

Microenterprise Business Development Services:

Defining Institutional Options and Indicators of Performance



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Microenterprise Best Practices

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**Microenterprise Business
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by

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EXECUTIVE SUMMARY

This study presents the results of a review of the literature concerning institutional options for delivering non-financial services, or business development services, to micro and small enterprises (MSEs). The study also looks at performance indicators for different types of service suppliers, including informal and commercial suppliers, as well as non-governmental organizations involved in implementing donor-funded programs.

Over the past decade, microenterprise development programs have emphasized the provision of credit. They have paid much less attention to providing business development services, such as marketing assistance, training, and technology supply services, even though most studies of constraints facing MSEs indicate that access to credit is only one problem they encounter. In fact, access to growing markets, new technologies, and appropriate training is often as important as or more important than financial constraints. Moreover, growing evidence suggests that improved access to credit alone, without corresponding improvements in access to new market opportunities and technologies, does little in the long run to improve the well-being of owners of microenterprises.

The principal objective of this study was to survey the literature on MSEs to answer the following questions:

- ! What do we know about the nature of MSE demands for different types of business development services?
- ! How do MSEs typically access various types of business development services, particularly in the absence of donor-funded or government programs?
- ! How effective are different types of service suppliers in meeting the demands of their MSE clients? What are the key indicators of success for different types of MSE business development services?
- ! Are there particular areas in which the markets for business development services perform poorly, resulting in gaps in the business development services offered to MSEs and in unmet demands? What does this suggest with respect to donor-supported efforts, as opposed to strictly private sector solutions?
- ! What promising approaches or cases can be discovered that might warrant further investigation and help us better understand current “best practices” for MSE business development services?

SUMMARY OF PRINCIPAL FINDINGS:

Nature of MSE Demand for Business Development Services

The literature review suggests that studies of MSEs in different countries, including analyses carried out as part of project design efforts, seldom look carefully at the nature of MSE demand for different types of business services. Most studies describe constraints or problems MSEs face, but seldom ask questions that would make it possible to gauge the nature of existing or potential demand for various types of services that could address these constraints. A better understanding of the demand by MSEs for business development services appears to be important to understanding the best means of developing new services that address the problems microenterprises face. Donor or government-funded programs, which often tend to be driven by supply rather than responsive to demand, need to incorporate fee-for-service or other payment provisions into the programs they support to ensure that services are demand oriented and potentially sustainable.

Options for Improving the Supply of Business Development Services

Advances in the field of microfinance have drawn heavily on lessons learned from studies of informal financial intermediaries and markets. This study argues that to understand the best ways to strengthen business development services available to MSEs we first need to have a clearer understanding of how MSEs access these services.

The literature indicates that MSEs draw upon personal and commercial networks to assist with their marketing, input supply, technology, training, and information needs. The capabilities of these networks to meet the needs of different types of MSEs appears to vary considerably across regions and countries. In some local communities, these networks may be well developed and capable of supporting continual growth in entrepreneurial activities. In other settings — for historical, cultural, or other reasons — the capabilities of networks may be weak and hold little promise as a source of effective support for MSE development.

Given the size and importance of the MSE sector, the potential demand for effective business development services is vast; however, effective demand is still weak and supply capabilities are correspondingly underdeveloped. Considerable opportunity exists for offering services through a variety of channels, including commercial intermediaries as well as other types of organizations, such as nongovernmental organizations, that have access to outside resources and experience.

Market Failures with Respect to Business Development Service Supply

Some researchers argue that systematic market failures exist with respect to the provision of certain types of services. For example, training services may be undersupplied as a result of the inability of firms to capture enough of the benefits of providing training to justify the costs. Similarly, market intermediaries may be reluctant to bear the costs of organizing small producers to link them

to product or input markets because their competitors may be just as likely to benefit, without incurring the front-end costs. These types of market failures, if substantiated, provide a rationale for government or donor support for services that can be justified on the basis of cost-benefit calculations, rather than on the return on investment calculations that individual businesses must make.

Indicators of Effective Performance

The dilemma in measuring the performance of the provision of business development services to MSEs hinges on the tradeoff between using common business performance indicators and calculating costs and benefits that consider various types of “externalities.” The willingness of MSE clients to pay for services provided by suppliers is the surest indicator that these services address the priority needs of small-scale entrepreneurs. The jury is still out on the extent to which business development service providers can — or should — cover costs of service provision from client revenues, and the extent to which costs should be borne by other parties. Nevertheless, even for publicly funded programs, a prime qualifier for the best practices label would appear to be some degree of success in covering operating costs from client revenues. Other indicators — which are potentially related to client demand for services — include the degree to which services are market-oriented and help MSEs access new opportunities in growing markets, and the extent to which particular types of services offer the potential for producing large-scale impacts through replication, expansion, or demonstration effects.

Areas for Further Investigation

Five principal areas require additional investigation to clarify the nature of best practices with respect to the provision of business development services:

- ! Addressing the basic knowledge gaps with respect to the role of informal sector and commercial suppliers of business development services;
- ! Determining productive ways to improve business linkages between MSEs and larger firms to help overcome input supply and marketing problems and deal with technology supply and training needs;
- ! Dealing with the problem of replicating successful enterprises or services — in particular, investigating the usefulness of franchising as a tool for microenterprise development;
- ! Determining prospects for developing sustainable (and even profitable) training programs or advisory services for microenterprises; and

- ! Understanding how new information technologies can be used to improve the effectiveness of business development services.

This study concludes by noting that, even though the jury is still out with respect to the most effective roles for development assistance programs in supporting the provision of business development services to MSEs, the premium that funding organizations place on the development of sustainable, demand-oriented services is providing a positive impetus for efforts to improve program performance and service delivery. Wholly subsidized programs have led to services that were unresponsive to client needs and produced results that were not cost effective. New approaches that apply the best of commercial practices, including tested business replication techniques such as franchising, market opportunity and demand analyses, and information technology applications, offer promising avenues for advancing the state of the art and identifying programs and services that would qualify as best practices.

CHAPTER ONE

INTRODUCTION

THE NATURE AND IMPORTANCE OF MICRO AND SMALL ENTERPRISES

During the past decade, there has been an explosion of interest in how micro and small enterprises (MSEs) can help provide jobs, alleviate poverty, and supply the essential goods and services people need to enjoy an adequate standard of living and maintain basic human dignity.

This interest has been the result of several developments. First, the nature and extent of employment in MSEs have been studied in a wide variety of countries. Through path-breaking studies, the importance of MSEs, in terms of employment levels and numbers of enterprises, has been documented in both developing nations and industrialized countries such as the United States, Italy, and Germany.¹ In addition, research since the 1980s has shown that small businesses play a major role in generating non-farm employment in industrialized countries, as well as in developing countries and regions.

Second, during the 1990s, new technologies and global competition have introduced additional factors that have highlighted the importance of MSEs. Corporate downsizing efforts, for example, have become common throughout the world, resulting in a shrinkage in the workforce in the corporate sector. As larger corporations have unbundled their business operations and retreated to a focus on core competencies, whole lines of businesses and functions have been outsourced or abandoned. In some cases, these restructuring efforts have created extensive new business opportunities for smaller firms, including microenterprises, which comprise 1 to 10 persons. In other cases, these restructuring and downsizing efforts have relegated people to the “contingency workforce,” and left them scrambling to manage on their own without the guarantee of life-long employment in the corporate sector.

Third, similar changes have occurred in countries undergoing a transition from socialism to market-oriented economies. Privatization efforts in socialist countries have produced changes for workers comparable to those brought about by corporate restructuring for workers in market economies. Expectations of life-long employment in state-run enterprises have been smashed, leaving workers scrambling to find other means to sustain their livelihoods. For workers in these economies, as well as for their counterparts in market economies, employment in MSEs has become a necessity, if not a means of economic salvation.

¹ Some notable studies include Hernando de Soto’s classic study of the informal sector in Peru, *The Other Path*; ground-breaking research carried out by Carl Liedholm and others at Michigan State University that looks at the role of rural non-farm enterprises; and the extensive array of studies and reports produced by the ARIES, PISCES, and GEMINI projects supported by USAID.

In the face of this growing array of evidence documenting the nature and importance of small enterprises in the contemporary world economy, development programs worldwide have begun to focus on ways of promoting MSE growth.

**SUCCESSFUL MODELS FOR PROVIDING FINANCIAL SERVICES
FOR MSEs AND THE SEARCH FOR BETTER MODELS
FOR PROVIDING NON-FINANCIAL ASSISTANCE**

The emergence of MSE programs as cornerstones of economic development efforts worldwide has been given an impetus by some early successes in discovering successful models for promoting these enterprises through the provision of financial services. Over the past decade, the experiences of Grameen Bank in Bangladesh, BancoSol in Bolivia, and BRI in Indonesia, along with scores of similar successes in other countries, have produced a wave of optimism in development circles about the prospects for microfinance programs to provide practical, sustainable assistance to large numbers of MSEs.

At the same time, studies of constraints on MSE growth have consistently indicated that other factors are as important as, or more important than, financial constraints for the operations and growth prospects of microenterprises. For example, access to markets and inputs is frequently considered by MSE operators to be as important as or more important than financial constraints.² Moreover, even though operators of small enterprises may be unwilling to admit to deficiencies in areas such as management know-how and technical skills, human resource problems are common and constitute important barriers to MSE development.³ Recognizing the importance of these other factors, and buoyed by the successes that have been achieved in the financial area, microenterprise practitioners have begun to search for ways of providing non-financial assistance with the same degree of success that has been achieved in the financial area.

² A number of sources cite marketing and input supply problems as the primary constraints facing MSEs in particular countries, including Levitsky, 1989; McPherson, December 1991; Poyo, Parker, and Golden-Vazquez, 1996; and Silcox, Jansen, and Baughan, 1994. Also see Daniels and Fisseha, p. 37, 1992; Goldmark, 1996; Overy and Berman, 1997; and Save the Children, *Building the Competitive Advantage of Micro and Small Businesses*, Roundtable Report, January 1997.

³ Ibid.

SCOPE OF THIS STUDY

This study will assess current approaches for supporting the development of MSEs through the provision of non-financial services, or what are now more commonly being referred to as business development services. Our intent will be to highlight the more-promising approaches and begin to define the criteria to be used in deciding what constitutes promising practices for the delivery of business development services, as a stepping stone quest to identify best practices

To determine how microenterprises can be supported through improved business development services, we will examine, in Chapter Two, the nature of the demand for business services by small enterprises. This question has typically been analyzed in terms of constraints facing microenterprises, based on analyses of responses from entrepreneurs describing what they consider to be the most important problems they face. However, constraints and problems do not necessarily translate into effective demand for business development services. This is particularly true when these services are not readily available, and when owners of microenterprises have little experience using outside services or evaluating their value.

After looking at the nature of the demand for business development services, we will review the sources of supply for business services that are available to MSEs. In Chapter Three, we will examine three main sources of services: members of the entrepreneur's personal social network; commercial intermediaries that interact with small firms; and various types of non-commercial suppliers, including nongovernmental organizations (NGOs), private voluntary organizations (PVOs), and public-sector programs and institutions. Most of the recent reviews of business development services have focused on the efforts of non-commercial suppliers, and have paid little attention to personal networks or commercial intermediaries. However, the support services they provide are often the only ones available to MSEs. The nature of these support services and their adequacy will determine whether additional support services are needed and how they should be provided to fill gaps in the supply structure.

The discussion of sources of supply will also touch on the question of the comparative advantages different suppliers have in providing business support services to MSEs. The study will examine the strengths and weaknesses of service suppliers with respect to their dealings with MSEs. As part of this discussion, we will examine the basis for compensation for different categories of services and how service suppliers need to operate in order to receive sufficient compensation for their services.

We will also look at the question of the nature of specific types of services, whether they are directed at the private needs of individual firms, whether they offer commercial benefits to a larger group of enterprises, or whether they are intended to promote the public good rather than more narrow private interests. This question is of critical importance in understanding what different types of services suppliers need to offer to sustain their operations.

In Chapter Four, we will look at criteria for determining what constitutes promising practices or best practice with respect to business development services. This will involve setting preliminary guidelines regarding:

- ! The **orientation** and **structure** of various service packages — how we can ensure they are addressing the priority needs of microenterprises;
- ! The **appropriateness of the delivery channels** that are being used;
- ! The optimal **combination of organizational resources** that are needed to achieve effective service delivery, including roles for commercial service providers and development organizations; and
- ! The **performance standards** different types of service packages must meet to qualify as acceptable practice or best practice for a particular kind of service.

The chapter will assess the indicators being used to measure the impact of microenterprise business services and the usefulness of these indicators in sorting out good practices from poor ones. This exercise will identify a revised set of indicators to use in gauging current efforts to improve the supply of business development services to microenterprises and in identifying approaches that might be considered to be best practices.

In Chapter Five, we will provide a research and development agenda to address the current information gaps in understanding MSE business development services. We will suggest particular areas in which more information is needed about the ways in which MSEs operate, how they interact with different types of service providers, and ways in which business development services could be structured to provide more effective assistance to MSEs. This will include recommendations for case studies of existing approaches to deliver business development services as well as for new areas in which pilot programs might be carried out to test service packages or delivery mechanisms that offer promise but have been underutilized.

CHAPTER TWO

MSE GROWTH CONSTRAINTS AND THE DEMAND FOR BUSINESS SUPPORT SERVICES

INTRODUCTION

The MSE literature contains extensive documentation on the array of constraints and problems facing MSEs in different countries. The literature is silent, however, on the demand for business development services that microenterprises might use to overcome growth constraints.

