

# PRINCIPLES OF GOOD PRACTICE IN BDS

*Building a Modern and Effective Business  
Development Services Industry in Latin America  
and the Caribbean*

Alan Gibson,  
The Springfield Centre for Business in Development  
March 3rd-4th, 1999



## OBJECTIVES

- What do we mean by business development services
- The key principles of good practice
- Challenges for the way ahead



## WHAT DO WE MEAN BY BUSINESS DEVELOPMENT SERVICES?

- A recent addition to “development-speak”
- A leftover category
- Non-financial services - hardly a title to inspire!
- BDS: now increasing acceptance

## HOW CAN WE BRING GREATER COHERENCE TO THE IDEA OF BDS?

- The SME needs basis
- The providers' spectrum
- Different types of BDS

# THE BDS PICTURE: NEEDS, SERVICES, AND PROVIDERS

SME

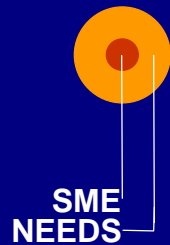


SME

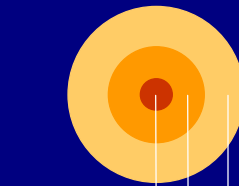
# THE BDS PICTURE: NEEDS, SERVICES, AND PROVIDERS

## NEEDS

- TECHNOLOGY
- PERSONNEL
- BUSINESS SPACE
- LINKAGES
- LAWS/ REGULATIONS
- TRANSPORT
- ADMINISTRATION
- MARKETS
- SECURITY
- RAW MATERIALS
- PRODUCTION



# THE BDS PICTURE: NEEDS, SERVICES, AND PROVIDERS

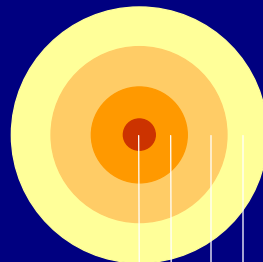


**SME  
NEEDS  
SERVICE**

## SERVICES

TRANSPORT  
EQUIPMENT  
TRAINING  
CONSULTING  
ADVICE + COUNSELLING  
INFORMATION  
BROKERING/ LINKING  
PREMISES  
UTILITIES  
INFRASTRUCTURE  
RAW MATERIALS  
COMPONENTS  
FINANCE

# THE BDS PICTURE: NEEDS, SERVICES, AND PROVIDERS



**SME  
NEEDS  
SERVICE  
PROVIDERS**

## PROVIDERS

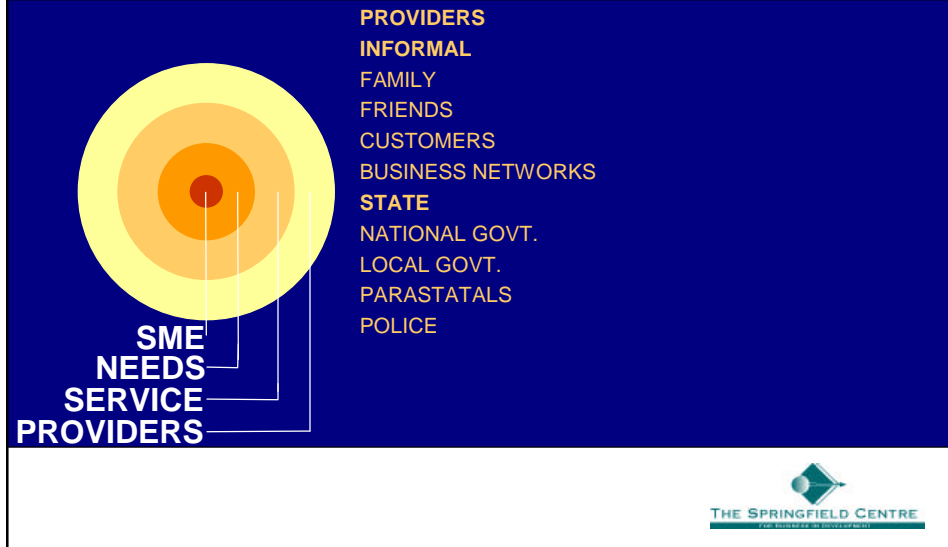
### NOT-FOR-PROFIT PRIVATE SECTOR

CLUBS  
ASSOCIATIONS  
NGOs  
UNIVERSITIES/ COLLEGES  
MUTUAL GUARANTEE ASSOCIATES

### FOR-PROFIT PRIVATE SECTOR

BANKS  
PRIVATE SECTOR COMPANIES  
ACCOUNTANTS  
CONSULTANTS  
DESIGNERS  
OTHER SUPPLIERS (EQUIPMENT + SERVICES)

