NATURAL RESOURCES INSTITUTE

NRI Report No: 2771

Rural Non-Farm Economy

Institutional approaches to the delivery of business development: A review of recent literature.

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The views expressed in this document are solely those of the author and not necessarily those of DFID or the World Bank

Natural Resources Institute

DFID Department for International Development

World Bank

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Rural Non-Farm Economy Project

Institutional Approaches to the Delivery of Business Development Services –

A review of recent literature

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February 2004

This document is an output from a project funded by the UK Department for International Development (DFID) and the World Bank for the benefit of developing countries. The views expressed are not necessarily those of DFID or the World Bank.

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ACRONYMS

BDS	Business Development Services
EDC	Enterprise Development Centre
EMPRETEC	Enterprise and Technology Support
EWW	Enterprise Works Worldwide
IADB	Inter-American Development Bank
ITDG	Intermediate Technology Development Group
FSP	Fondation pour le Secteur Privé
NGO	Non-governmental organisation
SEBRAE	Brazilian Service for Support to Micro and Small Business
SEEDA	South East England Development Agency
SIDBI	Small Industries Development Bank of India
SME	Small and Medium Enterprise
SSE	Small Scale Enterprise
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UNCTAD	UN Conference on Trade and Development

Section 1. Introduction

The present study is part of a wider research project concerned with enhancing understanding of the non-farm rural economy in India and Central and Eastern European countries.[2] The research has been undertaken by the Natural Resources Institute, United Kingdom, and local partners, with funding from the UK's Department for International Development under a collaborative agreement with the World Bank. Special emphasis has been given to understanding the factors that enable households to access non-farm employment and income opportunities, including the establishment and development of small businesses.

Enterprises worldwide need a broad range of support services for their development. These include training and capacity building, technical assistance in productive investment, consultancy and promotional programmes, business information, network development, marketing, and links with strategic partners. As a group, these products have been named Business Development Services (BDS).

The diversity of BDS is also reflected in the wide range of BDS providers, which exist around the world. They can be government agencies, international donors, NGOs, chambers of commerce, universities, business associations, private foundations, as well as informal social networks embedded in inter-firm linkages. There are also specific institutional arrangements established between these various agents, which can increase effectiveness in providing BDS.

This paper reviews the international experience of institutional approaches to the delivery of BDS, by drawing on twenty case studies from Asia, Africa, Latin America and Western and Eastern Europe. It highlights the main strengths and weaknesses of a number of institutional arrangements, and identifies some general guidelines that seek to contribute towards improved national policies on enterprise development and BDS provision. The study is organised as follows: section 2 presents the emerging new paradigm in BDS philosophy; section 3 analyses three institutional BDS-delivery models: (1) the delivery of services through government agencies, i.e. government-driven approach; (2) the forging of partnerships between donors and national institutions; and (3) the promotion of independent BDS providers such as business centres, clusters and networks, and business incubators.; and section 4 offers some conclusions on emerging best practice for BDS development.

Section 2. BDS Market Development – The New Paradigm

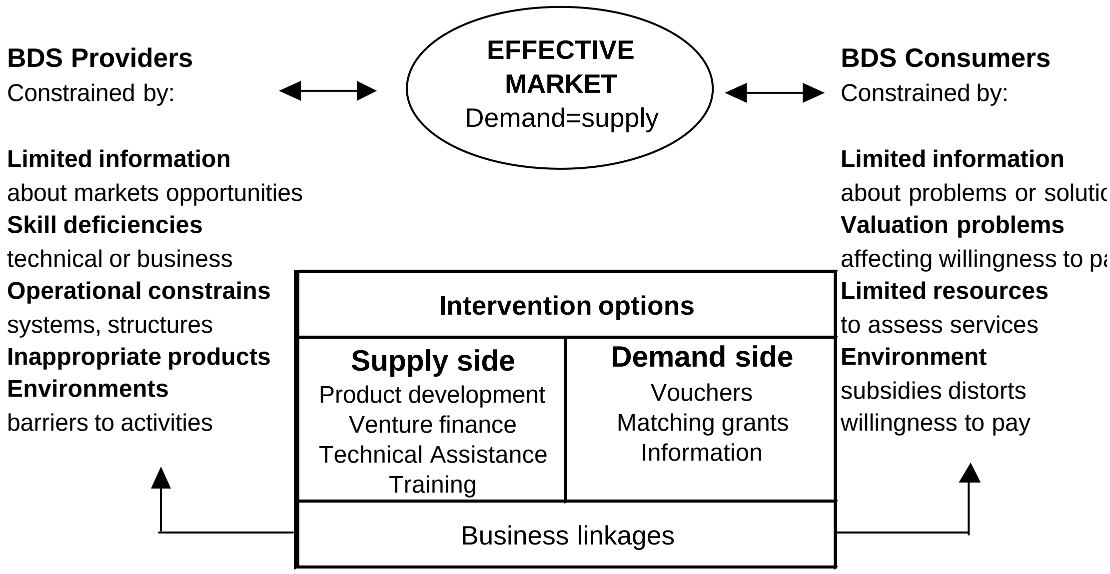
Traditionally, BDS to small enterprises have been delivered with the support of donor and government subsidies. Particularly in developing countries, the approach has been to subsidise the cost of BDS to final users, with the premise that small enterprises cannot afford to pay full costs. The strategy has usually been to start up BDS programmes within government organisations, which provide services deemed to be appropriate for the target population, based on broad surveys of needs. To secure continuous availability of services, the provision of subsidies was expected to be permanent. In many cases, this traditional approach resulted in supply-driven BDS delivery (not suitable to enterprises' needs); low impact on businesses' productivity

[2] For details, see the Rural Non-Farm Economy (RNFE) project website at www.nri.org/rnfe

and growth; and financially unsustainable BDS providers (Goldmark 1996). Partly as a consequence of these unintended effects, a new perspective is emerging.