Efforts to identify MSE growth constraints have typically been carried out as a first step in identifying technical assistance interventions that could be executed by donor organizations or government agencies to support the development of MSEs. As long as the interventions included services to small enterprises free of charge, little effort was made to gauge the level of demand for such assistance. Instead, program designers and evaluators focused on the impacts of the technical assistance activities using cost-benefit calculations — the costs of the technical assistance measured against as many benefits as the project could take credit for, including economic and social benefits.

In recent years, donor organizations have become concerned that continued infusions of external technical assistance may not be the best means of dealing with problems such as microenterprise development or other economic growth issues. Rather than supporting technical assistance activities that end when project funds are exhausted, donors have increasingly looked for ways of stimulating the supply of sustainable services, delivered through local, primarily non-governmental channels.

Encouraging the growth of sustainable services has required donor organizations to address issues they formerly ignored or resisted — that is, the best options that service providers could pursue to recover costs, generate fees, or even make profits while implementing what might initially be a donor-subsidized program.

This shift from subsidized technical assistance to the search for sustainable services has highlighted problems related to the way donor organizations decide how to spend their money — namely, how to move from initial analyses of growth constraints in a particular area such as microenterprise development to methods of assessing the demand by MSEs for services for which microentrepreneurs are actually willing to pay. The MSE literature contains no information about the nature of the demand by MSEs for types of business support services. MSE surveys carried out in various countries shed light on the constraints MSEs face and the relative importance of these constraints, but offer few insights into the relationships between such growth constraints and the demand for business development services by micro and small businesses.

This chapter provides a brief summary of what the literature tells us about the range and relative importance of constraints or problems different types of MSEs face. The chapter then

examines at the relationship between constraints and the demand for business support services by MSEs. This discussion provides a framework for analyzing issues related to the supply of business services, which is discussed in the next chapter.

WHAT DO CONSTRAINTS ANALYSES TELL US?

Studies of MSEs generally identify a long list of problems faced by owners and operators of small enterprises. On the financial side, studies emphasize that the primary need is for better access to working capital, although fixed or investment capital is a problem for certain types of businesses. In the non-financial area, microenterprises must deal with numerous problems, including the following:⁴

- ! Marketing problems (identifying new sources of demand, finding customers, developing business linkages, and adapting products and services to meet buyer requirements;
- ! Input supply problems, including access to raw materials, supplies, and equipment;
- ! Technical/production problems;
- ! Enterprise management problems;
- ! Legal and regulatory compliance and harassment;
- ! Transportation problems;
- ! Limited access to business facilities and infrastructure; and
- ! Human resource development and management problems.

The MSE literature, dealing as it does with enterprises in a variety of country or regional settings and business areas, shows that the relative importance of different constraints varies from one region or country to the next as well as within industries or trades in the same country or region. The importance of different constraints also varies for firms at different stages in their life-cycle, from start-up through growth cycles to mature operations.

The problems most frequently mentioned by small producers are three:

- ! Access to credit, particularly for working capital;

⁴ Several recent studies have proposed analytical frameworks that classify different types of constraints facing MSEs and corresponding interventions that have been deployed to address such constraints. For more detailed categorizations, see McVay, 1996; Goldmark, 1996; and Goldmark, Berte, and Campos, 1997.

- ! Access to growing markets; and
- ! Access to inputs.

The primacy of MSE market access problems, for products and services as well as inputs, has been documented for a number of countries and industries.⁵ It is important to understand why this is so.

Most microenterprises are limited to selling their goods and services in local markets that are overly crowded, highly competitive, and characterized by low barriers to entry and correspondingly low profit margins. A common, fundamental need, therefore, is for improved access to new, more rapidly growing markets. In particular, microenterprises need to be able to identify and access market niches in larger urban or export markets, either directly or through linkages with various types of intermediaries or larger enterprises.

The MSE literature does not suggest that small-scale producers face any particular problems in marketing their products in local markets. Rather, the literature suggests that microentrepreneurs are intimately familiar with local market requirements. They deal with their customers and local market intermediaries on a face-to-face basis. Information about prices, product and service requirements, and other market-related concerns is available to them through friends, relatives, and other members of their local social network.

Other non-financial constraints, such as input supply problems, access to new technologies, and management and training needs are usually directly related to the requirements of the markets in which MSEs participate. This does not mean that for individual MSEs, or even groups of MSEs, that these other problems will be less important than market access problems. Some enterprises may have already worked out solutions to their marketing or market access problems and face a next tier of challenges. However, the prominence given by microenterprises to market access problems suggests the order in which constraints need to be addressed and provides a strong reminder that services that address these other types of non-financial constraints must be consistent with market requirements.

⁵ The GEMINI working papers provide a good cross-section of studies dealing with constraints facing MSEs in different countries and highlight the relative importance of marketing, input supply, and working capital problems for MSEs. See, for example, W. Grant, 1990, who found that access to markets, inputs, and working capital was the major constraint faced by small businesses in Lesotho in the garment subsector as well as for the weaving and leather goods industries. A GEMINI survey of small enterprises in the forest-products sector in Southern and Eastern Africa found that working capital finance, marketing, and input supply problems were the principal difficulties cited by firm owners (Arnold, Townson et al., 1994). Silcox et al., 1994, in their study of small enterprises in Malawi, found that access to inputs or raw materials and saturated markets were the most commonly cited problems facing microentrepreneurs. See also Poyo et al., 1996.

GROWTH CONSTRAINTS AND MSE DEMAND FOR BUSINESS DEVELOPMENT SERVICES

One noticeable shortcoming is the paucity of studies dealing with existing or potential demand for MSE business development services. Almost all of the studies have been content to identify and analyze growth constraints. When measures to address constraints have been proposed, they have generally been in the form of technical assistance interventions using donor or government funds. Seldom, if ever, have the studies made an effort to assess the nature of the demand for specific types of services by MSEs that might be supported, at least partially, through user fees.

The primary measure of effective demand for business services in a monetized market economy is the willingness of the entrepreneur or business manager to pay for needed support. As long as donor-funded technical assistance is provided to MSEs without charge, there is no urgent need, at the program design stage, to do more than document the existence of particular constraints and to formulate plausible means for addressing them through subsidized technical assistance.

Until recently, firms involved in development assistance programs or entrepreneurs were rarely asked to pay for services; consequently, little front-end effort was required to assess the level of demand for particular types of services. As long as appropriate cost-benefit calculations could be produced, donor organizations supported technical assistance programs that were driven by supply, rather than by demand.

With the shift from subsidized technical assistance to the provision of sustainable services, mechanisms for gauging demand for services have become essential. It is no longer sufficient to merely identify constraints or problems MSEs face. Instead, service providers have to be able to identify specific demands and be willing and able to supply the particular services MSEs need and for which they are willing to pay. To provide these services in a sustainable manner, suppliers need a much better idea of the willingness and abilities of small producers to pay for the services.

MSE DEMAND FOR SPECIFIC TYPES OF BUSINESS DEVELOPMENT SERVICES

Although the development literature says little about the demand for business services by MSEs, we can draw some inferences from studies carried out in other fields and piece together a basic profile of MSE demand for the services. This section provides a summary of the nature of MSE demand for several categories of business development services.

Marketing Services

Agricultural economists, economic anthropologists, and others have investigated the operations of the local markets in which small producers participate. The studies show that small producers make use of a variety of services supplied by marketing intermediaries. Concerning the nature of MSE demand for these services, there are service areas for which demand is high, as evidenced by the willingness of MSEs to pay — sometimes dearly — for the services that marketing intermediaries offer.

For example, in the course of their regular dealings with marketing intermediaries, micro and small-scale entrepreneurs routinely pay for services that help them face numerous marketing or market access problems, ranging from securing needed inputs and technologies to marketing their outputs. Depending on the types of opportunities available, marketing and input supply services may be provided to MSEs by small wholesalers, brokers, or other commercial intermediaries, most of which are MSEs themselves. When market demand or production levels are low, MSEs may not be able to command the attention of the suppliers or buyers with whom they might like to deal, and thus may face a restricted choice of service suppliers and terms of trade. Nevertheless, the ready response of small producers to new market opportunities and the willingness of these producers to deal with market intermediaries who offer them the best service choices indicate that strong demand exists for a variety of services that can help MSEs solve their market access problems.

The cost of services obtained from buyers and suppliers is usually hidden in the selling and purchase prices the MSE operator is offered. In some cases, MSEs may have the opportunity to organize themselves into larger coalitions to take advantage of economies of scale in selling products and purchasing inputs, and to enable them to access a broader array of services with more favorable terms.

In addition to documenting the demand by MSEs for these services, case studies of market development programs, carried out by commercial firms and development organizations, provide evidence that there is considerable additional scope for meeting the demands of MSEs for a diverse array of marketing-related services in both time-tested and innovative ways.⁶

Perhaps because indicators of effective demand for marketing services by small producers have always been evident, market development or market access programs supported by donor organizations have been more commercially oriented than other types of support programs. Even when initial subsidies have been used, service providers working in the marketing area have generally been expected to cover their costs over time.⁷

⁶ See Goldmark et al., 1997.

⁷ Ibid.

Technology Development and Technology Supply Services

The demand for new technologies is usually directly related to new market opportunities. Once small producers become aware of new opportunities, the challenge shifts to acquiring the capacity to supply what the market demands. This often requires the acquisition of new skills, management techniques, and know-how, as well as tools and equipment — all important aspects of technology development.

Because the processes of market development and technology mastery tend to be directly related, the primary sources of technology information, equipment, and advice and training on new production or processing technologies for small producers are the product buyers and input suppliers with whom the producers interact in their normal commercial dealings.⁸

A review of technology development and dissemination programs reveals there is likely to be strong demand from small producers for services that help them respond to new market opportunities and that are available on terms and conditions that permit them to profit from the adoption of new technologies. Successful technology development programs undertaken by NGOs have generally recognized the existence of market demands for new production technologies and have incorporated various mechanisms to respond to these demands in their program operations. The case studies of Technoserve operations in Ghana⁹ and ATI's program in Senegal¹⁰ illustrate the ways in which NGOs have built on identifiable areas of demand to help small producers participate in viable commercial operations. Other examples of technology dissemination programs undertaken by for-profit firms demonstrate how economic development goals can be achieved by building on commercial demand for new technologies.¹¹

Training

Although there is strong evidence of demand for marketing services and selected technology development and supply services, the evidence of the willingness of small producers to pay for training services is more spotty. Few development programs have attempted to charge small producers for training services. As a consequence, there is little basis for assessing the demand for these services or even for determining whether they are addressing the priority problems of program participants. In some cases, participation in training programs is mandatory — for example, when

⁸ See McKean, 1992, for a description of the importance of input suppliers and buyers in supplying exporters with both market information and technological advice. Also, London, 1975, provides a number of interesting case studies regarding the role of merchants in promoting technological change in rural areas of India.

⁹ Malhotra and Santer, 1994.

¹⁰ Overy and Berman, 1997, p. 30.

¹¹ Ibid, p. 32.

credit providers dictated that loan recipients take part in a training program on credit management as a condition for receiving a loan.

Recently, however, MSE training programs have begun to focus more on cost recovery and, as a result, are looking at cost-sharing payment provisions that not only help cover operating costs but also provide a means of assessing client demand for particular types of course offerings. Voucher systems used in training programs are one example.

The most notable example of a training program using vouchers to subsidize part of the costs of participation by MSEs is one developed in Paraguay with funding from the Inter-American Development Bank.¹² Under this program, participants are given vouchers worth approximately \$20 and allowed to choose from courses offered by a range of pre-qualified training institutions. Under the terms of this program, the institutions must charge more than the cost of the voucher for the program, so that participants end up paying a portion of the costs out of their own pockets. Courses must last at least 15 hours and have no more than 25 students per class. Participants must attend at least 75 percent of the sessions before the training institution can redeem the vouchers.

The strong demand among micro and small-scale entrepreneurs and their employees to participate in this program, even when their out-of-pocket costs were equal to or greater than the value of the vouchers, provides strong evidence that MSEs will pay for training programs that meet their particular needs. By putting the choice of courses and training institutions into the hands of microentrepreneurs, this program has also helped stimulate a response by institutions to offer courses that respond to the needs of their clients.

An additional indication of the demand for training programs by low-income individuals is the strong growth of private schools offering instruction in subjects such as English and computer applications. Although these schools tend to be largely confined to urban areas, they are a common and growing phenomenon in a wide assortment of countries, including many at the low end of the income scale.¹³

In the export promotion area, a variety of programs have provided partial subsidies to entrepreneurs to enable them to access training or other types of business development services from specialized providers.¹⁴ Although not directly relevant to the needs of MSEs, these projects demonstrate that donor funds can be used to help stimulate a market for locally supplied business services, rather than merely providing subsidized technical assistance from outside contractors, and

¹² Goldmark et al., 1997.

¹³ Vietnam and Cambodia are examples of two low-income countries where the growth of private schools offering English-language and computer training has been particularly strong. Such developments are common in other Asian countries as well (Thailand, Indonesia, and China, for example).

¹⁴ Project examples of cost-shared export promotion funds include the ECIPS program supported by the European Union; World Bank export promotion funds in India, Columbia, and Argentina; and the TIP project in Sri Lanka funded by USAID.

that firms will bear an increasing share of the costs of various types of business development services, once they become familiar with the benefits of using such services.

Demand for Other Types of Services

The MSE literature does not readily reveal program documentation or case studies that assess the nature of microenterprise demands for other types of business development services, such as business advisory services, advocacy services, and multiple service packages such as might be supplied by business centers or small business incubators. These analyses might be available; however, they have been difficult to locate within the time constraints of this study.

Additional research and experimentation are needed to shed light on the nature of microenterprise demand for particular types of services, the strength of this demand, and optimal ways in which demand can be equated with the supply capabilities and constraints of various service providers.

