

# **Key Lessons from Donor Committee Conference on Business Development Services for Small Enterprises**

- Performance Criteria
- Focus on Market Development (supply & demand)
- Focus on Products Not Just Institutions
- Information Is a Critical Constraint
- Partnerships with Private Sector
- Performance-based Approach

# PERFORMANCE CRITERIA FOR EVALUATING EXPERIENCE

- **Sustainability** (financial, institutional, impact)  
**Outreach** (scale, reaching target groups)
- **Impact** (on enterprise, market, sector)
- **Cost-effectiveness** (providing services of acceptable quality at minimum cost)

**All are important, though relative importance may vary by market segment, sector, and type of service**

**Issue: Views differ on how to apply**

# NEED TO DEVELOP MARKETS

## OLD ASSUMPTIONS

- **No market**
- **MSEs can't pay**
- **State/donor must provide service directly**

## NEW PARADIGM

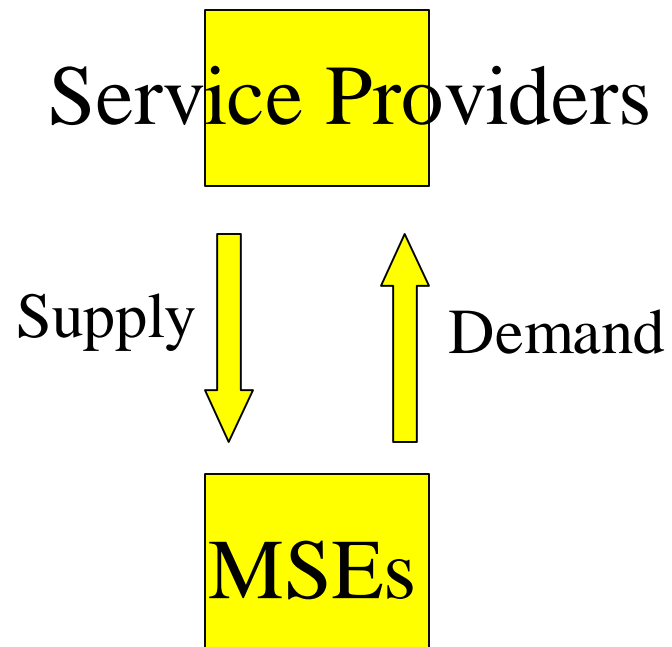
- **Understand existing informal, indigenous markets**
- **Lack of appropriate products, information, skills, capacity**
- **Facilitate transactions between potential demanders and suppliers in the private sector**