The new paradigm in BDS delivery calls for the development of *markets*, rather than that of individual institutions alone. This signifies a shift in thinking from subsidised supply-led BDS provision to market-determined demand-driven services, where both sides of the market, demand and supply, are helped to develop (Steel *et al* 2000, Gibson, Hitchins and Bear 2001). Figure 1 presents graphically the core principles of the new approach. The starting point is an emphasis on clearly understanding the constraints that prevent suppliers from satisfying the demand for BDS, as well as the obstacles that restrain consumers from making their demand explicit. In the diagram, we can see that BDS suppliers may not provide for small enterprises due to, amongst other factors, limited information about this clientele, deficient staff skills, inappropriate products, and inefficient organisational structures. On the demand side, users may be constrained by limited or distorted understanding about their own needs/problems, limited resources and capabilities to assess market-based services and to determine whether these represent value for money, and business environmental factors such as the expectation to receive free or heavily subsidised services.

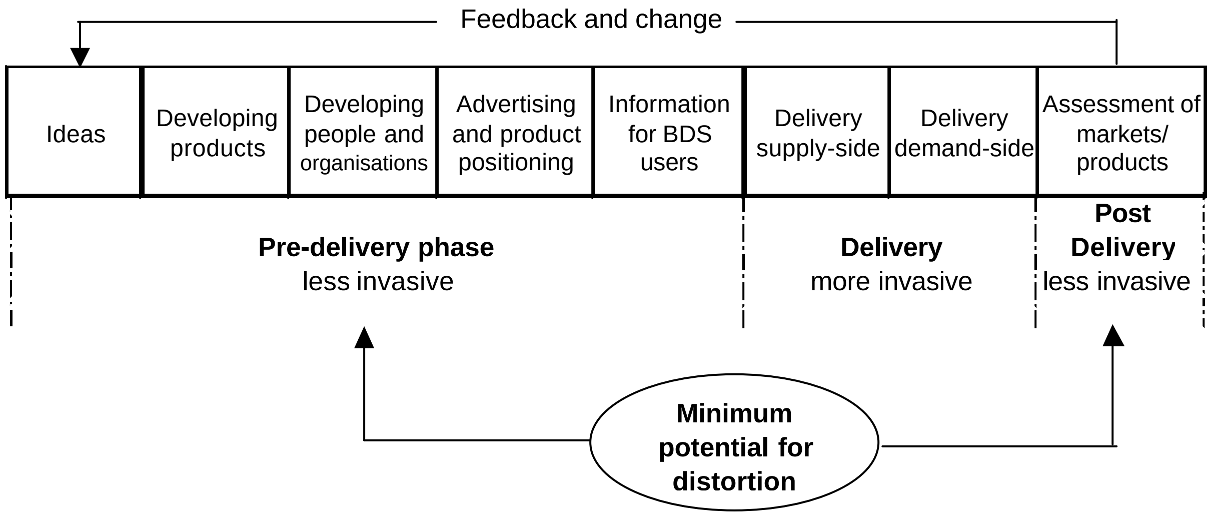
Figure 1. Matching market analysis to intervention options



Source: Gibson, Hitchins and Bear (2001)

Once it is understood why markets fail to be effective, the new approach identifies strategies to help develop them. To help suppliers overcome barriers, proponents of the new thinking advise interventions (by donors and governments) concentrating on assisting BDS providers with technical knowledge and training, and helping them develop new products and venture finance. To promote demand for BDS, interventions are recommended which focus on raising consumers' awareness about existing services, and on helping them with vouchers and matching grants to purchase BDS from local suppliers. In either case, subsidies are expected to be temporary and directed to facilitate market development rather than to distort BDS prices. More specifically, figure 2 shows where interventions could be less invasive.

Figure 2. Where interventions are less invasive



Source: Gibson, Hitchins and Bear (2001)

In the continual process of BDS provision, three phases can be observed: (a) the pre-delivery stage, i.e. where ideas and products are developed, organisations strengthened, and information advertised to potential clients; (b) the delivery phase, where product transactions take place between suppliers and consumers; and (c) the post-delivery stage, where assessment of markets and products are made. The new approach, as presented in figure 2, identifies the pre- and post-delivery phases as less invasive interventions. However, intervening at the delivery stage is shown as highly invasive, due to the potentially distorting effect on market prices and, hence, on willingness to pay on the part of consumers and on the motivation to become competitive on the part of suppliers. With these issues in mind, we now turn to analysing some of the various institutional arrangements that have been implemented in the delivery of BDS, worldwide.