Preliminary Lessons About the Demand for Business Development Services

Some of the cases in which the demand for business support services is likely to be the strongest include the following:

- ! When the services help firms deal with their most basic problems — such as marketing and input supply;
- ! When the services are offered to the MSE on a fair and competitive basis;
- ! When the services are tailored to the specific needs of the firm, produce obvious benefits, and pay for themselves with increased profits or cost savings; and
- ! When the services are tailored to the specific needs of a group of non-competing firms in the same industry or product area and the costs of supplying the services can be spread over a number of companies, reducing costs to what individual firms will pay.

ROLES FOR DEVELOPMENT PROGRAMS IN STIMULATING THE DEMAND FOR AND GROWTH IN THE SUPPLY OF BUSINESS DEVELOPMENT SERVICES

MSEs may be unfamiliar with the value of certain business development services, either because the services are not available in the areas in which they operate or because the MSEs have not had cause or opportunity to try out the services even when they are available. Export promotion activities supported by the World Bank, USAID, and others have demonstrated that government

programs that cover part of the costs of training or market development services for exporters can help stimulate the demand for such services and foster the growth of the service sector that supports exports.¹⁵ The initial experiences with the Paraguayan voucher training program indicate a similar potential for stimulating the supply of small specialized service providers aimed at small business clients.

A “public goods” argument can be made for using public funds to stimulate demand by MSEs for business development services that may be underutilized or underdeveloped in particular regions or areas, but that could provide useful support to MSEs if the services were more fully developed. Such a strategy is consistent with the current emphasis of development assistance programs to help foster the growth of sustainable services, rather than one-shot technical assistance programs.

Funding mechanisms that enable users to exercise choice in selecting service providers and assistance appear to be preferable to supply-side approaches. Front-end subsidies, in the form of grants, vouchers, or other payment mechanisms, can be useful in lowering the initial costs to small business clients and provide incentives for them to use such services. In theory, as firms become exposed to useful forms of business development services, they will continue to demand them, will become increasingly willing to cover the full costs, and will thereby generate sufficient demand to permit the growth of local business service suppliers and support networks.

The initial results of the Paraguayan voucher training program appear to support this theory, as do some of the World Bank experiences with export services. This would appear to be a promising strategy for donor organizations to consider for future programs, particularly if programs are structured to permit a degree of experimentation with different formulas and approaches for funding and supplying services.

CONCLUSIONS

MSE development programs have only recently begun to change from technical assistance to emphasizing the provision of business development services using mainly local non-governmental suppliers. Commercial service suppliers, particularly merchants and other business intermediaries, continue to be looked at with a certain degree of suspicion in development circles. Nevertheless, there has been progress in incorporating market mechanisms into development projects and in building on commercial systems and practices.

Important lessons about the demand for business development services can be learned by investigating the dealings small producers have with various categories of commercial intermediaries. The demand for the services the intermediaries supply is the easiest to document, and it is clear that these intermediaries play a critical role in addressing the two most important constraints that MSEs face — access to markets and access to supplies and inputs. The demand for other types of services

¹⁵ See Keesing and Singer, World Bank Working Paper 544, 1990.

(including management training, business planning, and technical training) has received less systematic attention, even in programs that have actively worked to supply such services.

SUGGESTIONS FOR FUTURE ACTIONS

In the future, MSE research should devote more attention to assessing the demand by MSEs for various types of services, rather than simply focusing on descriptions of problems or constraints MSEs face. In addition, more experimentation is needed to test ways of stimulating MSE demand for business development services. These programs should also pay close attention to the supply response that is generated among service providers in order to determine how needed services can best be stimulated and how they can function on a sustainable basis without long-term subsidies.

CHAPTER THREE

THE SUPPLY OF BUSINESS DEVELOPMENT SERVICES TO MSEs

INTRODUCTION AND HISTORICAL NOTES

The search for better methods of supplying business development services to MSEs has re-emerged as a concern among development practitioners after a hiatus of more than a decade. In the economic development literature in the 1960s and 1970s, a variety of studies and reports deal with problems of providing training, technical assistance, and market development support to small and “cottage” industries — the MSEs of yesteryear. Much of this literature deals with approaches that have since been largely abandoned, such as efforts by public-sector agencies and organizations to deliver assistance to small producers along lines similar to those used in agricultural extension efforts.

The literature from this early period reflects the dominant program trends of the time, which relied heavily on public-sector services and state-run programs to replace what were viewed as exploitative market mechanisms. There was little emphasis from the late 1960s up until the early 1980s on the role of NGOs in providing services, although there was a certain degree of experimentation with quasi-autonomous non-governmental agencies — or QUANGOs, to use the common British terminology. There were also more independent efforts by PVOs during this period to establish “alternative marketing organizations” to help small handicraft producers with their marketing problems, and some programs to provide basic training in areas such as bookkeeping and production technologies.

During the late 1970s and early 1980s, the emphasis of the small and cottage industry programs shifted to a concern for rural non-farm enterprises, in accordance with the dominant development focus on rural development problems. By this time, disenchantment with public sector approaches to providing technical assistance to small rural and urban producers was widespread. The World Bank, USAID, and other donor agencies cut back on efforts to provide technical assistance to smaller enterprises, shifting their focus to trade and investment promotion activities, which tended to involve larger companies.

During this same period, however, a variety of lessons were being learned regarding the operations of rural financial markets, informal finance, and credit and other financial services for small farmers. These developments provided the starting point for early efforts by Mohammed Yunus and others to create models for extending credit to small producers or informal sector enterprises, leading to the microenterprise finance programs that have flourished during the past 10 years. This shift in emphasis to providing microenterprise credit, combined with disenchantment over experiences in delivering technical assistance to small producers using the standard models of the past, resulted in small enterprise technical assistance fading away as a topic of development and led to a gap of more than a decade in serious efforts to deal with the problems of non-financial assistance to small producers.

The recent rebirth of interest in ways of supplying business development services to MSEs has taken place in a different environment from the one in which earlier small and cottage industry programs came about. Country environments themselves are different. Many of the current economic development programs are directed to the particular needs of countries struggling to make a transition from Communist or socialist regimes to market economies. In other cases, the programs are being carried out in countries that are undergoing economic restructuring to cope with the demands of global competition. Global technological trends, particularly in areas such as communication and information technologies, have also greatly altered the environments in which business and economic development efforts are carried out.

Moreover, the end of the Cold War has greatly altered the business of foreign aid. With development funds harder to come by, donor organizations have placed a premium on efforts to establish sustainable programs — bestowing, by necessity, a seal of approval on fee-for-service and cost-sharing arrangements. The quest for sustainability has led to an emphasis on services rather than programs — favoring the growth of local service providers and a decline in the roles played by program-funded technical assistance providers who go away when the funds are spent. Moreover, the wisdom of working through non-governmental channels, rather than supporting the provision of services by public agencies, has been firmly established. These conditions provide a significantly new point of departure for efforts to extend business development services to MSEs.

Against this backdrop of changed conditions, where should we begin our search for better approaches for supplying these services to MSEs? The recent successes of financial services for MSEs suggest that we revisit two topics.

- ! First, we need to go back and do something akin to what the finance specialists did when they started paying serious attention to the operations of informal finance. Without an understanding and at least partial acceptance of the methods employed by informal money lenders, it is doubtful that the microenterprise finance field would be where it is today. A similar argument can be made for understanding the role that various types of informal service providers — including friends, relatives, and commercial intermediaries — play in supplying business services to small producers.
- ! Second, the manner in which MSEs interact with commercial service providers and participate in different types of markets needs to be re-examined. Improved access to input and product markets is generally at the top of the list of problems cited by MSEs. The root causes of these problems, however, have often been misunderstood, leading to unsuccessful efforts to solve market-related problems through a variety of interventions, including regulatory measures and efforts to set up alternative marketing channels.

Not surprisingly, given the prominent role that PVOs have played in the microenterprise development field, much of the current literature on services to MSEs has tended to focus on areas that PVOs feel comfortable in addressing (for example, general business training, the development of alternative marketing or supply channels, and fostering local non-profit business support organizations). Efforts to understand how MSEs interact with commercial intermediaries and informal service providers are far less common.

This study begins by looking beyond the economic development literature to see what we can learn from anthropologists, rural sociologists, and others who have examined the social and cultural underpinnings of economic behavior in traditional economies. This literature provides a starting point for understanding the sources of business services MSEs would typically rely on in the absence of donor-funded programs, through personal and local networks and commercial intermediaries. Next, we attempt to identify the strengths and weaknesses of these private sources of support — specifically, the business services they provide and the gaps in these services that might require development interventions.

We then return to the economic development literature to examine the MSE support services currently being emphasized by non-governmental development organizations, including PVOs, NGOs, and for-profit consulting firms. Finally, we look at the existing and potential patterns of interaction between traditional suppliers of services and those involved in implementing development programs. This perspective should lead to a broader consideration of the roles played by private service suppliers and informal support mechanisms as opposed to the roles of donor organizations and MSE practitioners seeking to augment existing services or address perceived market failures.

THE STARTING POINT: THE ROLE OF PERSONAL OR INFORMAL SOCIAL NETWORKS

To understand the real world operations of MSEs, one must look at how they function in the absence of donor-supported or other publicly funded development programs. This study reviewed a number of studies carried out by anthropologists and others concerned with economic behavior in traditional societies, including the operations of small enterprises and informal sector businesses in a range of rural and urban settings.¹⁶ Although much of this literature is not focused on economic development, it does provide important insights into the organization and conduct of business in a variety of developing country settings; it can also help us understand better the manner in which small producers operate, the sources of business support services available to them, and the terms and conditions under which such services are provided. The studies also point out the strengths and weaknesses of traditional sources of business support available through the personal and social networks that micro and small-scale entrepreneurs are able to access in the communities in which they operate.

Friends and Relatives

The basic source of information and support services for small-scale entrepreneurs is their immediate personal network of friends and relatives — a fact that should not be surprising to anyone familiar with studies of informal finance. For persons from entrepreneurial cultures, such as overseas

¹⁶ The studies we have reviewed include the following: Baker, 1979; Banfield, 1958; Barton, 1983; Berger, 1991; Freedman, 1972; Friedland and Robertson, 1990; Godley, 1981; Hamilton, 1990; Hickson and Thompson, 1991; and Kao, 1993.

Chinese, Indians, and other ethnic minorities, such support can be extremely valuable: it provides a mechanism for spreading the collective business know-how of the community and fostering the growth of new businesses, which, in turn, contribute to the further development of human business capital and financial resources within the community.

In contrast, for persons in communities that lack established business traditions, friends and relatives can prove to be detriments to business growth rather than useful sources of information and support. In such cases, friends and relatives may make demands on the entrepreneur that drain resources or divert attention from the task of building a business, while providing little in the way of positive support or assistance.¹⁷

Extended Social Networks

Social networks that extend beyond a person's circle of family and friends are another important source of support services for small-scale entrepreneurs. In successful entrepreneurial cultures, the business person can draw upon extended networks to access a much richer set of information resources, business skills, and support services than are available to small producers in operating in more closed economic environments. In practical terms, this means being able to establish contacts and obtain business information or support from persons operating in more distant markets, in other lines of business, or with access to significantly greater business resources.

Traditions of mutual trust and support, and social mechanisms for reinforcing trust and reciprocity, are common in entrepreneurial societies, all of which make it easier for new businesses to access the critical resources and services they need to get established and grow. For example, societies with established business traditions have a range of voluntary organizations and associations, including organizations based on extended kinship, common place of origin, and religious ties, as well as social groupings that address community needs such as education, health care, recreation, and mutual protection.¹⁸ In addition, one typically finds a range of organizations more directly related to business purposes, such as business chambers and trade associations. From these resources, entrepreneurs gain access to information, training opportunities, new market opportunities, sources of supply, assistance in resolving disputes and solving business problems, and financial support. Participation in such networks helps entrepreneurs develop bonds of mutual support and trust that are fundamental to the growth of successful business operations, particularly in environments in which formal mechanisms for business support and dispute resolution are lacking.

By contrast, small producers from social groups or cultures with less established business traditions seldom have access to this same sort of organizational infrastructure. Small producers operating in less open economic environments are generally limited in their social and business contacts to a circle of friends, relatives, and clients who basically have the same limited access to business information and know-how as they do. Bonds of trust, and social mechanisms for enforcing

¹⁷ See Foster, 1965, for a classic study of economic behavior in traditional village settings.

¹⁸ See Fukuyama, 1995.

business agreements, may be confined to this circle of contacts. Association traditions may be weak or non-existent. Consequently, such small producers will have considerably less access to business information, key contacts, or other types of business support than entrepreneurs who operate in more open and experienced business cultures.

Why Pay Attention to Personal and Social Networks?

The characteristics of the personal and social networks available to small producers in different cultures have a direct bearing on the problem of providing business services to microenterprises. Friends and relatives are the primary source of business support for most microentrepreneurs. They are the first source the microentrepreneur turns to for information, advice, loans, and human resources. They are the primary source of business contacts and the chief arbitrators of business disputes. Moreover, personal social networks comprising friends and relatives are the principal channels through which production know-how is acquired and transferred. When such networks are deficient in business skills and information, smaller enterprises are forced to struggle on their own to acquire needed support and resources. However, as members of these local networks gain experience in their business dealings, they increase the chances for other members of these personal networks to succeed. The resources and performance of such networks or groups constitute one important key to survival and success for most microenterprises.

Table 1 summarizes some of the chief strengths and weaknesses of informal social networks with respect to their potential for supplying business development services to small producers.

BUSINESS NETWORKS AND COMMERCIAL SERVICE SUPPLIERS

Commercial service suppliers, including buyers or customers, suppliers, brokers, agents, and various advisers, constitute another important source of business support services for certain types of MSEs. Such service suppliers or market intermediaries generally maintain networks that are far more extensive and open than those of MSEs — the networks may include contacts in different geographic areas and with kin and non-kin engaged in a variety of business pursuits. Consequently, service supplies and market intermediates have much better access to information, contacts, markets, and new technologies than the MSEs with which they might interact.

