ, Germany.
37. **Kolshorn, R. and Tomecko, J. (1995);** *Understanding entrepreneurship*; GTZ, Germany
38. **Kolshorn, R. and Tomecko, J. (1995);** *Competency-based economies, formation of enterprise (CEFE) concept summary*; GTZ, Germany.
39. **Kolshorn, R. and Zehender, W. (1992);** *Small business - a challenge of the 21st Century*; GTZ, Germany.
40. **Lalkaka, R. (1991);** *International Business Development Programme, USA. Workshop on incubators of entrepreneurship and strategies to stimulate innovation among small and medium enterprises in Europe*; UNIDO, Vienna, Austria.
41. **Levitsky, J. (1992);** *Private sector support for small enterprises: A new approach*; GTZ, Germany.
42. **Loucks, K. (1988);** *Training entrepreneurs for small business creation: Lessons from experience*, ILO, Geneva, Switzerland.
43. **Lusby, F. (1995);** *The subsector/trade group method: A demand-driven approach to non-financial assistance for micro and small enterprises*; Gemini Working Paper No.55; USAID.
44. **Maldonado, C. (1993);** *Building networks: An experiment in support to small urban producers in Benin*; ILO, Geneva, Switzerland.
45. **McVay, M. (1996);** *Non-financial services for micro-enterprises: A situation assessment*; (draft), CARE.

46. **Mead, D.C. (1994);** *Linkages within the Private Sector: A review of current thinking*; FIT Working Document No. 3.; ILO, Geneva, Switzerland.
47. **Miles, D. (1993);** *Impact of the ILO construction management programme on the development of small construction enterprises*; ILO, Geneva, Switzerland.
48. **Miles, D. and Ward, J. (1991);** *Small-scale construction enterprises in Ghana: Practices, problems and needs*; ILO, Geneva Switzerland.
49. **Neck, P. and Nelson, R. (1987);** *Small enterprise development: Policies and programmes*; (2nd revised edition) ILO, Geneva, Switzerland.
50. **OECD (1995);** *Boosting businesses; Advisory services*; OECD, Paris, France.
51. **Otero, M and Ryhne, E (eds) (1994);** *The new world of microenterprise finance*; Kumarian Press, USA.
52. **Small Enterprise Education and Promotion (SEEP) Network (1987);** *Monitoring and Evaluating Small Business Projects: a Step by Step Guide for Private Development Organisations*; PACT.
53. **Swiss Development Cooperation (July 1989);** *Sector study: Crafts and industries: Summary*; Swiss Development Cooperation, Bern, Switzerland.
54. **Swiss Development Cooperation (September 1992);** *SDC sector policy on crafts and industry promotion*; Swiss Development Cooperation, Bern, Switzerland.
55. **Swiss Development Cooperation (October 1994);** *Developing a country concept for the craft and industry promotion (CIP)*; Swiss Development Cooperation, Bern, Switzerland.
56. **Tanburn, J., (1995);** *Strengthening informal sector networks in Kenya through exchange visits*; FIT Synthesis Paper, ILO, March 1995.
57. **Tewari, M. (1994);** *Subcontracting Relations in the Age of Flexibility*,
58. **The World Bank (1991);** *World Development Report: the challenge of development*; Oxford University Press.
59. **Thorbecke, E., (1994);** *Inter-sectoral linkages and their impact on rural poverty alleviation: A social accounting matrix approach*; UNIDO, Vienna, 1994.
60. **Tolentino, A. and Theocharides, S. (1991);** *Integrated strategies for small enterprise development: A policy paper*; ILO, Geneva, Switzerland.
61. **Tolentino, A. and Theocharides, S. (1992);** *Strengthening existing small enterprises*; ILO, Geneva, Switzerland.
62. **Trah, G. (1994);** *Private sector promotion in national economies in transition*; GTZ, Germany.
63. **Trisoglio, A. (1995);** *Women, industry and entrepreneurship*; UNIDO, Vienna, Austria.
64. **UNDP, Netherlands Government, ILO, UNIDO, (1988);** *Development of rural small industrial enterprises*; UNDP, New York, USA.
65. **UNIDO (1993);** *Poverty alleviation and rural small-scale industries*; UNIDO, Vienna, Austria.
66. **UNIDO (1995);** *Discussion paper No.1: Principles for promoting clusters and networks of SMEs*; John Humphrey and Huber Smitz.
67. **UNIDO (1995);** *SME Programme: Project Stories*
68. **UNIDO (1995);** *Small and medium enterprise package: Services provided under the SME programme.*
69. **White, S. (1995);** *Creating an enabling environment for small and medium sized enterprise development*; ILO, Geneva, Switzerland.