Section 3. Institutional Approaches to the Delivery of BDS – A Review of the International Experience

The international experience of delivering BDS has been diverse and complex. Our analysis of this experience revolves around twenty case studies drawn from developed and developing countries. These examples are representative of three distinct institutional approaches to BDS provision: (1) the delivery of services through government agencies, i.e. government-driven approach; (2) the forging of partnerships between donors and national institutions; and (3) the promotion of independent BDS providers such as business centres, clusters and networks, and business incubators. Table 1 lists our twenty case studies grouped in accordance to the type of institutional arrangement they best represent. The country, programme and organisation involved are cited as well as the main source of information.

Table 1. Institutional approaches to the delivery of BDS: Case studies

A. Government-driven approach

Country	Programme/institution	Main source (1)
Denmark	National network project	Hatch, 1988
India	SIDBI	Sinha, 2000
Italy	North-central small firms	Brusco, 1986
United Kingdom	SEEDA	www.seeda.co.uk

B. Donor partnership with national institutions

Country	Programme/institution	Main source (1)
Bangladesh	ITDG	www.itdgbangladesh.org
Brazil	EMPRETEC	Ruffing and Farinelli, 1999
Ghana	EMPRETEC	Gibson, 2000
Senegal	FSP	Levitsky, 2000
Sri Lanka	Sarvodaya	www.swwb.org
Uruguay	EMPRETEC	Ruffing and Farinelli, 1999
Zimbabwe	EWW	Loucks, 2000

C. Independent providers

Country/region	Programme/institution	Main source (1)
Brazil	Business incubators	Lalkaka et al, 2000
Central America	UNIDO	Ceglie and Dini, 1999
India	UNIDO	Russo et al, 2000
Latin America	EDC	Garcia, 2000
Philippines	Swisscontact	Gibson and Hitchins, 2000
Romania	Business centres	Kennedy et al, 2000
Russia	Volkhov	Schmertz, 2000
Russia	Business centres	Astrakhan, 1999
Zimbabwe	Manicaland	Grierson et al, 2000

(1) See reference list.

The analysis which is presented in this section aims at assessing the comparative performance of the selected programmes and those institutional arrangements established for the delivery of BDS.

3.1. The Government-Driven Approach

Governments in developed and developing countries have been active agents in the provision of BDS, delivering services directly to the target population or through the fostering of linkages with relevant organisations. This government-driven approach is characterised primarily by its intention to achieve national goals, such as higher employment, rapid industrialisation, and better export competitiveness in international markets. Our four case studies (see Table 2) provide some insights into the advantages and disadvantages of this model.

3.1.1 Services and extent of coverage

With strong political will, government-led BDS programmes have the potential to reach large numbers of beneficiaries at the local level. In Italy, for instance, the promotion of networks of small firms in the north-central part of the country helped improve the region dramatically, transforming ordinary enterprise clusters into solid industrial districts capable of competing in global markets (Brusco 1986). The successful experience in Italy inspired other countries in Europe, of which perhaps the best-known example is the Danish national network project, launched in 1989. Rather than focussing on specific localities, this project emphasised the provision of services to small manufacturing firms all over the country. Significant government financial support was then allocated to the formation of networks, which, in turn, created the necessary 'critical mass' for Danish companies to compete successfully in a liberalised European market (Hatch 1988).[3]

In India, meanwhile, the government programme is not restricted to the cluster model and it provides services at both local and national levels. Table 5 shows the range of services and coverage. Being a major national financial institution, SIDBI combines credit with BDS to promote micro-enterprise development, and delivers these services through NGOs and local institutions, as well as through its own offices. Some services have been more successful than others. For example, the Marketing Fund has been instrumental in helping rural handicraft enterprises in various parts of the country to find urban markets, and facilitated marketing links between large honey traders in Mumbai with small rural producers in Bihar. However, the Rural Industries Programme has in general generated negligible value added (Sinha 2000).

SEEDA in the United Kingdom, on the other hand, focuses on a specific local area, the South East of England, and has been successful predominantly in forging linkages between businesses and universities in the region for the delivery of BDS. A particular strength lies in their ability to form partnerships with private and public institutions, which complement one another for the provision of appropriate BDS to local businesses. For instance, there are effective links with two local government organisations: the Government Office for the South East, which represents the government in a wide range of issues, and the South East England Regional Assembly, which is the local democratic voice of the region (SEEDA 2003).

3.1.2 Market distortions

One drawback of the government-driven approach is the distortions it can cause to market prices and the provision of BDS by the private sector. As services are delivered, in most cases, in a highly subsidised manner, prices are lower than those determined by market forces. This creates distortions in both the demand for and the supply of BDS. On the demand side, beneficiaries began to expect free or cheap services even when they have the capacity to pay. On the supply side, subsidised BDS effectively crowds out private sector provision of these services, resulting in overall market inefficiency: i.e. substitution of private-sector provision for unsustainable public-sector supply of BDS.

[3] The particular strengths and weaknesses of the cluster or network approach are presented in some detail in section 3.3, where discussion of the independent model is provided.