TABLE 1

STRENGTHS AND WEAKNESSES OF INFORMAL SOCIAL NETWORKS
IN MEETING THE BUSINESS DEVELOPMENT SERVICE NEEDS OF SMALL PRODUCERS

Type of Service	Strengths	Weaknesses
Information on local markets and business opportunities	Traditional markets and opportunities well understood and communicated through established networks	Existing market opportunities may offer few growth opportunities
Basic business training, transfer of traditional skills and know-how	Established procedures for transferring traditional skills with family units, extended kinship groups, and apprenticeship systems	Low growth potential for enterprises using traditional methods
Information on new markets, products, and technologies	Minimal	Local personal networks may be relatively closed and lack access to external sources of business-related information
Marketing services in local markets — for products and inputs	Established personal relationships sufficient to handle local marketing tasks effectively	Local markets may be overly crowded, present few growth opportunities
Dealing with external markets — for products and inputs	Minimal ability to provide assistance	Members of small producer's personal network may lack contacts in or access to external markets
Arbitration, dispute resolution	May be adequate to resolve disputes withing local communities	May be inadequate to help enforce business agreements or arbitrate disputes with persons outside the small producer's personal network

In some business communities, the commercial service sector may be well developed and highly competitive. In such cases, commercial services providers may be able to offer MSE clients high-quality services at competitive market rates. In other localities, these commercial intermediaries may be more scarce, less competent, or operating under less-competitive conditions. In such circumstances, they may not provide effective support services to MSEs.

Principal Types of Business Support Services Available to MSEs from Commercial Suppliers

1. Services Provided by Commercial Intermediaries (Buyers and Suppliers)

For MSEs producing products that are sold in markets outside of their own locale, dealings with buyers and suppliers often constitute the MSEs' most important business relationships. Relationships with these and other commercial intermediaries, such as brokers or agents, can provide MSEs with critical types of business support services, including:

- ! Information on market requirements (design and other product specifications);
- ! Access to inputs;
- ! Information and training on production technologies;
- ! Credit for working capital;
- ! Marketing services for their products; and
- ! Transport and logistical services.

Similarly, for MSEs involved in selling products that are not produced locally, relationships with suppliers are also critically important and frequently highly valued. Through such relationships, the MSEs secure their place in trade flows for particular products. They obtain access to regular sources of supply, market information, and other types of assistance such as sales support, occasional training, and trade credit.

Whether services to MSEs from commercial intermediaries are provided well or poorly, they are often the primary link between MSEs and external markets, and the main *external* source of business support services.

2. Services Provided Through Direct Linkages with Larger Firms (Subcontracting/ Outsourcing, Franchises)

In some situations, small groups of microenterprises are able to maintain direct relationships with larger firms, rather than dealing through brokers, agents, or other intermediaries. Such relationships are becoming more common as larger companies downsize their operations to cut costs and become more competitive. The current trends among larger companies worldwide to concentrate on core competencies and to outsource non-core business functions to smaller firms and individuals have created a whole new array of opportunities for MSEs. Such trends are likely to remain strong for the rest of this century, with some people predicting that by the year 2000 fully half the working population in industrialized countries will be members of the contingency work force, working on a contractual basis with their former employers. In developing countries, larger companies are likely

to operate in similar ways, resulting in a whole new array of business opportunities for MSEs that are able to develop linkages to larger enterprises.

Franchising is an area that is likely to expand rapidly in developing countries over the next couple of decades. In particular, the growth of low-cost-of-entry franchises or mini-franchises is likely to be especially strong, as corporate franchisors seek to extend their product and service offerings into previously untapped markets. Such opportunities are likely to be well within the means of many microentrepreneurs.¹⁹

Even though franchises may result in restrictions or loss of control over certain aspects of the business operation and obligate the franchisee to pay fees and royalty payments, franchises generally offer the small-scale entrepreneur advantages — specifically, unique forms of business support. First, franchises provide systematic plans for replicable business opportunities, based on market research and pilot tests that are far beyond the capabilities of micro and small-scale entrepreneurs to develop on their own. Second, franchises offer training support, including overall enterprise management, sales, advertising, accounting, and inventory control. The cost of this support is included as a standard part of franchise arrangements, so it can be provided on an ongoing basis for successful franchise operations. Franchises also provide franchisees with up-to-date information on new products, market trends, and access to new products and services not otherwise available to MSE operators outside of the franchise relationship.

In addition to providing support to individual franchisees, franchise arrangements also provide opportunities for members of the small entrepreneur's social/business network to acquire information and business know-how, thereby contributing to learning within these local networks that can be applied to other business operations.

3. Services Provided Through Flexible Manufacturing Networks

During the past several years, economic development practitioners have become increasingly interested in the operations of community-based economic development models in which large numbers of small enterprises engage in coordinated efforts, including extensive inter-firm collaboration, to take advantage of new opportunities in international markets. In their basic form, flexible manufacturing networks (also referred to as flexible specialization networks) involve cooperative efforts by MSEs to produce a final product. Each small firm specializes in one part of a complex, multistage production process and coordinates its activities through market-based exchanges with other firms, including suppliers of services, input suppliers, and buyers.

¹⁹ Currently, most franchises are not geared to the capabilities of microentrepreneurs. However, there are examples of companies that have developed franchise packages that fall within the reach of some microenterprises. For example, in South Africa, the Southern Africa Franchise Association is promoting efforts by its member companies to develop low-cost-of-entry franchises. Some franchises have been developed that allow small-scale entrepreneurs to rent transportation equipment and participate in the delivery of construction products and distribution of consumer products. In China, consumer goods companies have developed mini-franchise programs for products such as soft-serve ice cream and snack food distribution.

Noteworthy examples of rapid economic growth spearheaded by the development of flexible manufacturing networks have come mainly from Europe — northern Italy and southern Germany, in particular. For example, in Modena in northern Italy the number of firms increased from 4,000 in 1950 to 24,000 in 1985, primarily through growth in the city's small enterprise sector. The region of Emilia-Romagna moved from 17th to 2nd in per capita income in Italy between 1970 and 1985. Much of this growth involved small companies with fewer than 10 employees in industrial sectors such as footwear, ceramics, clothing, and metal working that collaborate through inter-firm linkages to make products for export markets.²⁰

Flexible manufacturing networks were created to take advantage of market opportunities for particular products in what are often rapidly changing market niches. When market conditions change, flexible manufacturing networks disband and organize in different forms to take advantage of new opportunities. A typical life cycle for an flexible manufacturing network includes the following steps:²¹

1. An emerging market niche and/or product idea is identified.
2. A set of firms form a flexible manufacturing network quickly to design and produce this product.
3. Flexible manufacturing network members communicate frequently and clearly during the process.
4. The flexible manufacturing network determines when the product is no longer profitable.
5. The flexible manufacturing network disbands when this is the case.
6. The firms in the disbanded flexible manufacturing network use what they have learned about partners and processes to form new, even more successful flexible manufacturing networks.

Specialized manufacturing networks are not a new phenomenon. Traditional equivalents can be found in villages throughout Asia that undertake specialized production — for example, traditional metal working villages in Central Java, communities of pottery and lacquerware producers in Vietnam, and village-based silk producers in Thailand. What is new in the experiences in northern Italy and Germany is the focus on international market opportunities and the emphasis on more rapid rates of learning that allow producers to respond to changing market trends and incorporate new technologies and materials into their production processes. Such networks have more ready access to outside information and market contacts, and use both personal contacts and modern communication tools to maintain contacts and information flow. In addition, they have developed the internal mechanisms needed to ensure cooperation, pooling of information, collective learning, and access to specialized services from local and outside suppliers. They demonstrate the importance of group learning through community-based economic development efforts and offer an interesting set of possibilities for future microenterprise development programs.

²⁰ ACEnet working paper, *A Market Driven Approach to Flexible Manufacturing Networks*, 1996.

²¹ Ibid.

Commercial Networks and Microenterprises in the Global Economy

Many of the technical assistance efforts that were directed at small and cottage industries 20 or 30 years ago were formulated to help deal with problems caused by their isolation from the marketplace, lack of competition in input and product markets, difficulties in accessing information from outside of their local communities, and policy and regulatory barriers caused by seriously misguided governmental actions.

Even though many of these conditions are still present and continue to affect microenterprises in many parts of the world, positive developments in areas such as communications technologies, public policy reforms, financial sector reforms, market liberalization, and global competition have begun to alter the environments in which MSEs operate and the opportunities available to them. These changes, taken together, have opened up new, higher value market opportunities for products and services that are within the reach of micro and small-scale entrepreneurs.

Smaller enterprises in some countries have been highly successful in taking advantage of such new opportunities. For instance, small producers in several Asian countries — for example, Indonesia, the Philippines, and China — have been able to build on initial market openings for small volumes of craft products to diversify into a range of new, higher volume industries such as gifts and decorative accessories, advertising and premium products, home products, furniture, and garments. Such industries typically involve extensive subcontracting and supply opportunities for micro and small-scale entrepreneurs, who collaborate with larger manufacturing and trading companies to meet the large volume orders of foreign buyers. Similar successes, although not well documented in the development literature, can be found in other developing countries around the world.

Although development organizations have played a role in helping MSEs in some countries improve their market access, these cases account for only a very small portion of the total volume of sales that have been achieved by small producers who have been successful in gaining access to new, higher value market opportunities through ties to commercial firms and intermediaries. Nevertheless, there are areas in which collaboration between larger commercial firms and development organizations could result in an improved supply of business services to microenterprises, enabling them to take advantage of the new market opportunities being generated as a result of global economic changes.

To gain a better understanding of how commercial service providers and development organizations might collaborate more effectively to offer improved business development services to MSEs, it is useful to consider some of the strengths and weaknesses of commercial business development efforts that involve MSEs. These are outlined in Table 2.

TABLE 2
STRENGTHS AND WEAKNESSES OF COMMERCIAL SERVICE PROVIDERS
FOR BUSINESS DEALING WITH MSEs

Type of Service	Strengths that Commercial Providers Offer MSE Clients	Weaknesses or Problems Faced in Dealing with MSEs
Market development/ access	<p>Ready access to information about market requirements and trends</p> <p>Access to designers and product development specialists</p> <p>Access to established networks of buyers and sellers</p> <p>Established distribution and logistics networks</p> <p>Demand-driven services</p>	<p>Costly to deal with MSEs unless they are organized</p> <p>May not be willing to bear the costs of helping MSEs acquire capabilities for meeting market requirements</p> <p>May not be willing to help small producers organize to deal with buyers' volume requirements</p> <p>Short-term costs of incorporating MSEs into established distribution networks may be more than buyers or agents are willing to bear</p> <p>Weak, incipient demand from MSEs may not provide sufficient incentives to provide services to this client group</p>
Technology supply, capacity development	<p>Access to experienced product developers, engineers, production specialists, trainers</p> <p>Access to proven technologies, business systems, and operations</p> <p>Experience in implementing technology development, installation, and training programs for specialized business operations</p> <p>Proven techniques for replicating successful business operations</p> <p>Services closely attuned to market demands</p>	<p>Costs of dealing with inexperienced, unorganized groups of MSEs may be more than commercial firms are willing to bear</p> <p>Commercial firms may have more favorable opportunities available with other, more experienced producers</p> <p>Technologies may not be suitable for MSEs (too costly, inappropriate scale, hard to maintain)</p> <p>May lack experience in dealing with MSEs</p>
Input supply	Tested methods of marketing and distribution	Costs of distribution to certain client groups and areas may be high because of low volume of sales, high costs of transportation, business risks, etc.
Training	<p>Pay close attention to client demands, provide what clients are willing to pay for</p> <p>May have access to persons familiar with specialized business training materials, professional training methods</p>	<p>Market demand for training by MSEs that are not used to paying for, or making use of, formal business training may be weak</p> <p>Costs of training MSEs may exceed capacity of MSE clients to pay</p>

Observations on Commercial Networks and MSEs

Formal commercial networks and service providers hold the keys to some of the most pressing problems faced by MSEs — access to more rapidly growing, more profitable market opportunities and the technology and know-how required to meet the demands of such markets. Consequently, development strategies need to look seriously at how links between MSEs and commercial networks can be structured to take advantage of the resources offered by formal commercial structures and service providers, while addressing the limitations they possess in dealing with MSEs.

The MSE literature suggests approaches for incorporating commercial services and approaches into MSE development programs. These include:

- ! Experiences in areas such as low-cost-of-entry franchising that offer a new means for using standard approaches for replicating successful enterprise models to promote replication of promising small-scale business operations;
- ! Programs by larger companies to outsource procurement of goods and services to smaller enterprises (although not new, such programs are taking on a new life as a result of changing needs of larger firms in an era of increased global competition);
- ! Mentoring programs in which larger companies or volunteer executives provide training or business advisory services to smaller enterprises;
- ! Promoting the creation of flexible manufacturing networks through community development and training programs, working closely with various types of specialized commercial service providers; and
- ! Market development initiatives that work closely with buyers and agents to help MSEs develop their capacity to take advantage of particular market opportunities.

The recent development literature provides a growing number of examples of programs that have worked with various types of commercial service providers to assist MSEs.²² In general, the current MSE literature suggests that the search for market-oriented solutions to economic development problems has become more common and reliance on non-market solutions has begun to fade. In this environment, new possibilities are opening up for economic development practitioners to assist MSEs in taking advantage of the business resources and growth opportunities that can be gained through improved linkages with the formal commercial sector.

FILLING IN THE GAPS: ROLES FOR NGOs AND OTHER

²² See descriptions of Mennonite Economic Development Associates (MEDA) program in Bolivia (“Program Profile: Bolivia Marketing Program” [mimeo], 1996); the USAID-ADEX Microenterprise and Small Producer Support Project in Peru (<http://www.unired.net.pe:80/~adex/msp.htm>, January 21, 1997); and Proyectos de Fomento in Chile (Humphrey and Schmitz, 1996).