# **FOCUS ON MARKET DEVELOPMENT**

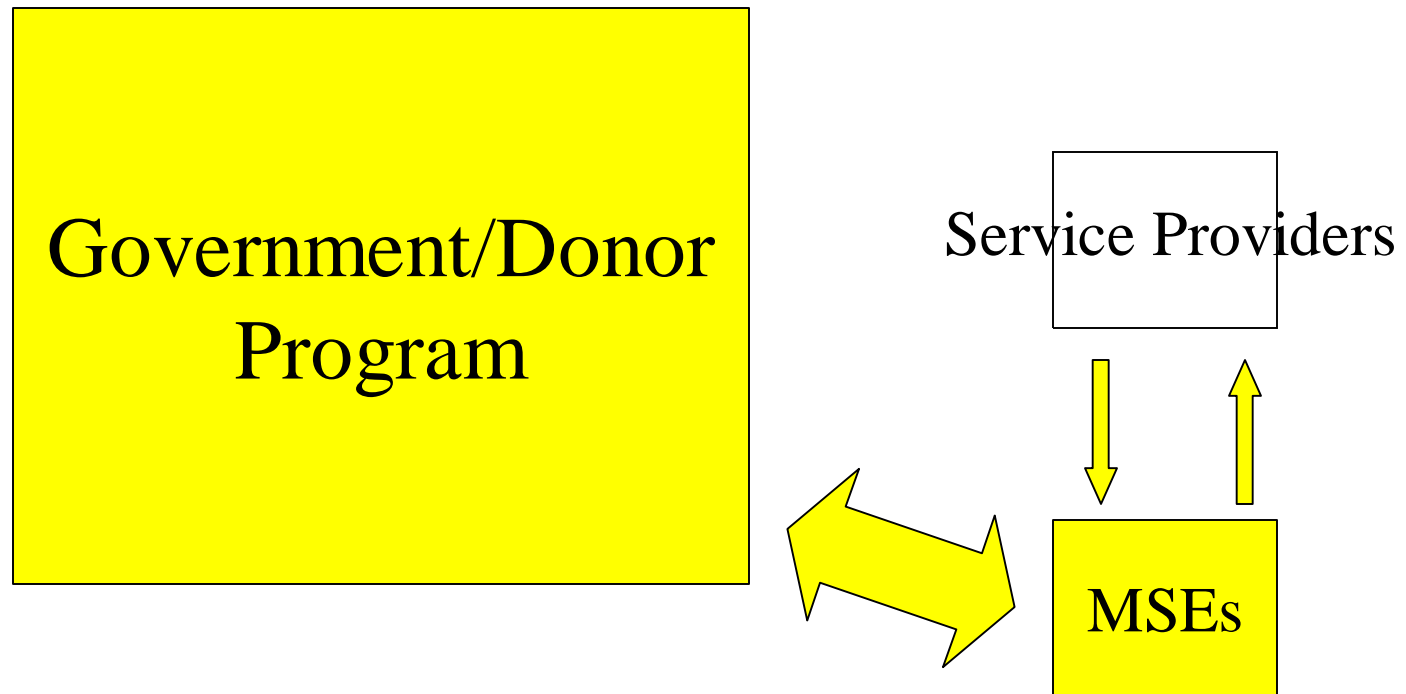
## **(Supply and Demand)**

- **Old approach: Direct provision distorted markets, displaced private providers**  
*Problem: Low sustainability, cost-effectiveness, outreach*
- **New approach: Facilitate, stimulate rather than provide services directly**
- **Segment market and know the clients well**  
(micro/small/medium enterprise; subsector)
- **Broad view of business development services**  
(all services needed to improve competitiveness, including financial, communications, office services, etc.)