# THE BDS PICTURE: NEEDS, SERVICES, AND PROVIDERS



# THE PROVIDERS' SPECTRUM

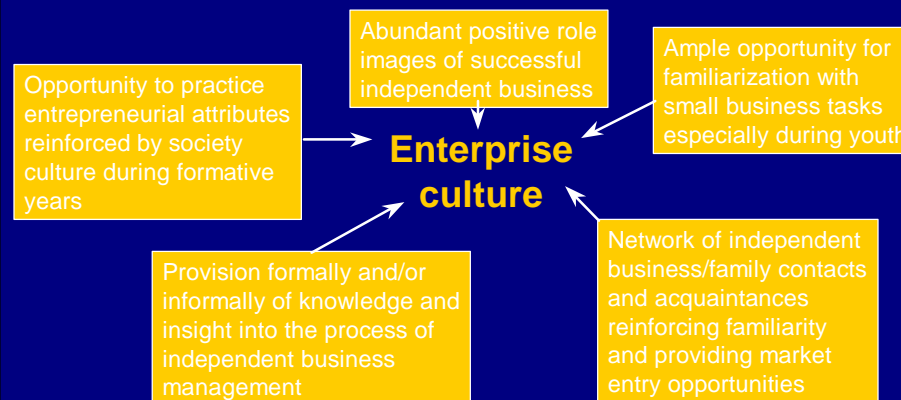
- Informal sources
- For-profit private sector
- Not-for-profit private sector
- The state

## DIFFERENT TRADITIONS IN BDS

- Compulsory business membership organisations supported by government (Europe)
- Fragmented structures; state support to a variety of providers; small role for membership organisations (UK and US)
- Heavy state direction (S. Korea)
- Relatively little state involvement; indigenous entrepreneurial networks (Hong Kong)

## THE COMPONENTS OF ENTERPRISE CULTURE

FIGURE 3:



## A WORKING DEFINITION?

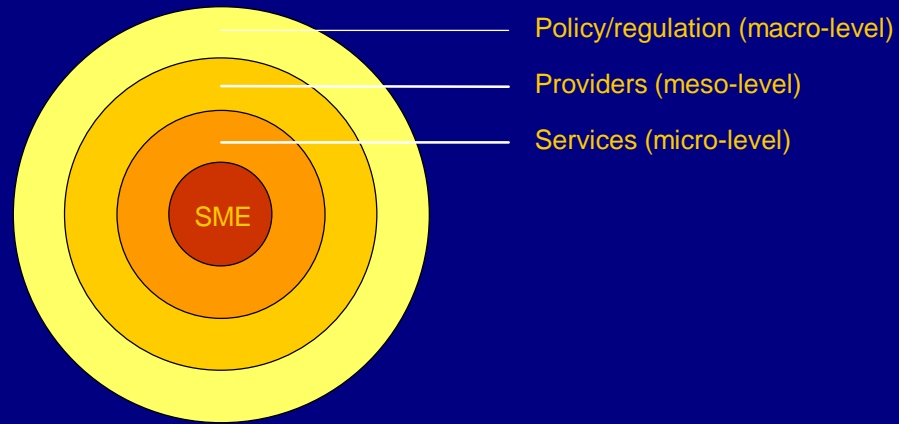
Broadly, business development services are an array of non-financial services offered on a formal or informal basis by a range of providers to SMEs to address their needs.

## FROM WHERE DO WE LEARN?

From:

- business and markets
- transparent assessment and experience exchange
- the microfinance process of development
- the north (carefully and selectively!)

## BDS: FROM MACRO TO MICRO



## WHAT ARE THE CORE PRINCIPLES OF GOOD PRACTICE IN BDS?

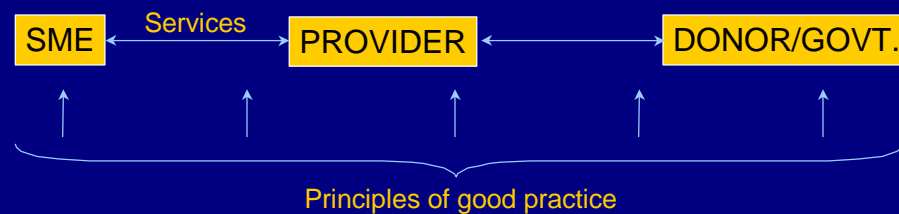
- Neglected until the Donor Committee report
- Where we are and where we want to be
- Developed a set of core principles to act as a framework for how:
  - services should be developed and delivered
  - institutions/providers should be developed and operate