DEVELOPMENT ORGANIZATIONS IN PROVIDING SERVICES TO MSEs

For most MSEs, the only sources of business support services available are the traditional ones — the entrepreneur's personal and social networks and relatively low-level commercial intermediaries. Comparatively few micro and small-scale entrepreneurs have been touched by the newer commercial innovations — for example, the spread of franchising or the growth of flexible manufacturing networks — or by the services offered through economic development programs supported by public funds or private donors.

Although the current emphasis on the development of sustainable services favors an increased reliance on market mechanisms and commercial practices, there are areas in which the market does not perform well with respect to MSEs. Commercial firms, for example, will underinvest in areas such as training geared to helping small producers develop their capabilities to meet buyers' orders if the commercial firms perceive they will not be able to capture a sufficient share of the benefits of such training. Similarly, individual buyers or agents may be unwilling to undertake the organization of producer groups that would enable small enterprises to collectively meet their volume requirements for purchases. In these and other areas, a strong argument can be made for using public funds to promote the public good and speed up the normal process of development.

Keesing and Singer's cogent reasoning for initial subsidies of support services designed to promote manufactured exports contains arguments that are relevant to services geared to MSEs as well. For example, they argue:

In a developing country, the export of manufactured goods leads to huge potential external benefits that cannot be internalized in the earnings of the exporting firm or those of the service suppliers helping this firm. These benefits involve, above all, technology acquisition, learning, and training. For example, people who gain experience in an exporting firm and then go out to work for another firm or set up their own firm take with them the know-how and technology they have acquired. External benefits also come as a result of buyers' and customers' learning; imitation of successful firms; economies of agglomeration, including a more suitable division of labor; and improvements of products and technology in the domestic economy.

A pioneer service supplier may generate spillover benefits not only by expanding exports, but also by contributing to the emergence of desirable service activities benefitting the economy as a whole. Many of the eventual returns from the pioneer firm's efforts inevitably spill over to competitors and imitators and to firms in other activities, so its pioneer role may be thoroughly unprofitable without subsidies.²³

In current strategies to support microenterprise development, there is a much clearer understanding of public sector and private sector roles and the strengths and weaknesses of each in microenterprise development efforts. However, given the difficulties encountered with the provision

²³ Keesing and Singer, World Bank Working Paper 544, p. 21, 1990.

of services through public sector institutions, the responsibilities these institutions formerly assumed in implementing enterprise assistance programs have now been taken up, or passed to, NGOs — primarily the non-profit sector. Because donor organizations find it difficult to justify subsidies to individual for-profit firms, non-profit organizations have increasingly become the preferred channel for directing publicly funded assistance to MSEs.

Although there is still a heavy reliance on public (donor) funding to support microenterprise development programs, NGOs and PVOs involved in these efforts recognize the pressing imperative of demonstrating that their programs can become *sustainable* in the long term, even if they do require front-end subsidies to get them started. NGOs and PVOs also recognize that, to justify the necessary front-end subsidy from public and private donors, they need to demonstrate they can achieve a certain level of *scale* and *impact* in their MSE programs, while promoting the public good in cost-effective ways.

Managing programs to achieve these dual pressures — developing sustainable services while trying to demonstrate that public funds are being used in productive, significant ways — presents PVOs and NGOs with a difficult set of challenges.

On one hand, to manage various types of business development services on a sustainable basis, NGOs need to adopt commercial practices and approaches. They need to recruit specialized staff with the necessary technical and business skills and experience. They need to focus on clients that are better able to pay for services. They need to be flexible and willing to respond to client demands. And they may need to limit their activities to specialized service areas or market niches, rather than offering general assistance or advisory services.

On the other hand, to the extent that NGOs are geared to attract donor funding and manage donor-funded programs, NGOs need to meet a completely different set of operating requirements, including developing skills in proposal writing and fund raising, management and accounting of donor funds, and public relations. The staff skills required to carry out these functions and the associated costs are entirely different from those required to provide specialized business services to small firms.

As a consequence of these pressures, NGOs that are interested in providing business development services to MSE clients have to make some fundamental decisions. The NGOs must determine, first of all, whether they are going to focus on directly providing services to clients, individually or in groups. If they decide to engage in the direct provision of services, they must decide how to organize their service operations so they can perform effectively within the overall structure of the NGOs' business operations.

Another choice for NGOs is to play a program management role, raising funds through grants, contracts, and contributions and engaging individuals or firms to perform the service delivery functions. This choice presents NGOs with another set of issues: What types of individuals or firms should be engaged as service providers? How should informal or commercial service providers be dealt with? Should for-profit firms and services be included as integral parts of PVO-managed development programs, or should efforts be directed to developing non-profit alternatives? Should the PVOs themselves behave in a more commercial, bottom line-oriented fashion?

From the data reviewed as part of this study,²⁴ it appears that the most successful NGO and PVO microenterprise development programs have been the ones that:

- ! Develop synergistic relationships with for-profit service providers and cooperate in undertaking MSE assistance efforts;
- ! Adopt certain types of commercial attitudes and practices in their own operations; and
- ! Pay close attention to the nature of the demand for services and look for ways of recovering fees as a means of gauging client demand and covering costs.

Moreover, programs are beginning to emerge that embrace some of the innovations taking hold in the commercial sector, such as the creation of flexible specialization networks, the promotion of outsourcing, and the development of distribution and franchising arrangements.

The remainder of this chapter will examine the types of MSE business development services that private sector non-profit organizations currently provide and the advantages and disadvantages of their efforts.

CURRENT PVO/NGO EFFORTS TO PROVIDE BUSINESS DEVELOPMENT SERVICES TO MSEs

As recent surveys of MSE programs suggest, PVOs and NGOs provide a wide variety of business development services as part of their microenterprise development programs. They include the following seven areas:

- ! Training;
- ! Business advisory/consulting services;
- ! Market development services, including:
 - Establishing and managing alternative marketing/fair trade channels,
 - Improving supply systems for inputs and technology,
 - Organizing MSEs to meet scale requirements for new market opportunities or improving supply through group purchases, and

²⁴ See case studies in Goldmark et al., 1997. The microenterprise programs managed by the Appalachian Center for Economic Networks (ACEnet) also provide some interesting lessons in this regard. See <http://www.seorf.ohiou.edu:80/~xx001/papers.html> for a list of ACEnet papers that review the center's experiences in dealing with commercial aspects of community-based microenterprise programs.

- Facilitating linkages with buyers (export buyers, corporate procurement agents);
- ! Support facilities (business incubators, business service centers, and association-based services);
- ! Research and development for groups of microenterprises (for example, the development and testing of new technologies);
- ! Organizational development support (promoting inter-firm linkages, association development); and
- ! Policy research and support for advocacy efforts.

In some cases, PVOs and NGOs involved in microenterprise programs function as *direct service providers* and deal directly with microenterprise clients; in other cases, they serve as *indirect providers* and offer their support services to networks of direct service providers.

At present, it appears that “typical” PVO and NGO service providers are organizations that also offer financial services. The principal non-financial services offered include training, consulting, and counseling and business advice. Primary areas of focus include planning, general management, accounting, and credit management. Such programs appear to address the problems business development service providers feel are most relevant to *their own needs* — that is, reducing loan processing costs or credit management problems — rather than addressing the priority needs of their clients in such areas as marketing and improving access to inputs.²⁵

Non-profit organizations have focused less of their attention on helping MSEs deal with marketing and input supply problems, although there are examples of promising programs and services in these areas. PVO and NGO efforts to improve market access (for both product and input markets) for MSE clients have taken a number of forms, such as:

- ! Developing alternative marketing channels or, more recently, “fair trade” channels to help MSEs overcome the constraints caused by presumably exploitative or unfair market structures;
- ! Providing support to help members of local business communities establish marketing companies, input supply operations, or cooperatives in order to address weaknesses in marketing and supply systems;
- ! Assisting MSE clients in developing relationships with non-local buyers and suppliers to help them improve their access to growth markets and input supplies;

²⁵ See Goldmark et al., 1997, p. 17.

- ! Helping microenterprise producers organize themselves to deal more effectively with the volume requirements of larger buyers and suppliers through cooperatives, business associations, and specialized purchasing or marketing firms; and
- ! Providing information on new market opportunities and assisting MSE clients with the product development and production improvements needed to meet the demands of external buyers.

In the past, segments of the PVO and NGO community have often exhibited a distrust of commercial motivations and practices, as well as a lack of familiarity with many aspects of commercial business operations.²⁶ Although there are some successful examples of non-profit organizations establishing and managing marketing enterprises, failures have been numerous. These failures have occurred primarily when groups setting up alternative marketing organizations (for products such as handicraft exports) were insufficiently familiar with export market requirements to provide meaningful direction to MSE producers, resulting in slow-moving inventory and few buyers. Other problems have resulted from failures to estimate accurately the logistical costs of dealing with dispersed producers, or concluding that high markups by middlemen were evidence of exploitation or market failures, when in fact they represented real costs of doing business under difficult circumstances.

More successful marketing interventions by PVOs have occurred when they have focused on helping producers organize themselves into larger, coordinated production units to meet the scale requirements of export or corporate buyers or of wholesale suppliers. Other useful interventions have included engaging private sector specialists to help MSEs with the initial product development and production improvement requirements of corporate procurement officers or export buyers; helping to establish contacts with new buyers and securing initial orders; and providing MSE producers with good information on market opportunities and new technologies. These services, which generally deal with more market development functions rather than with the provision of specific types of commercial support, are activities that individual commercial service suppliers are happy to leave to development organizations.

Our literature review provides examples of the useful roles of PVOs in the critical area of marketing when they have focused on providing indirect, facilitative, or catalytic support, rather than

²⁶ NGO efforts to establish alternative marketing organizations or fair trade organizations have often been based on a conviction that existing marketing systems were unfair or exploitative. For example, the International Federation for Alternative Trade (IFAT), a federation of producers and alternative trading organizations, notes as part of its mission statement that in IFAT, “producers of handicrafts and food products from developing countries come together directly with buyers and managers of ATOs as friends and partners in a spirit of mutual trust. *They cast aside the traditional trading system of middlemen and create an ‘alternative’ way of doing business that is beneficial and fair.* IFAT’s objectives are two-fold: to improve the living conditions of the poor and oppressed in developing countries, and *to change unfair structures of international trade.*” (Emphasis added.) See IFAT’s Web site (<http://www.ifat.org/>).

attempting to operate as direct service providers.²⁷ For PVOs to provide services directly to MSEs, they will have to act and perform very much like commercial suppliers. In fact, to compete on a sustainable basis, they may need to establish such services as for-profit, commercial operations.²⁸

STRATEGY ISSUES FOR NGOS WITH RESPECT TO THE PROVISION OF BUSINESS DEVELOPMENT SERVICES

Even though NGOs have been a major factor in the development of successful mechanisms for delivering financial services to microenterprises, it is still not clear what roles they can best play with respect to the provision of business development services. The following issues need further investigation:

1. **Should support be direct or indirect?** Should PVOs attempt to become direct service suppliers themselves, or should they focus on providing indirect support — serving as catalysts to help establish and support networks of commercial service suppliers?
2. **What are the best ways to work with commercial service providers?** Although the level of distrust within the PVO community of commercial intermediaries is declining, there are still relatively few examples of projects in which PVOs have actively cooperated with commercial firms to undertake development projects. Some groups, such as ATI, MEDA, and Aid to Artisans, have actively sought to develop partnership arrangements with various types of for-profit firms, including export buyers, wholesale input suppliers, trading companies, larger manufacturers, and franchisors. A better understanding of the complementary roles that PVOs and commercial firms can play in providing support services to MSEs could help advance the state of the practice with respect to the provision of non-financial assistance.
3. **How much should cost recovery and financial sustainability be stressed?** With continued cutbacks in government and public sector donor funds devoted to economic development programs, there is growing pressure on PVOs and others involved in implementing such programs to find alternative sources of funding to keep programs running. User fees, which used to be discouraged by funding organizations, are now not only acceptable but also considered to be vital indicators of the value of programs to recipients. Revenues generated from providing services are also becoming increasingly important for PVOs involved in implementing development assistance programs.

Business *development* services, as opposed to regular commercial support services, involve providing some forms of assistance that the private for-profit business sector is unwilling or unable to supply — for example, front-end product and market development innovations that

²⁷ See ACEnet papers (<http://www.seorf.ohiou.edu:80/~xx001/papers.html>) for examples of the catalytic role that ACEnet has played in community-based business development programs in Ohio.

²⁸ See description of MEDA program in Bolivia (“Program Profile: Bolivia Marketing Program” [mimeo], 1996).

spread rapidly and for which individual firms are unable to capture enough of the benefits to warrant funding themselves. Even if PVOs can increase revenues from the provision of focused, specialized services, where will funds come from to support the more general and long-term development interests of these programs? Will PVOs be able to attract increased levels of contributions from public-spirited corporations and private donors to augment declining levels of public funds? Are the demands of providing specialized services to a paying clientele consistent with the requirement of being able to demonstrate that programs are achieving significant levels of scale and impact?

4. **How can new technologies best be utilized to improve service delivery?** There are a number of unanswered, even unexplored, questions regarding how new information technologies can be used to support the delivery of business development services. For example, developments such as the Internet, video-conferencing, distance-learning technologies, interactive training materials using CD-ROM and DVD technologies, and even widespread availability of conventional communications technologies are making it far easier and less costly to access information a worldwide basis. Such technologies not only offer new means for delivery services, but also could provide the basis for a whole array of new service businesses that microentrepreneurs themselves could undertake. For instance, in both Indonesia and South Africa, small-scale entrepreneurs have become involved in franchise operations providing rural information services, combining phone access, fax, E-mail, and even improved postal access to serve clients formerly denied such facilities. In the future, there will be numerous opportunities for PVOs to play a lead role in promoting the availability and use of business development services that take advantage of new information technologies.