Table 2. Government-driven approach

	Italy	Denmark	SEEDA United Kingdom	SIDBI India
Foundation date	Early 1980s	1989	1999	1990
Institutional Linkages	Horizontal links among SMEs and vertical links with large firms	Networks among small businesses	Links between businesses and universities	Formal commercial banks. NGOs
Business Development Services	Promotion of small enterprise networks	Challenge grants for networks, information, brokers' training	Development of skills, business competitiveness, and innovation	Technology, credit, skill development
Target Clientele	Emilia Romagna and others in North-central Italy	SMEs with 6-99 employees	Businesses in the South East of England	SMEs and micro-enterprises
Financial sources	Government support	Ministry Trade and Industry	Three government departments	Mainly public sector
Performance level	Sharp rise in wealth and fall in unemployment	Higher exports & competitiveness in Europe	Positive impact on business development	Cost recovery below 35%

Sources: Brusco (1986); Hatch (1988); www.seeda.co.uk; Sinha (2000).

Table 3. Donor partnership with national institutions

	Public sector		NGO			Private sector	
	EMPRETEC Uruguay	**EMPRETEC Brazil**	**EWW Zimbabwe**	**ITDG Bangladesh**	**Sarvodaya Sri Lanka**	**FSP Senegal**	**EMPRETEC Ghana**
Foundation date	1989	1991	1996	1990	1958	1996	1990
Institutional Linkages	Public-owned bank	SEBRAE national org for SMEs	Manufacturers and distributors	Foreign buyers via donors' contacts	Network of village organisations	Private consultancies & consultants	Developed into a private foundation
Business Development Services	Enterpreneur-ship,training, consulting	Enterpreneur-ship,training, consulting	Marketing, technology transfer, mgmt	Marketing, technology, social dev	Training, technology, social dev	Diagnostic, advisory and training services	Training, consultancy, credit, forum
Target Clientele	Upper-end of SMEs	Small and micro businesses	Small-scale producers, mainly agricult	Micro-enterprises (< 5 people)	Self-employed in non-farm activities	SMEs, employers' organisations	High-growth-potential SMEs, banks
Financial sources	30% external subsidies, 30% fees, 30% partner	3% from UNDP, 97% from SEBRAE	Few market-based fees. Donor support	Donor support. Some fees from clients	Donor dependent	Loans from IDA, some clients' fees	Negotiated fee from donors. Clients' fees
Performance level	Good. Main source of BDS in the country	Positive impact on clients.	Some cost recovery (direct costs). High outreach	High outreach into the poor. Some cost recovery	High poverty-reduction impact. Not self-sustained	Lack of reach to smaller SMEs. High subsidies.	Good financially. But outreach to SMEs is low

Sources: Ruffing and Farinelly (1999), Levitsky (2000), Loucks (2000), Gibson (2000).
For Sarvodaya: www.swwb.org/ For ITDG-Bangladesh: www.itdgbangladesh.org/

Table 4. Independent models

	Business Centres				Clusters / Linkages			Business Incubators	
	Swisscontact Philippines	**Romanian Centres**	**EDC Latin America**	**Business Centres in Russia**	**UNIDO Central America**	**UNIDO India**	**Manicaland Zimbabwe**	**Incubators in Brazil**	**Volkhov Russia**
Foundation date	1996	1994-5	1995-6	1993	1993	1995	1995	1984	1995
Institutional Linkages	Local Chambers of Commerce	Gov agencies, NGOs, private and public institutions	Intermediary of private consult-ants, chamber of industry.	Universities, colleges, and training organisations	Firms, buyers, suppliers, and support institutions	Local gvt, NGOs, banks, producers' assoc, univers	Pro-profit buyers and suppliers	SEBRAE, universities, private sector	Local gov, financial institutions and private sector
Business Development Services	Training, legal, wholesale purchasing, credit services	Information, business counseling, loans, training	Training, information and technical assistance	Business adm, industrial management information	Joint training, organisational and productive capabilities	Strengthen interactions, project dev, SME demand	"Buyer mento-ring", help with access to credit	Work space, facilities, training, advice	Production space, training, counselling, credit
Target Clientele	SMEs with 5-50 employees	Upper end of SMEs & some larger ones	SMEs of 5-99 employees	Initially SMEs, then clients with ability to pay for service	SMEs	Small-scale enterprises	Large and small businesses	Early-stage firms	Micro-enterprises, especially women
Financial sources	Support from Swiss donors; clients' fees	Donor start-up support. Local subsidies, fees, income	55%-75% from IADB; rest from client fees	USAID for 3.5 years; then clients' fees & own income	Combination of private and public sources	Italian and Swiss donor agencies	Confederation of Zimbabwe Industries	52% public subsidies, 40% private sources	USAID for 3 yrs, clients fees, income
Performance level	Cost recovery: between 37% and 50%	Near financial sustainability but less outreach	Financial sustainability is major aim	Self-sufficient. No service to start-up micro-enterprises	Some cost recovery; high outreach to small bussiness	Improved trust & effective de-mand for BDS	Strongly in cost recovery; low outreach	Not self-sufficient; good impact	Aiming at cost recovery; high impact effects

Sources: Astrakhan (1999), Ceglie and Dini (1999), Garcia et al (2000), Gibson (2000), Gibson and Hitchins (2000), Grierson et al (2000), Kennedy et al (2000), Lalkaka and Shaffer (2000), Levistky (2000), Russo et al (2000), Schmertz (2000), and Sinha (2000).