## CORE PRINCIPLES UNDERPINNING GOOD PRACTICE IN BUSINESS DEVELOPMENT SERVICES

	Products (micro)	Institutions (meso)	Policy (macro)
1. Business-like and demand-led			
2. An explicit approach to sustainability			
3. Focused with strategic awareness			LESS
4. Participation: building on ownership			RELEVANCE
5. Enhancing outreach			
6. Subsidiarity: who can do what best?			
7. Tight performance measurement			

## APPLYING THE PRINCIPLES



# 1. BUSINESS-LIKE AND DEMAND-LED

- Transactional relationship with clients
- Appropriate providers -structure and culture
- The right kind of people
- Approaches to product pricing and development
- Tight systems of control

# PROVIDER-CLIENT RELATIONSHIPS

## TRANSACTIONAL

- Provider
- Discerning client
- Service/product
- Payment required
- Demand-based
- Exchange
- Equal

## CHARITABLE

- Benefactor
- Plaintiff beneficiary
- Gift
- Gratitude offered
- Needs-based
- One-directional
- Unequal

## 2. AN EXPLICIT APPROACH TO SUSTAINABILITY

- Be specific about the about the proposed long-term picture
- Consistent with view of the state's role and with development of private sector
- Consistency between current and future practices

## 3. FOCUSED WITH STRATEGIC AWARENESS

- Core competence: what are providers good at?
- Core client group: with whom should we work?
- Developing appropriate networks

## 4. PARTICIPATION: BUILDING ON OWNERSHIP

- Ownership: the distinctive characteristic of SMEs (and therefore BDS providers?)
- Leading to good understanding of needs
- Building ownership among staff
- Building on individual ideas
- Avoiding becoming a donor-created entity

## 5. ENHANCING OUTREACH

- Often appears minimal; sometimes understated because of nature of change
- An explicit view needed: how will services reach more SMEs?
- Appropriate pricing
- Leverage, facilitating, encouraging “natural” learning

## 6. SUBSIDIARITY: WHO CAN DO WHAT BEST

- Envisaged role of state: consistent with what it *ought* to do?
- Closeness of providers to SME clients
- Need to take account of differing traditions


## MATCHING THE STATE'S ROLE TO ITS CAPABILITY

- The role of the state will vary from one country to another
- Interventions should not seek to lure government beyond its resources
- More active BDS interventions need to be justified in relation to a long-term view of the meso-level

# FUNCTIONS OF THE STATE

	Addressing market failure		Improving equity	
Minimal functions	<b>Providing pure public goods:</b> Defence Law and order Property rights Macroeconomic management Public health		<b>Protecting the poor:</b> Antipoverty programs Disaster relief	
Intermediate functions	<b>Addressing externalities:</b> Basic education Environmental protection	<b>Regulating monopoly:</b> Utility regulation Antitrust policy	<b>Overcoming imperfect information:</b> Insurance (health, life, pensions) Financial regulation Consumer protection	<b>Providing social insurance:</b> Redistributive pensions Family allowances Unemployment insurance
Activist functions	<b>Coordinating private activity:</b> Fostering markets Cluster initiatives		<b>Redistribution:</b> Asset redistribution	

Source: World Development Report, 1997



## 7. TIGHT PERFORMANCE MEASUREMENT

- Using financial information in product-related decision-making
- Allocating costs and revenues to products
- Specifying targets for delivery and for impact
- Using evaluation as an input to product development

## CHALLENGES FOR THE WAY AHEAD

In this conference, we are seeking to:

- test these principles
- give them more specific meaning, and so
- offer firm guidance and develop a clear direction

## SOME SPECIFIC ISSUES TO BE ADDRESSED

1. What is our sustainable “picture” of the future for different services?
2. Matching the state’s role to its capability
3. Developing (and not distorting) private markets
4. Intervention choices: demand-side or supply-side?

## SOME SPECIFIC ISSUES TO BE ADDRESSED

5. Intervention choices: investing in services or organisations?
6. Donor skills and relationships: accountable and entrepreneurial
7. Developing benchmarks for performance measurement
8. Implications for different client groups

## CONSTRAINTS TO DEVELOPING BDS

### Market failure

- Externalities
- Asymmetric information
- Market distortion

### Equity

- Often resulting from state failures



# SELECTING INSTRUMENTS TO MEET CONSTRAINTS