5. **Can business development services be offered in conjunction with lending programs, or should these services be provided through separate, more specialized channels?** Certain types of training may be in the interest of lending organizations to provide, such as how to apply for loans, basic bookkeeping and financial controls, and ways of managing loan funds. There is a growing consensus that this type of training can and should be provided by the lender (perhaps in conjunction with training organizations), with the costs of such training paid by loan recipients and training costs factored into the interest charges or covered through front-end fees. However, the more pressing business service needs of MSEs are in the areas of marketing and input access. Such services have to be offered by specialized providers familiar with the specific problems of particular industries, sectors, and product lines. In some product areas, there may be opportunities to provide standard services to large numbers of clients — for example, product development training for specific export products. In other cases, more specialized services may be required to serve particular groups of firms or market niches.

CONCLUSIONS

The quest to design and implement more effective approaches for improving the supply of business development services to small producers is still hampered by gaps in information and experience in several areas. Some of the more important information gaps are the following:

- ! How MSEs access business services and support through existing systems or networks, including personal networks (friends and relatives) and commercial intermediaries;
- ! How existing networks and systems can be strengthened through policy or program interventions;
- ! The relative merits of efforts to strengthen existing systems versus efforts to develop alternative systems for supplying business development services;
- ! How best to implement strategies and program approaches for supplying business development services that reflect client demands for specific services and address real market opportunities;
- ! How development organizations can best fill gaps in critical service areas, particularly by collaborating with existing suppliers;
- ! How the scale and impact of business development service packages can be increased (by working with groups of enterprises in the same industry or subsector, through efforts to establish business associations, and through franchise systems, for example);
- ! How NGOs and other development organizations can best deal with the business aspects of providing different types of business development services, including problems related to cost recovery, cost sharing, and cost reduction; and
- ! Appropriate public and private roles with respect to the provision of business development services to small producers — when subsidies are justified, what constitutes sustainable service delivery, and what other options are available for financing service improvements besides donor funds.

Progress in resolving these issues will require additional research as well as systematic experimentation with different approaches for delivering business development services. Chapter Four assesses the indicators used to measure the success of microenterprises business services. Chapter Five suggests some steps that need to be taken next to address gaps in information and practical experience in providing business development services to microenterprises.

CHAPTER FOUR

PROGRAM DESIGN AND PERFORMANCE STANDARDS FOR MICROENTERPRISE BUSINESS SERVICES

This chapter assesses the indicators that are being used to measure the success of microenterprise business services. Most programs providing business development services to microenterprises have not been in place long enough and do not have a sufficient track record to classify them as best practices. However, it is possible to identify sets of design and performance characteristics that can be categorized as most-promising practices.²⁹ We will attempt to define the characteristics of the most-promising approaches for providing business development services as an interim step in the quest for best practices.

Two aspects of business development service programs need to be looked at to sort out superior programs from mediocre ones:³⁰

- ! Program design and resource characteristics; and
- ! Qualities related to management and performance.

This chapter summarizes some recent lessons from reviews of business development service programs and services with respect to these two areas.

DESIGN AND RESOURCE CHARACTERISTICS OF HIGH-PERFORMING BUSINESS DEVELOPMENT SERVICES PROGRAMS

The MSE literature suggests that programs that focus on the provision of business development services need to meet basic tests to be placed in the category of most-promising programs. These tests are discussed below.

1. Services need to be responsive to MSE demands.

A basic design characteristic of business development service programs that are potential best practices candidates is that they contain mechanisms for identifying and responding to client demands. The importance of structuring service packages so they meet the needs of MSE clients rather than

²⁹ See Rosenfeld et al., 1992, p. vii.

³⁰ Ibid.

focusing on the needs of the implementing organization or the particular services that are easiest for program designers to supply is increasingly being recognized in the MSE literature.³¹

Program design efforts should include front-end assessments of problems or needs of prospective clients and of potential demand for particular services — rather than looking only at general categories of growth constraints. The effort should also include practical measures for assessing and responding to client demands once programs or service packages are operational. *The most effective means for measuring client demand is provided when fee-for-service provisions are incorporated into programs.*

2. Business development service programs or service packages need to be market oriented.

The basic test of high-performing business development service programs is whether they focus on real market opportunities. It does little good to spend a lot of time and effort training small businesses to make products that are not suited to the demands of the market or that offer little potential for growth.

The MSE literature contains many references to the needs of MSEs for services that help them overcome the limitations of their traditional markets, which are frequently characterized by stagnant or even declining demand. MSEs need business development services that help them escape from the limitations imposed by the increasingly saturated, low-income markets they currently serve, while identifying and gaining access to a new, higher-growth (but realistic) market opportunities.

Consequently, *to qualify for consideration on the potential best practice list, a business development service program or set of services should pay attention to market opportunities.* Regardless of the type of service — training, production support, procurement assistance, output marketing, human resource development, and the like — the requirements of the marketplace should be kept firmly in view.

3. “Superior” providers of business development services will have realistic plans for dealing with the business aspects of service delivery — income requirements and expenses — to ensure their operations are financial viable or sustainable.

A third, and increasingly important design requirement for business development service programs (as well as for other types of economic development efforts), is *that they demonstrate a realistic strategy for becoming sustainable.* Public and private donors are increasingly less interested in funding activities that address temporary problems and then fade away. A scarcity of public funds means program designers have to demonstrate that proposed new efforts will lead to institutional arrangements that can be sustained without continued infusions of public or donor funds. This requires, at the design stage, realistic plans for generating revenues through fee-for-service arrangements or raising funds from private sources.

³¹ See Goldmark, et al., 1997.

4. Superior business development service programs will have realistic strategies for developing the scale and coverage of their operations.

There are several reasons that business development service programs need to plan for growth and aspire to achieve broad coverage. First, from a strictly business perspective, an adequate scale of operations is required to make the economics of service delivery work for most service providers. Because individual MSE clients will be able to pay only a small amount for the services they receive, service providers working with this client group, by necessity, will need to find ways to serve a large number of clients with relatively low-cost services. In addition, many MSEs need assistance. To attract funding and justify their use of development funds, successful business development service programs need to demonstrate they can make a difference on a scale that catches the attention of potential donors — public or private. This requirement for development assistance efforts does not necessarily apply to commercial service suppliers, many of which may be able and content to function efficiently as small, specialized operations serving a selected clientele.

As almost every recent review of business development service programs notes, a promising means of achieving acceptable levels of scale in the delivery of services is to *focus on problems shared by large numbers of firms in the same industry, trade, or subsector*. This approach may make it easier to achieve economies of scale in service delivery while staying focused on the specialized needs of clients.

Another important consideration in achieving both scale and sustainability in the supply of business development services is to *take into account and build on existing systems that provide various types of services*. One conclusion of the report from the 1996 Roundtable on Building the Competitive Advantage of Micro and Small Businesses was the following:

Developing alternate systems is risky and expensive for low-income entrepreneurs. A lower cost, less risky approach is to take advantage of local skills and knowledge, such as informal sector service delivery systems, and private sector companies, which can be convinced that they can “do well by doing good.” Examples of this include working through existing stores, rather than establishing special boutiques or contracting an existing distributor, rather than setting up a distribution system. Agencies specialize, while building strategic alliances with organizations that complement their respective strengths.³²

5. Effective business development service programs produce positive “externalities” in addition to serving particular sets of clients.

A fifth criteria for determining whether a business development service program qualifies as a most-promising or best practice is *whether it generates external benefits or public goods that are equal to or greater than the public subsidies that may be required to get a program up and running*.

³² Overy and Berman, 1997, p. 77.

Unfortunately, there does not appear to be a consensus on the extent to which public subsidies are justified for business development programs. Should subsidies be time-bound and limited to helping new services get established that can ultimately cover costs and achieve financial viability? Or should the need for ongoing subsidies be acknowledged, with such subsidies justified through cost-benefit calculations, measuring the broader social and economic benefits they might generate in relation to the amount of public funds required?

Although the jury is still out regarding currently acceptable levels of subsidization, the dominant trend appears to favor time-bound subsidies leading to services that are eventually able to cover operating costs while generating external benefits that are real, substantial, and measurable. Some types of external benefits that the most-promising business development service programs might be expected to produce are the following:

- ! **Stimulating the Demand For and Supply of Business Support Services.** In addition to responding to whatever initial demands MSE clients might have, the better performing business development service programs should help stimulate demand for business support services. Business development service programs that take advantage of public sector or donor support should also help improve the supply of effective services by complementing and expanding, not duplicating, private services.
- ! **Strengthening Important Types of Business Linkages.** Better-performing business development service programs can be expected to strengthen important types of business linkages between MSEs and established service suppliers (for example, links to commercial service suppliers, sub-contracting linkages, franchise arrangements, mentoring relationships, and inter-firm or flexible business networks). Such linkages can produce multiplier effects and lead to the replication of successful business operations. Organizations serving in a program management or coordination role should focus on tasks they have a reasonable chance of performing effectively and form partnerships with other organizations to provide other, specialized services. They should attempt to design programs that provide an optimal *combination of organizational resources* that are needed to achieve effective service delivery, including maintaining a productive balance between commercial services and development support.
- ! **Serving as Catalysts to Stimulate Increased Rates of Learning and More Rapid Diffusion of Innovations.** To qualify for best practice candidacy, business development service programs should be able to demonstrate they can play a catalytic role in stimulating positive changes that help set other positive forces in motion and produce a wider, ripple effect. For example, a successful business development service program working with one set of clients should be able to produce success stories that motivate other entrepreneurs to attempt to replicate success stories, undertake independent efforts to provide new services to other client groups, or pursue business ventures that address other service or product gaps.

The following table presents a preliminary checklist of some of the more important design criteria for programs that aspire to qualify as promising or best practices.

TABLE 3

**DESIGN CHARACTERISTICS OF HIGH-PERFORMING BUSINESS
DEVELOPMENT SERVICE PROGRAMS**

Design Characteristic	Indicator
1. Services are market oriented. They focus on specific market opportunities.	Description of market opportunities, mechanisms for obtaining market information
2. Services are responsive to specific needs/demands of clients.	Results of client surveys, constraints analyses, analyses of current demands for services, results of pilot tests indicating client willingness to pay for services, and measures of actual fees collected
3. Program has realistic strategy for developing sustainable services.	Business plan outlining revenue generation strategy, including fee-for-service arrangements, use of front-end development funds, and strategy for diversifying sources of development support. (Are fee arrangements realistic? What share of program costs can be covered by client fees, commissions, or profits from commercial services? What share of program costs will require support from public sources or donors? How long will development funds be required?)
4. Program offers potential to achieve large-scale impacts (through working with groups of firms in the same industry, demonstration effects, diffusion of learning, replicability of services through franchising or other means, and ability to attract additional sources of funding).	<p>Analyses of constraints and nature of demand for particular types of services — are there large numbers of firms who might need the proposed service?</p> <p>Business plans or pilot tests demonstrating feasibility of expanding service supply through scaling up operations of particular suppliers or replicating services through franchising, licensing, or encouraging copying or dissemination of successful business models for service delivery</p>
<p>5. Program adequately addresses development objectives by:</p> <ul style="list-style-type: none"> C Helping stimulate demand for business services; C Complementing and expanding, not duplicating, private services; C Promoting important types of business linkages; C Providing services that are catalytic in nature and stimulate growth in other services, or give rise to other business innovations; and C Helping accelerate the rate of learning within communities of microentrepreneurs. 	<ul style="list-style-type: none"> C Increased willingness of MSEs to use and pay for business development services C New services that address “missing links”; C Groups of microenterprises linked to larger forms through distribution arrangements, sub-contracting links, franchise arrangements, etc.; C Benefits accrue to firms not directly assisted as clients; and C More rapid diffusion of product and service innovations, adoption of successful practices by MSEs not directly assisted by program.

MANAGEMENT AND PERFORMANCE CHARACTERISTICS OF SUPERIOR BUSINESS DEVELOPMENT SERVICE PROGRAMS

As important as the design and resource characteristics are to the ultimate success of business development service programs, ultimately management and performance criteria separate successful efforts from mediocre ones. The following section examines the principal management and performance criteria that have been proposed in the current MSE literature as crucial determinants of high-performing business development service programs.

As a first step in identifying the key characteristics of high-performing business development service programs managed by development organizations, we will identify some lessons that can be learned from analyzing the operations of informal sector and commercial service providers. Because the literature dealing with how microenterprises obtain business development services from these two sources is spotty, only some of the lessons will be highlighted here; in Chapter Five, we will suggest additional areas of research that are needed to develop a more complete understanding of the roles these types of networks play with respect to MSE development.

Management and Performance Lessons from Informal Service Providers

Development practitioners working in the finance area have accepted the wisdom of understanding how informal financial markets operate and the manner in which small producers interact with such markets. Over the past 20 to 30 years, a substantial body of literature has been developed that explores the operations of informal money lenders, the roles played by friends and relatives, the workings of rotating credit societies, and other aspects of informal financial markets. These studies have been useful to development practitioners seeking to develop new approaches for providing credit and other financial services to microenterprises through more formal institutional channels. Perhaps similar lessons can be learned from studying how informal social networks and commercial intermediaries supply business development services to small producers, particularly with respect to the operational characteristics of the more effective service suppliers.