Table 5. SIDBI's business services for micro enterprises

Service	Description	Coverage	Provided by
Rural Industries Programme (RIP)	Comprehensive enterprise development services and business counselling	Usually 1-3 districts	Professional business consultancy or non-profit development agency (NGO)
Entrepreneurship Development Programmes	Training for development of entrepreneurship skills	Provincial or sub-provincial	Publicly funded entrepreneurship promotion agency or NGO
Technology Fund	Finances for technology transfer or technical skill development	Provincial or sub-provincial	SIDBI branch office usually under advice from RIP agency
Marketing Fund	Finances for marketing or market support initiatives	National	SIDBI Marketing Finance and Development Department
Skill-cum-Technology Up gradation Programme	Technical skill development and technology transfer	Local or sub-provincial	Local institutes responsible for technology adaptation transfer
Cluster Technology Up gradation Programme	Environment/pollution technology related services to clusters of enterprises	Local or sub-provincial	Technical consultants

Source: Sinha (2000)

3.1.3 Changing mindsets of government officials

A fundamental constraint to improving the delivery of government-led BDS arises from the insufficiently businesslike perspectives of public-sector officials. In India, for instance, a re-orientation from the mindset of risk-averse programme 'controllers' to entrepreneurial 'innovation catalysts' would help enhance the performance of BDS programmes and yield substantial benefits to micro enterprises. To this end, some key skills requirements for service providers are recommended (Sinha 2000:289):

- An ability to undertake microeconomic feasibility analysis
- Knowledge of the target sub-sectors and the availability of basic technologies within them
- Understanding of financial issues and appraisal requirements of banks
- Basic management skills and appreciation of the practical realities of business administration
- Exposure to and understanding of the needs of markets
- An analytical approach to production/productivity and quality issues
- A concern for environmental issues

In other countries, the emphasis has been placed on setting up training courses to improve the entrepreneurial skills of government officials and young people who, in the future, may join the civil service. Examples of these innovative projects are presented in Box 1.

Box 1: Enhancing Entrepreneurial Skills in the Public Sector and Amongst the Youth

EMPRETEC, in Uruguay, has implemented a number of projects, which seek to enhance the entrepreneurial skills of public-sector officials and young people.

Initiative Project (1996-1998). This is an entrepreneurship development programme aiming at promoting the modernization of public enterprises. Around 1000 executives of major State enterprises have been trained, with the purpose of enhancing their entrepreneurial spirit. The follow-up assistance on a one-to-one basis has involved 350 participants, and lasted an average of nine months. As an outcome, 64 % have designed an individual Action Plan, and 53 % have reached the new pre-established goals (behavioural changes). The participants evaluated the programme with a score of 10 out of 12.

CEPRE Project: Re-orienting civil servants (1997-1998). Since 1997 EMPRETEC-Uruguay has provided assistance to 200 civil servants working in the Public Administration. Among these, 95% not only changed their mindsets towards business, but also created new enterprises and obtained loans from ad-hoc allocated public funds. The participants evaluated the programme as very beneficial.

Catalysis Project (1994-1998). It is a UNDP financed project aimed at consolidating the high-tech profile of selected enterprises and at stimulating entrepreneurial /innovative behaviours among university graduates. An ad hoc follow up involved 25 high-tech enterprises, and lasted four years. As an outcome, these enterprises have founded an association, called Catalysis; have been able to interact locally and internationally as a group, generating new synergies and implementing common technology upgrading plans; have participated in public and private bidding both locally and internationally; have won several National Quality Prizes.

"Projoven" Project. The Ministry of Education has assigned to EMPRETEC-Uruguay the task of implementing a pilot project for supporting young entrepreneurs. Since June 1998, 15 companies initiated by young people under 25, and located outside Montevideo, have been assisted.

Source: Ruffing and Farinelli (1999)

These projects aim at creating a business-oriented perspective within public-sector agencies and actors, in order to enable them to implement BDS programmes, which could be more market-driven and hence more productive. Further analysis of this important issue is made in the next two sections.

3.2. Donor partnership with national institutions

In the programmes covered by this study, the partnerships that are fostered between donors and national institutions are aimed at delivering services through an existing local institution rather than through the creation of new BDS providers, or via direct delivery by international donors. Recent experience in developing countries shows that there are three types of organisation that become donor partners: public sector bodies, NGOs, and private sector institutions.

3.2.1 Public sector

Partnership programmes with public sector organisations seek to benefit from the nationwide coverage of these institutions, with the expectation of correspondingly high levels of outreach of BDS delivery. The EMPRETEC [4] programme is an outstanding example of this model. It started in 1988, in Argentina, and is currently

[4] See also www.empretec.net

being coordinated by the UN Conference on Trade and Development (UNCTAD). A decade later, the EMPRETEC programme was operating in 10 African and Latin American countries with varying degree of success: Argentina, Brazil, Chile, Colombia, Ghana, Morocco, Nigeria, Uruguay, Venezuela and Zimbabwe. Our cases studies are the programmes implemented in Brazil and Uruguay (see Table 3). Some key issues highlight the strengths and weaknesses of these types of associations.

Forming strategic partnerships

An important aspect of the partnership approach is the ability to form strategic alliances with the public sector. In Brazil, EMPRETEC identified a well-established BDS organisation: SEBRAE, Service for Support to Micro and Small Business, is the largest national organisation in Brazil that specialises in providing services for SMEs. By being fully integrated into this public institution, EMPRETEC is able to offer its services to a network of 548 decentralised units, located in all state capitals and the most important cities in Brazil (Ruffing and Farinelli 1999).