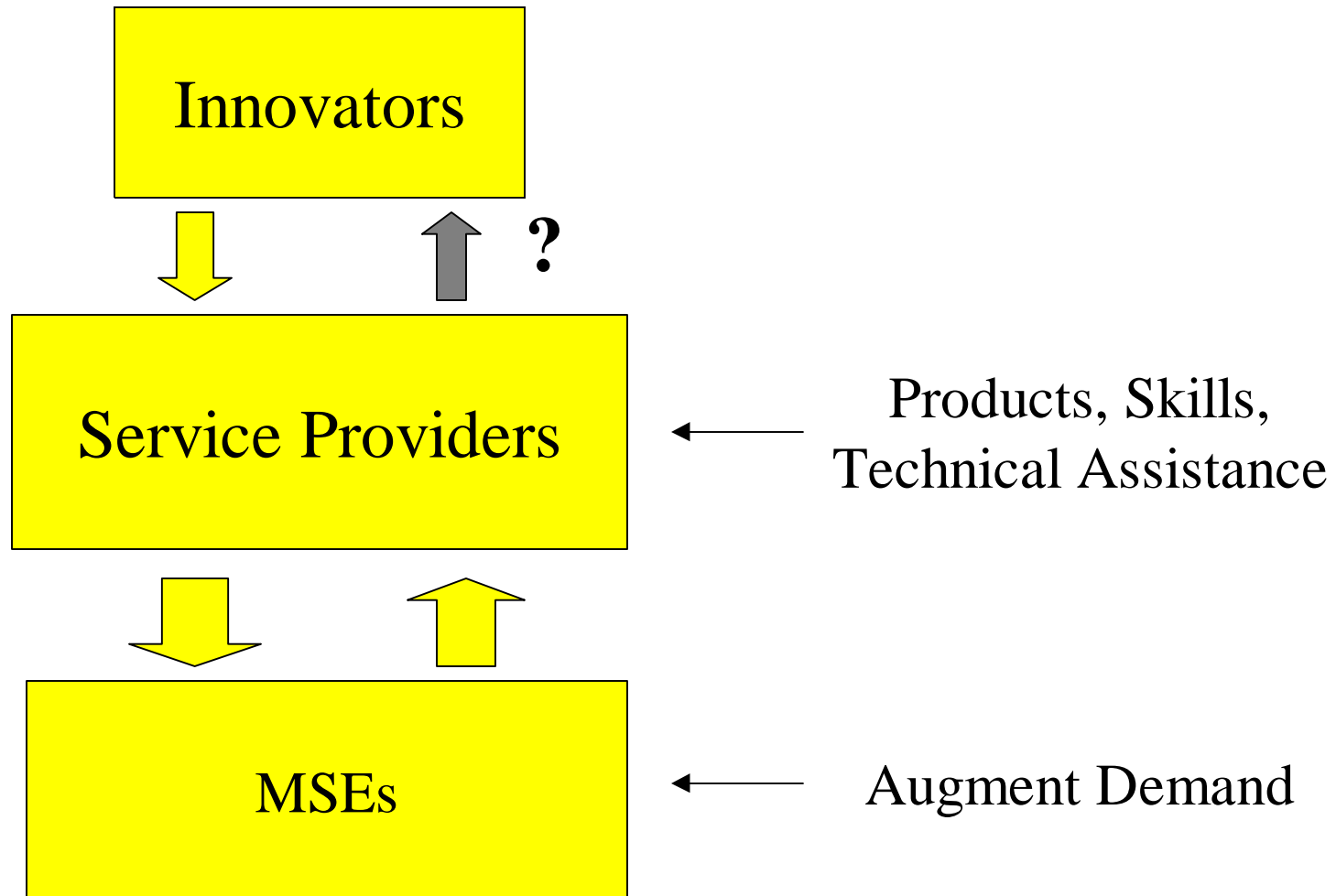
# Weak Market



# Old Approach: Replace Market



# New Approach: Develop Market



# FOCUS ON PRODUCTS NOT JUST INSTITUTIONS

- **Develop innovative products that serve different market niches profitably to facilitate competition among service providers**
- **Issue:** Sustainability focus may bias toward larger enterprises
- **Challenge:** Develop low-cost products suited to low-income microenterprises (mass market)



# **INFORMATION IS A CRITICAL CONSTRAINT**

- **MSEs lack knowledge (or perceive high risk) of payoff from investing in BDS**
    - **Demonstration effect of successful cases helps change business culture and justify subsidies**
    - **MSEs learn horizontally from each other**
  - **MSEs will pay for specific information leading to business transactions:**
    - **market information**
    - **technology information**
- Issue:** Still may not be fully financially sustainable

# **PARTNERSHIP WITH PRIVATE SECTOR**

- **Being “business-like and demand-led” implies:  
work with for-profit private service providers**
- **Issues:**
  - **Subsidizing select few may create unfair competition**
  - **Role of government**
- **Challenges:**
  - **Develop transactional relationship rather than donor-“beneficiary”**
  - **Suitable public-private partnerships for market facilitation, networking**

# PRIVATE PROVIDERS MUST HAVE FINANCING STRATEGY

Long term



Short term

- Profits from services to MSEs
- Contracts/consultancies in main line of business
- Underwriting by supplier, buyer, others with stake in BDS
- Cross-subsidize (across firm size, across different products)
- Income from non-BDS activities
- Donor or government funding

# PERFORMANCE-BASED APPROACH

- **Transactional, business-like relationships imply: must evaluate performance**
- **Issues:**
  - **Relative weights on different performance criteria**
  - **What does sustainability imply about impact?**
  - **Who pays cost of collecting data?**
- **Challenges:**
  - **Standardization**
  - **Define quantifiable indicators that can be gathered systematically at reasonable cost**
  - **Donor working group will develop proposals**