Some of the most effective informal business support systems are found in business communities made up of ethnic minorities, such as the overseas Chinese, overseas Indians, or other ethnic groups. In such entrepreneurial cultures or societies, entrepreneurs can access, through their personal networks, the experience, know-how, problem-solving capabilities, contacts, information, and other business resources that reside in these networks. The number of links that one needs to go through to find the assistance needed is relatively small because general and specialized business know-how is generally widely available within such systems. Expenditures of time or energy to identify relevant sources of information or assistance tend to be low. And, generally, clear rules governing reciprocity or payment for services rendered are in place, making it easier for service transactions through such networks to be carried out. The quality of support within these networks is high, and the transaction costs for accessing services are reasonable.

In societies lacking strong business traditions, in contrast, the small-scale entrepreneur is often hard pressed to find anyone within his or her network of friends, relatives, and acquaintances who can help solve business problems, provide useful information, or provide any meaningful advice. On the contrary, frequently members of a personal network may prove to be more of an impediment to solving problems than a help, particularly when they are able to make claims on business resources or jobs which the small-scale entrepreneur may be obligated to honor.

Because personal networks are the most basic source of support for the small-scale entrepreneur, deficiencies at this level are serious. Implications that can be drawn with respect to the operations of formal business development service programs are as follows:

- ! Activities that help stimulate group learning, a better awareness of what is required for success in business, and specific examples of success within local communities are critical elements in transforming poorly performing networks into higher performing ones that can help support entrepreneurship and business growth.
- ! Because of the key role of personal networks, business development service programs should seek ways of working through existing social networks at the local or community level and build on established relationships and leadership patterns; programs should seek to strengthen existing networks, not replace them.
- ! Service providers need to be close to their clients and understand their personal needs and capabilities.

Management and Performance Lessons from the Operations of Commercial Suppliers of Business Development Services

The quality of support services provided to MSEs by commercial intermediaries is likely to vary considerably from one country to the next and even within different regions of the same country. In some parts of the world, such as Asia, commercial networks may be well developed and offer efficient, highly competitive services. Elsewhere — in parts of Africa and Latin America, for example — commercial systems may be much less developed and hold little potential as a source of support to MSEs.

Some of the basic lessons we can learn from the operations of commercial service suppliers include the following:

1. **Successful service suppliers, not surprisingly, offer services for which customers are willing to pay.**

Successful firms have figured out what services their customers are willing to pay for, what they need to charge, and how best to obtain payment for various types of goods and services. Often the cost of support services provided to MSEs is included in the marketing margins that commercial

firms collect from their MSE customers.³³ For example, a microenterprise involved in distributing products obtained from a larger supplier obtains from this supplier not only physical product (the goods that he or she may resell) but also various types of services, such as information about the products, information about competing products, and advice on how to sell the products and on how to deal with particular types of business problems, as well as financial services in the form of trade credits to finance inventory.

Small producers, similarly, receive important services from the buyers or agents with whom they deal, including market information, product design specifications, production advice, and ways of maintaining quality standards. Commercial intermediaries recover the cost of these services in the purchasing price they pay their suppliers.

2. **Successful commercial service providers pay close attention to their costs of operations as well as their revenues.**

Commercial firms have an advantage over development organizations in gauging the success of their operations, primarily because commercial firms charge for services and are able to calculate the profitability of their operations. This is a much simpler measure of success than the ones development organizations are often forced to rely on, such as cost-benefit calculations that attempt to measure various types of intangible or diffuse benefits.

3. **High-performing commercial firms — those that grow the fastest and make the most money — listen to their customers, pay close attention to shifts in demand, and respond quickly with the kinds of new products and services needed to satisfy market demands.**

The need for flexibility and responsiveness has become more acute in an era of increased global competition. Overly rigid, planned approaches to business operations have lost out to more flexible, market-oriented approaches — a fact that has been noted by development practitioners, even though it may not be reflected in many donor-funded programs.

4. **High-performing commercial firms will generally be adept at forming strategic alliances with other firms that offer complementary capabilities and resources.**

Such relationships are basic building blocks of the business networks in which commercial intermediaries participate. Moreover, these alliances are becoming increasingly important for manufacturing enterprises and firms engaged in service-oriented businesses.

³³ In analyses of business transactions or terms of trade between microenterprises and larger commercial enterprises, including various types of business intermediaries, there has been a tendency to overlook the value of the business support services that are provided to the MSE operator through these relationships. Analyses of markups or profit margins, even when they have taken into account the transaction costs associated with dealing with dispersed producers and small volumes of sales or purchases, have often neglected to consider the costs associated with providing various ancillary services that go along with these relationships.

The above list of indicators only partially distinguishes between successful commercial service providers and less successful ones. Nevertheless, it does suggest factors that distinguish the high-performing service operations. It also suggests some features that development organizations, particularly non-profit firms, need to consider in managing business development service programs.

Performance Measures for Business Support Services Offered by Non-Commercial Suppliers

Although indicators of success for commercial firms are clear-cut, non-commercial suppliers, including private voluntary agencies, other non-profit organizations, for-profit consulting firms implementing government-funded programs, and government service organizations face a more difficult challenge in deciding what constitutes superior performance. This problem largely derives from the fact that in some cases they provide specialized services that help a particular set of MSE clients deal with business problems; in other cases, they may provide services that address broader, more diffuse development problems.

Because of this fundamental problem, we need to recognize the need to distinguish between performance indicators that measure effectiveness in delivering specific services and those that measure effectiveness in addressing more general growth constraints.

Following is a summary of indicators that can help distinguish between business development service programs that exhibit superior performance characteristics and those that are less effective with respect to the delivery of *specific services*.

TABLE 4
INDICATORS TO MEASURE THE DELIVERY OF
SPECIFIC SERVICES IN BUSINESS DEVELOPMENT PROGRAMS

Type of Service	Superior Service Delivery	Inferior Service Delivery
Marketing	<p>Profitable operations — cover costs of operations through normal marketing margins or commissions and make profits</p> <p>Able to identify and respond to service gaps and market opportunities</p> <p>Able to take advantage of marketing networks to open up opportunities for MSE clients, achieve larger-scale operations</p> <p>Able to help create more efficient marketing systems through better access to information, improved organization (of producer groups or buyers), establishing more direct links between small producers and buyers, etc.</p>	<p>Require subsidies, fail to cover costs even after reasonable start-up period</p> <p>Use subsidies to replicate existing commercial services</p>
Technology development and dissemination	<p>Operations pay close attention to market demand</p> <p>Costs of developing and disseminating new technologies can be covered through royalty payments, sales revenues, with minimal subsidies for research and development efforts</p> <p>Dissemination efforts take advantage of distribution systems to achieve broad market coverage</p>	<p>Lack of attention to market factors, economic feasibility</p>
Training, business counseling	<p>Fee-for-service provisions and profitability measures that make it possible to gauge client demand for particular services</p> <p>Ability to develop training packages that respond to MSE needs and for which MSE clients will pay</p> <p>Ability to identify and implement methods for reducing the cost of delivering services</p> <p>Ability to cover costs of service delivery (at least after some reasonable start-up period) from client fees and non-donor contributions</p>	<p>Services are supply driven rather than demand driven</p> <p>Provision of services dependent upon donor support</p>

CONCLUSIONS

The field of business development services is complex, involving different forms of assistance to firms with diverse needs. Consequently, developing standards that help distinguish excellent performance from mediocre performance is difficult, particularly when business development service programs combine specific commercially oriented services geared to the needs of a particular set of clients with more development assistance that provides benefits to a larger segment of the population.

For programs that deliver specific types of services that respond to the needs of a particular set of clients, the willingness of clients to pay for services and the ability of the program to cover operating costs through client revenues are emerging as prime criteria for a best practices label. Although criteria for acceptable practices may allow for initial subsidies to cover start-up costs, business development service providers are expected within a reasonable time frame to be able to cover the operational costs of providing such services. Since project funding from donors is limited to a period of two to five years, this period tends to be the effective time limit for business development service programs to figure out ways of covering costs through program revenues or contributions from non-donor sources.

The principal dilemma involves deciding what types of services should be paid for by the immediate beneficiaries and what types produce sufficient external benefits that they justify expenditures of development funds. Measurement of development impacts involves cost-benefit calculations that attempt to assess the ripple effects of particular programs — the broader set of social and economic benefits that accrue to the wider community. Calculating such benefits is more complex and costly than calculating the profitability or cost-recovery performance of particular programs or service packages.

There have been considerable shifts in thinking about how programs offering business development services to MSEs should be designed and managed. Provisions for revenue generation, which were formerly resisted by donors as being contractually messy, are now commonplace. Cost-recovery mechanisms are being looked upon both as a way of reducing the need for longer-term public subsidies and as a critical measure for assessing the value of particular types of services to MSE clients. Viewpoints on the role of commercial networks or intermediaries in business development service promotion efforts also appear to have changed considerably. The need for experimentation rather than front-end planning is increasingly being reflected in the design of new MSE programs.

The analysis presented in this chapter stops far short of defining what constitutes best practices with respect to the provision of business development services. We have listed important characteristics of programs characterized by better-than-average design features and operations. These characteristics provide a useful starting point for sorting out program designs and operations according to their degree of effectiveness. More experience and experimentation are needed to determine what is possible, given the new rules that govern the way MSE programs are being designed and managed. Only when a larger range of approaches and experiences have been explored will it be possible to sort out the good from the bad and the useful from the useless, and to identify characteristics that can be justifiably labeled best practices.

CHAPTER FIVE

NEXT STEPS

INTRODUCTION

In this concluding chapter, we summarize some of the major unresolved issues in the area of business development services for MSEs. We then propose a research and development agenda to address selected problems that appear to be key to improving systems for providing business development services to small producers and identifying best practices.

SUMMARY OF MAJOR INFORMATION GAPS AND PROBLEM AREAS

Following is a brief summary of some of the main information gaps related to the nature of MSE demands for business development services, supply-side problems, and prospects for achieving financially sustainable BDS operations.

Demand-side Issues

Little attention has been paid to assessing MSE demands for different types of business development services, their preferences for how such services are delivered, and their willingness to pay for different types of services. Most business development service programs have been supply oriented, not demand responsive. However, with the growing imperative to develop programs and services that are sustainable, funding organizations and program implementers have been forced to look more carefully at the nature of the demand for different types of services by MSE clients, as well as at the prospects for generating revenues and covering costs through client fees and other non-governmental sources. Some of the areas that warrant additional attention are the following:

- ! The nature of MSE demands for business development services from traditional (mainly informal sector) suppliers:
 - How well do traditional suppliers meet MSE demands?
 - For what types of services are current demands the strongest?
- ! What do current demand patterns suggest with respect to the provision of new types of services?
 - Are there significant areas of demand that are not being met by suppliers?

- Could new types of services meet existing demand more effectively?
- ! What are the best ways of ensuring that new business development services are responsive to the priority demands of MSEs?
- Are user fees a practical means of accessing client demand?
- If subsidies are needed, how can they best be provided without distorting the market for business development services?

Supply-side Issues

Supply-side issues related to business development services have generally received far more attention than the demand-side issues. Programs for supplying business development services have frequently been formulated as a means of addressing problems perceived by program designers, with little attention paid to determining what the existing or potential demand by MSE clients might be for various types of services. Often, the result has been programs that failed to involve potential clients in meaningful ways or, when cost recovery was an issue, programs that were unable to generate revenues through client fees or contributions. The supply-side issues that warrant additional attention include the following:

- ! How do MSEs deal with existing suppliers, in the informal sector and in the commercial sector?
- What are the terms and conditions on which services are supplied by service providers?
- ! What types of market failures occur in present systems?
- Are there demands that suppliers may be unable or unwilling to meet (that is, basic know-how to get MSEs up to speed so that commercial firms may be willing to deal with them; organizing small producers so they can deal with volume requirements of larger suppliers or buyers)?
- Are there other service gaps that are not being met by suppliers?
- ! To what extent can the provision of business development services to small clients be improved by strengthening existing systems?
- Do existing systems provide a useful starting point for development efforts, or should development programs focus on developing alternative supply systems supply?

- ! What are the most effective means of strengthening business development service systems?
 - Are policy changes the best way to strengthen business development services?
 - What other incentives are useful?
- ! How can development programs build on or learn from the operations of informal and commercial service suppliers?
- ! What are the most productive roles development organizations can play in strengthening supply of business development services to small producers:
 - As facilitators dealing with enabling environment; organizing producers; promoting linkages between MSEs and outside markets, information, and technology; matching producer groups with buyers; or lending support to commercial efforts to provide services to MSEs?
 - As direct service providers in particular areas, such as marketing, technology development and dissemination, and training?
- ! What are the most productive strategies development organizations should follow in attempting to improve the supply of business development services to MSE clients:
 - Build upon existing systems, developing program links to informal and commercial sector intermediaries?
 - Focus on filling niches, addressing missing links?
 - Support research and development efforts, encourage innovation, use of new technologies, and search for better methods?
 - Help support the replication of successful business models — through franchising, information exchange?

Business Aspects of Supplying Business Development Services

The increasing emphasis donor organizations are placing on the development of sustainable programs has made it necessary for organizations involved in implementing business development service programs to address the business aspects of service delivery and develop approaches for managing business development service programs on a sustainable basis. However, as organizations struggle to deal with new sets of problems related to revenue generation and cost recovery, unanswered questions remain regarding what types of programs and services can be carried out on

a financially self-sustaining basis and which activities require (and can justify) ongoing public subsidies.

The problems that need to be resolved to better understand the possibilities and difficulties in developing self-sustaining BDS services include the following:

- ! Determining the types of services that can be funded (wholly or partly) through client fees or other private funding sources:
 - What do experiences tell us about the practical limitations of cost recovery for business development service programs and services?
 - What types of services are MSE clients more likely to pay for?
 - What examples exist of financially sustainable business development services?
 - How successful have different types of service providers been in covering their costs of providing business development services to MSE clients?
 - For what types of services has cost recovery proven to be difficult or unlikely?
 - What types of services require longer-term subsidies?
- ! Understanding the techniques that successful service providers have used to optimize revenues and minimize costs of supplying business development services to MSE clients:
 - What are the most effective ways of charging for services and ensuring payment?
- ! Determining the staffing and organizational characteristics of successful service providers:
 - What types of personnel resources and skills are required?
 - What types of organizational structures work best?
- ! Determining the practical limitations of cost-recovery for business development service programs:
 - What types of programs may require longer-term public sector or donor support?
 - When are subsidies justifiable?