In Uruguay, the local partner is one of the largest state-owned banks in the country: the Banco de la República Oriental de Uruguay. The added value in this partnership is that the national bank provides office space, at no charge, for the administration and implementation of EMPRETEC's training and consulting activities. In other Latin American countries, such as Chile and Colombia, major national organisations have also been involved (Levitsky 2000). The advantages of operating in well-known and consolidated structures are mainly twofold: reduced overhead costs and larger economies of scale. The disadvantages, however, relate to low visibility of the EMPRETEC programme (as the better-known partner gets most of the attention), and a tendency to apply a supply-driven approach.

Some key criteria have been identified for the forming of good partnerships:

- *High credibility of the local institution*: The partner organisation has to have a proven capability to operate as an active agent of change, and to be an influential institution in the country.
- *Provision of complementary services*: The services that the partner institution offers should complement those supplied by the BDS programme, and should be integrated with each other so that entrepreneurs' needs are more effectively met.
- *Business-oriented approach*: Directors and managers of the national organisation should be very familiar with private sector dynamics, and should aim at enhancing private enterprise development.
- *Effective Advisory Board*: Members of the Board should represent equally the institutions that constitute the partnership. For instance, in Uruguay, the board of directors is composed of eleven non-remunerated members, who are high-level representatives of the finance sector, the chambers of commerce and industry, major universities, the central government, and international and bilateral cooperation agencies (Ruffing and Farinelli 1999).

Facilitating business linkages at the national and international level

The possibility of enhanced outreach is another advantage of these donor-public-sector partnerships. Due to association with well-connected national institutions, the

EMPRETEC programme has been able to facilitate its clientele with linkages to national and international networks of small entrepreneurs, and to promote regional centres. For example, in cooperation with SEBRAE and the Banco de la República, EMPRETEC-Uruguay has established a local "balçao" (Centre for Enterprises) that provides networking services between Uruguayan and Brazilian enterprises.

Behind this goal of promoting national and international linkages, is the intention to support long-term sustainable assistance to SMEs. This means that small enterprises are provided with services from their start-up stage of development up until they reach a sufficient scale to gain access to international markets. Initial training is hence reinforced by constant contact with similar enterprises in national and international networks and trade fairs.

Defining the role of government agencies

A common danger in these types of partnerships, however, is the potentially detrimental control that government agencies can exert over the programme. In Nigeria and Venezuela, for example, UNCTAD claims that government organisations have intervened excessively through selection of staff and beneficiaries, making the EMPRETEC programme less successful in achieving its aims (Levitsky 2000).

Equally, it is difficult to determine the degree of influence that donors should wield over local governments, in the selection of members of the advisory board, and in the internal decisions of the board. Methods to overcome disproportionate influence by partners are difficult to identify and depend on individual cases and contexts. Nevertheless, it seems advisable that the involvement of government agencies should, in principle, be limited to the tasks of advisory and supportive activities.

3.2.2 Non-governmental organisations

The system of delivering BDS through NGOs aims to achieve *depth* of outreach. This means that the objective is not only to have high coverage of the target clientele but also, and perhaps most importantly, to reach the poorer segments of these populations. Our three case studies are representative of a large number of NGOs that manage BDS programmes in developing countries. Although some major benefits derive from this kind of institutional arrangement, a number of drawbacks exist.

Ability to reach the poor and most vulnerable

Compared to other types of partnerships, NGOs target potential clients at the poorer end of the income spectrum. EWW in Zimbabwe, for instance, aims at reaching small-scale producers, mainly in agriculture; ITDG in Bangladesh works with micro-enterprises of less than five employees; and Sarvodaya in Sri Lanka provides for the poor self-employed in non-farm activities (Loucks 2000). The mission of these NGOs is hence primarily focussed on helping alleviate poverty.

With such an ambitious institutional mission, NGOs generally seek to provide BDS within a broader range of services, including those that lead to the enhancement of women’s empowerment and the strengthening of social development. Sarvodaya is a case in point. It implements two so-called empowerment programmes, one of which deals with spiritual, moral, cultural and political empowerment; and the other covers social, economic and technological empowerment. The economic empowerment programme includes the development of rural enterprises and the delivery of BDS. The NGO has a service network of 2,150 village organisations, and its impact on the target clientele are considered highly positive.

Limited financial sustainability

The issue of NGO financial sustainability (i.e. independent from donor support) remains unresolved. Despite efforts to recover costs, none of our selected case studies have attained self-sufficiency. In many instances, the need for cost recovery is considered more a constraint than an institutional objective (Loucks 2000:84). However, there are a few mechanisms that are helping NGOs to work towards self-reliance:

- *Market-based services*: EWW Zimbabwe, for example, has introduced a profitable tool-hire service which not only is provided at market-based prices, but also serves as a magnet to draw in active artisans for other BDS such as product and skill development.
- *Build on existing facilities*: As Sarvodaya has a network of over 2,000 village organisations, their regular monthly meetings have been used as venues to announce and launch new programmes. In this way, costs have been reduced significantly, and new projects have been introduced effectively.
- *Clear financial plan*: In order to make progress on financial sustainability, some NGOs have set up clear financial plans wherein strict timetables are fixed for phasing out donor subsidies over an agreed period of time.

The majority of NGOs are also currently developing indicators to assess their degree of cost effectiveness and financial sustainability.