POSSIBLE NEXT STEPS

It is difficult to present a list of priority problem areas or a proposed research and development agenda based on a literature review. Consequently, the following section is not proposed as the definitive statement of research and development priorities, but as a list of topics that might be interesting to look at, in conjunction with other efforts to sort out what works and what does not with respect to the provision of business development services to MSEs.

Five topics would useful next steps in furthering the level of understanding and the state of practice with respect to MSE business development services:

1. Addressing the basic knowledge gaps with respect to the role of informal sector and commercial suppliers of business development services;
2. Determining productive ways of improving business linkages between microenterprises and larger firms to help overcome input supply and marketing problems;
3. Dealing with the problem of replicating successful enterprises or services — in particular, investigating the usefulness of franchising as a tool for microenterprise development;
4. Determining prospects for developing sustainable (and even profitable) training programs for microenterprises; and
5. Understanding how new information technologies can be used to improve the effectiveness of business development services.

A brief discussion of the possible areas that might be investigated in each of these five topics follows.

Topic 1

Addressing the Basic Knowledge Gaps with Respect to the Role of the Informal Sector and Commercial Suppliers of Business Development Services

Efforts to improve the provision of financial services to MSEs have benefited from a considerable amount of research that academicians and development specialists have conducted in this area over the past three decades.³⁴ An understanding of the roles and methods of informal financial intermediaries has been a critical component of efforts to improve the operations of financial market operations and programs geared to assisting small agricultural and non-agricultural producers.

Although considerably less research has been carried out on topics relevant to supplying business development services to MSEs, and even less attention has been devoted to understanding how traditional supplier relationships work, a basic understanding of the operations and effectiveness of traditional ways in which MSEs access business services is a critical requirement for any efforts to improve business development service delivery systems.

Given the severe decline in research funds in recent years, it is not likely that studies of business development services will ever enjoy even a fraction of the level of support that small producer finance studies have received. Consequently, research efforts dealing with business development services will need to be highly focused on critical issues. Among the areas where knowledge gaps are particularly acute are the following:

- C Understanding how MSEs access business development services and support when services from development programs are not available;
- C Understanding how traditional suppliers of business development services operate;
- C Understanding the nature of the demand for different types of services; and
- C Determining how positive features of existing business development service supply systems can be utilized effectively in new service programs and approaches.

Next step: Effective research on informal sector operations is labor intensive and generally requires in-depth interview techniques and observational techniques. A program that provides research direction and funding support for Master's theses or Ph.D. dissertations would offer one means of addressing the basic knowledge gaps in the areas outlined above or other critical topics dealing with the operations of informal sector and commercial business development service suppliers.

³⁴ The work of Dale Adams and his colleagues in the Agricultural Economics Department of Ohio State University (with funding through cooperative agreements with USAID) played a major role in generating a considerable amount of faculty and student research on rural finance; it also provided support and encouragement to a worldwide network of researchers working in rural non-farm finance. This research effort helped lay the intellectual foundation for some of the current successes that have been achieved in microenterprise finance.

Topic 2

How Can Improved Business Linkages with Larger Firms Be Fostered in Order To Help Mses Overcome Constraints Related to Input Supply, Market Access, and Acquisition of Technology (Know-how)?

There is a general recognition among microenterprise practitioners of the need for MSEs to improve their access to markets for products and services, as well as inputs. This involves developing more effective business linkages between MSEs and larger enterprises. Franchise arrangements provide one format for developing and maintaining such linkages. Subcontracting and contract production relationships are additional ways in which linkages are structured between larger and small firms. And, of course, routine marketing channels, populated by merchants, middlemen (and women), and other varieties of often-suspect commercial types are essential avenues for conducting exchange relationships that link MSEs to larger enterprises and the wider marketplace.

One positive change that has occurred during the past few years in the microenterprise development area has been an increased understanding of the methods and techniques used by informal money lenders, and widespread acceptance and adoption of many of the methods used by such lenders by NGOs and other "new wave" microenterprise lending institutions. The methods of commercial agents other than money lenders have not, as yet, been accorded the same degree of professional respect, and most NGOs have gone out of their way to avoid acting in ways that were too blatantly commercial, even when they have been engaged in carrying out marketing functions.

There are documented cases of contract production and subcontracting systems that have resulted in significant benefits to small-scale producers (contract farming and silk production in Thailand, for example). Such systems have typically relied on extensive networks of brokers and commercial agents to make them work. Rather than being "enemies of the people," commercial agents and intermediaries have often provided the entrepreneurial fuel that has driven the effective performance of many of these high-performing systems.

Although development assistance programs have seldom attempted to collaborate with commercial intermediaries, some NGO programs have begun to test program approaches involving active collaboration with commercial service providers. It would be an interesting exercise to look at cases in which such collaboration has proved fruitful. In particular, it would be useful to examine instances in which NGOs and commercial agents have collaborated in undertaking particular business development activities, such as organizing microenterprises into more efficient production units to meet the volume requirements of larger corporate or export buyers. Such a case study might prove to be helpful in defining the strengths and weaknesses of different types of service providers (non-profit and commercial) and might offer suggestions about how partner relationships could be structured to better support MSE development.

Next steps: The promotion of more efficient inter-firm linkages lies at the heart of many of the problems faced by microenterprises in accessing markets and obtaining inputs on favorable terms. Selected case studies looking at the roles of NGOs and commercial intermediaries in helping microenterprises access contract production opportunities with export buyers or larger domestic corporations in different country settings would provide useful information that could support the development of new approaches for promoting MSE linkages with larger enterprises.

Topic 3

The Problem of Replicating Successful Enterprises: Is Franchising a Useful Tool for Microenterprise Development?

Over the past several decades, franchising has emerged as one of the most effective means of replicating small business operations in the industrialized world. In recent years, it has spread to developing countries as well. Although many bemoan the rapid growth of MacDonald's and 7-Eleven outlets around the globe, it would be a mistake to deny the power of the business methods underlying these symbols of commercial success — or to ignore the less glitzy, but pervasive, growth of home-grown franchises, from noodle shops to fried chicken kiosks.

Chapter Three briefly discussed business format franchising, in which a broad two-way relationship exists: the franchisor provides business expertise (marketing plans, site-location advice, management guidance, product supply, training, and financing assistance) not otherwise available to the franchisee; the franchisee brings the spirit, drive, and familiarity with the local environment that are necessary for success.

Two areas are interesting to look at with respect to the potential utility of franchising techniques to microenterprise development. One is the degree to which franchising could provide useful business development services to microenterprises. There are many examples of successful mini or low-cost-of-entry franchises that are compatible with the financial and management capabilities of microentrepreneurs. Could business development organizations help selected low-cost-of-entry franchises provide microenterprise clients with new channels for accessing business development services? Potentially, teaming arrangements between business development organizations and franchisors could be productive for both sides: business development organizations could leverage their own skills and resources with the specialized expertise provided by a network of commercial franchise organizations; the franchisors could benefit from the promotional and organizational support of the business development services.

A second general area is the franchising of business development services for microenterprises. The franchising of small business services (accounting, training, legal services, and telecommunications and information services) is well developed in many countries, and a number of microenterprises have become involved in the management and operation of such services (for instance, rural information or telcom centers in Indonesia and South Africa).

Three aspects of business service franchising bear further examination: (1) the extent to which business services offer viable opportunities for microenterprises; (2) franchises that offer services for microenterprises (such as rural telecommunication centers); and (3) whether franchising formats would be useful for business development organizations to replicate. Efforts to develop business support services involve considerable investments in intellectual capital, time, and money to evaluate the effectiveness of various packages. What prospects exist for business development organizations to package innovative services as franchises and offer them to other organizations?

Next steps: Franchising as a tool for microenterprise development is important to examine as part of an research and development agenda dealing with MSE non-financial services. Selected case studies of how low-cost-of-entry franchises have been used in development programs would provide a useful addition to the field. The case studies should document the nature of franchise opportunities for microenterprises, examine examples of franchise operations that have successfully involved microentrepreneurs, and analyze the strengths and weakness of franchising as a tool for microenterprise development.

Topic 4**Is it Possible To Develop Sustainable (and Even Profitable) Training Programs for Microenterprises?**

A large number of NGOs are currently involved in carrying out training programs for microentrepreneurs or would-be entrepreneurs. Some of these programs have been successful in recovering costs. Others have barely begun to consider the issue of cost-recovery. Recent analyses of PVO training have begun to document the types of microenterprise training programs being offered, and the extent to which training organizations are able to recoup the costs.³⁵

Although the jury is still out on how successful NGOs are likely to be in developing sustainable microenterprise training programs, there are examples of privately run programs in developing countries that not only cover costs but even operate at a profit. Some of the more profitable private training programs have focused on English-language training and computer skills, but certain types of business programs have also done well.

Next steps: A review of the commercial market for business-related training programs in selected countries would offer useful comparative data to help NGOs evaluate their own strategies for MSE training. Such a comparative study could provide useful information, including how to assess demand for training by various types of clients, how to structure and deliver training programs to respond to client needs, cost-reduction and revenue-generation strategies, how to replicate successful training programs (through franchising and other means), and how to utilize new technologies to reduce training costs and make programs more readily available.

In addition, cases studies of particular MSE training programs or business advisory services that have been successful in covering all or significant portions of their operating costs would be useful in providing operational or business management guidelines to NGOs or commercial firms involved in developing new business development service packages for MSE clients.

³⁵ See Goldmark et al., 1997.

Topic 5

Can New Information Technologies Improve the Effectiveness of Business Development Services?

New information technologies are beginning to produce important changes in the ways businesses operate worldwide. With developments such as the Internet, improved telecommunications, widespread availability of phone, fax, and E-mail, and increasingly less-costly computer applications, businesses now have available a whole new array of choices for accessing information, communicating with buyers and suppliers, managing their businesses, training their employees, promoting their goods and services, and accessing business support.

In microenterprise development, the impacts of these technologies are just beginning to be felt. Many NGOs are routinely using E-mail and have begun to become familiar with other Internet applications. There has been some use of instructional technologies (DVD and CD-ROM technologies) for business training applications; however, video-conferencing and distance learning are still at the pioneer stage.

Next Steps:

Several priority areas could be addressed:

- C One useful topic would be to look at ways in which new instructional technologies (using CD-R, DVD, and CD-ROM) could be used to lower the cost of delivering basic business training materials (business plans, loan applications, loan management, accounting, and the like). Such technologies might prove useful for lending organizations seeking to train their loan clients on the fundamentals of financial and credit management. A survey of currently available instructional technologies, including costs of preparing materials and delivering training, and revenue potential for new training programs, could provide useful information on possible new training options using new technologies.

- C A second interesting area would be to investigate ways in which Internet applications could be used to help business development organizations access resources to support business development service programs and help deliver more effective support to their MSE clients. Various types of information resources could be easily and efficiently supplied using the Internet, including publications, information on best practices for different types of programs, market opportunities for MSE producers, training resources, funding sources, and networking opportunities. A survey of current and planned NGO use of the Internet could help identify useful Internet-based services being created as well as promising new areas that could be identified through collaborative efforts.

- C A third area that might warrant some attention is to look at specific technology-based services that could benefit microenterprises, such as rural information centers. In Indonesia and South Africa, rural information centers have been set up as commercial franchises. Such centers have been developed to satisfy the demand of rural customers for basic phone, fax, and (more recently) E-mail services. They have proved to be profitable business operations for the franchisees, and appear to be useful mechanisms for satisfying the heretofore unmet demands of rural and small-town consumers for basic telephone and communication services. They might also have potential for supplying market and business information and other services to rural enterprises. In Indonesia, for example, rural information centers are being looked at as a means of promoting various types of non-traditional tourism.

CONCLUDING COMMENTS

The rules of the game for economic assistance programs have undergone fundamental changes in the past several years. The end of the Cold War era has removed much of the political rationale for foreign assistance and donor largesse. Economic arguments — including a renewed emphasis on cost-effective approaches and a growing emphasis on self-sustaining programs — now rule the day. As a consequence, development assistance programs (and providers) are being forced to operate in much more business-like ways.

These pressures are causing both program designers and program implementers to behave in much different ways. Instead of being set up to “move money” and account in acceptable ways for official expenditures, development organizations are being forced to consider the nature of client demands for particular services and bottom-line issues, such as clients’ willingness to pay for services and the prospects for covering operating costs from program revenues or other non-donor sources.

Although the jury is still out with respect to the most effective roles for development assistance programs in supporting business development services to MSEs, experience suggests that the premium being placed on demand-oriented services and sustainability is providing a positive impetus for the development of more effective programs and services. Wholly subsidized programs in the past have led to services that were not particularly responsive to client needs and produced little in the way of cost-effective results. New approaches that attempt to apply the best of commercial practices, including tested business replication techniques such as franchising, market opportunity and demand analyses, and information technology applications, offer potentially promising avenues for advancing the state of the art and identifying an array of programs and services that would qualify as best practices.

Given the numerical importance and growth trends in the MSE sector, the demand for business development services by microenterprises offers an untapped market that is potentially huge. Clarifying the nature of this market — along with effective ways of meeting its demands and business practices needed to sustain successful service operations and programs — is a challenge that warrants serious attention by the development community. Ultimately, it may prove to be a challenge and an opportunity that will justify private commercial investments as well and lead to a new era of public-private cooperation in addressing the needs of the poor majority throughout the world.

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