The importance of management information systems

Development of effective management information systems are still at an early stage in most NGOs, although progress has been considerable. As many NGOs are voluntary organisations, staff turnover is generally high and skills to develop management systems are inadequate. For the development of management information systems, some basic elements are required: computerised software for financial planning; regular data collection of pre-determined indicators; and personnel with skills in financial analysis and social impact assessment. With regard to indicators, NGOs have compiled a list of key variables (see Table 6).

Table 6. Indicators used by NGOs in BDS project monitoring and evaluation

	Cost effectiveness	**Impact**	**Sustainability**
Local delivery organisation	• Costs of services • Gross/net profits • Workload per staff • Mgmt/staff ratios • Overhead rates	• Client profile • No. of clients • No. of BDS • No. of staff • New BDS products	• Clientele growth • Fee revenue • Grants, endowment • Profitability/surplus • Cost reductions
Client	• Operating margins • Value added • Assets	• New technology • New mgmt practices • New product lines	• Debt/equity ratio • Net income • New product gains

	• Local sourcing • Cost reductions	• New delivery lines • New funding sources	• Gross revenues • Household income
Society/ economy	• Less subsidies • Businesses created • Lower prices • Better salaries • Jobs created	• Production growth • Service supply • Higher employment • Higher investment • New products	• Savings in exchange • Higher local staff • Larger clientele • Higher value added • Rapid expansion

Source: Adapted from Loucks (2000), Table 6.2.

These indicators aim at helping assess the performance of local delivery organisations, their clients, and the society at large, in relation to cost-effectiveness, impact and sustainability. Most variables are quantitative measures, which are easy to calculate when data collection is regular and consistent. Other variables, however, can be qualitative in nature, especially when assessment of gender equity, environmental sustainability, and indigenous-group participation are included. Generally speaking, NGOs have advanced the debate by developing these types of indicators, but they still lack the physical infrastructure and capability to introduce complete management information systems in the running of their organisations.

Staff development and external resources

NGO staff need upgraded skills in some areas not only in order to implement management systems, as explained above, but also to undertake BDS projects successfully. The strategy developed by a number of NGOs is through strategic linkages with foreign and local institutions. Sarvodaya in Sri Lanka, developed associations with government, universities, and the private sector, as a means of informing their staff of the specifics of fish rearing and of the industry more widely, so as to provide improved services to their clientele. EWW in Zimbabwe gained significant knowledge from their interactions with foreign experts, as well as from the fact that the EWW programme was piloted abroad and successfully adapted to the domestic economy. The apparent lesson from these examples is that staff development does not need to be costly or dependent on subsidies – with mutually beneficial professional linkages, skill upgrading can be achieved at an affordable cost or even at no cost to NGOs.

3.2.3 The private sector

Donor-initiated programmes have also been implemented in partnership with private sector institutions. These can be foundations, chambers of commerce, business departments in private universities, and business associations. The main goal in these partnerships is to run BDS programmes with a strong business approach. Our two cases studies represent instances where the local institution was originally a private sector foundation (FSP, Senegal), or where the programme developed into an independent foundation (EMPRETEC, Ghana). Some key aspects of these organisational models deserve special attention.

Promoting a business-like working culture

One advantage of liaising with private sector institutions is that BDS programmes can be influenced by an existing businesslike working culture. This is reflected most clearly in the type of relationship that these BDS providers establish with their clients:

a relationship based around payment for services rather than free or subsidised provision of BDS. In Ghana, EMPRETEC follows a strategy of realistic market pricing of services, although it aims at modest profit margins. SMEs with growth potential and at the upper-end of the spectrum, for instance, pay full cost for suitable training products, while one-to-one services may not be fully paid for by poorer entrepreneurs. Other key aspects of its businesslike style are strong institutional capacity, growing financial autonomy, and the development of financially sustainable products, as described in Box 2 below.

Box 2. EMPRETEC in Ghana

EMPRETEC has progressed from a small start-up project in 1990 to an independent foundation today. Three core accomplishments characterise its recent performance:

- *The development of a strong institutional capacity*: which is manifested in the high level of competencies among staff; the improving systems; the tangible sense of ownership and commitment within the organisation; and, overall, an extremely positive and businesslike working culture
- *The development of growing financial autonomy*: one key dimension of institutional capacity is reducing the foundation's dependence on external donor funding. Direct donor funding now accounts for less than two-thirds of overhead costs.
- *The development of financially sustainable products*: The foundation increasingly seeks not only to cover direct costs but also to generate a contribution to overheads through its training products.

Source: Adapted from Gibson (2000:61).

The strategy taken by FSP-Senegal is not to deliver direct services from its own staff, but rather help to make expertise available to enterprises and business associations. This is done by FSP offering individual enterprises and groups of entrepreneurs access to local and foreign consultants through a system of accreditation: FSP selects service providers; gives accreditation to those above certain qualification requirements; and then draws up contracts with providers and clients. Serving as intermediary, FSP is hence able to reduce its own costs significantly.

Demand-driven services but decreasing outreach

The risk of providing services for which demand exists is that these BDS providers tend to serve the upper-end of SMEs. There is, therefore, an unintended move away from small enterprises, which results in decreased outreach to the target population. This potential problem is particularly acute in BDS providers with an independent perspective. Issues concerning lack of outreach are therefore fully analysed in the next section.

3.3. The Independent Approach

The independent approach generally refers to public-private institutional arrangements where the primary objective is to help develop fully independent BDS providers in terms of legal status, financial sustainability and market-oriented provision of services to their target clientele. Three types of models can be identified within this category: Business Centres, Clusters / Linkages, and Business Incubators.

3.3.1 Business Centres

The Business Centre model is neither service nor sector-specific. It seeks to develop institutions which could provide a wide range of business development services. For this purpose, linkages with local organisations are pursued in an ad-hoc basis, either to secure demand for BDS delivered by the Business Centre (e.g. links with sectoral associations), to hire consultants (e.g. links to universities, private training institutes), to seek funding (e.g. via local governments, chambers of commerce), or to refer to clients for useful information (e.g. from tax and other government agencies). Case studies from the Philippines, Romania, Latin America, and Russia, help to illustrate the specific strengths and weaknesses of this model.

Development of self-sufficient BDS providers

A major strength of the model is its potential to develop financially sustainable BDS providers, as strong emphasis is placed on cost recovery, incentives and internal systems. All our case studies had start-up subsidies from international donors, but also included concrete measures to reduce support and promote self-sufficiency. Swisscontact in the Philippines, for instance, specify specific time and financial limits to its support to Business Centres i.e.: 3-5 years, and US$4,000-US$15,000 per year, together with exit provisions if contracts are violated (Gibson and Hitchins 2000:107). In the case of technical assistance it is more difficult to determine a time limit, but in order to increase accountability, Swisscontact is considering taking equity in business centres and thus providing technical advice as co-owner.

In Romania, meanwhile, donors stipulate that business centres should become financially sustainable and find their own ways to attain this. Three strategies have hence been adopted: some centres became self-supporting from fees charged to clients and projects; others were supported by the local chambers of commerce (in cash and in kind); and yet others are becoming sustainable by increasing revenues through product diversification into non-business-related projects (Kennedy 2000:142-143). In Latin America, on the other hand, the strategy suggested by donors has been for centres to build up reserve funds named ‘sustainability funds’ (from clients’ fees and other incomes) in order gradually to become self-sufficient. One special feature of these centres is that they act as ‘service intermediaries’ between enterprises and external consultants that supply the service, and hence financial sustainability is expected to be attainable (García *et al* 2000).

Financial sustainability is assisted by the capacity of business centres to focus on having the right personnel and management systems in place. Professionals with strong business instincts are favoured, preferably young and adaptable to the changing conditions of the entrepreneurial sector. Three types of management systems appear to be crucial to the approach of Business Centres: (1) Rigorous computerised systems of cost control and measurement; (2) Client information database to assess satisfaction with and demand for services; and (3) Performance-related remuneration and rewards to personnel, to stimulate institutional financial sustainability and client satisfaction.

Ownership

Ownership is a critical issue in the Business Centre model, not only in the legal sense but also in the sense of commitment to the centre. Generally speaking, there are three main actors in a business centre with some claim to ownership: the operator, the manager, and the foreign donor. The operator is usually a local large organisation, such as a consulting firm, which becomes a partner of the foreign donor in order to initiate a business centre in the country. The manager or management team is the group of people responsible for running the business centre. The foreign donor could be a government or an NGO. One problem arising from international NGOs acting as foreign donors is that their legal status does not allow them to become shareholders in the business centre (as in the case of Swisscontact in the Philippines), and hence their power to demand high performance is somewhat constrained, despite the NGO's high investment in the business centre. More generally, the degree to which ownership is present in the business centre depends on several factors:

- *Operator versus manager*: In many cases, the legal owner of the business centre is the operator, whereas the manager is not legally an owner but is accountable for the running of the centre. This lack of legal ownership sometimes hampers commitment.
- *Foreign donors' intervention:* Donor advice in the running of business centres can sometimes be taken as top-down impositions, which can seriously undermine local ownership. This is particularly the case where external donors are not stakeholders in the centre (see Box 3).
- *Selection process*: The type of selection process influences ownership. In cases where the selection of operators and managers have been through a detailed tendering procedure, ownership and accountability have been higher than when nomination has been based on friendship or informal contacts.
- *Size of local organisation:* In order to develop its own identity and encourage ownership by all members involved, the business centre should not be too large in size nor be operated by a too large an organisation.

Box 3. Ownership perils for business centres – The case of Swisscontact

A number of incidents highlight some of the potential impacts from lack of clarity over ownership in the Swisscontact Business Centres.

The split between ownership and management: One local businessperson initiated the Baguio SME business centre. An ex-president of the chamber of commerce, he is a dynamic and influential business leader and chairs the business centre. Unfortunately, he has little time to devote to the management of the centre. Staff are quite junior and inexperienced, with little decision-making responsibility or capacity to innovate or deliver services. In the void between ownership and management, the business centre is sinking.

Swisscontact (SC) interference into business centre 'space': two incidents between SC and the local business centre highlight potential problems when responsibilities are ill-defined and people feel unable to take responsibility over *their* business centre:

- SC felt that the local business centre was drifting away from its target group: the business centre believes its main responsibility (not least to SC) was to ensure the financial sustainability of the organisation; focusing on clients that represent the strongest sources of revenue, was therefore – for the business centre – a valid strategy
- The local business centre had received positive feedback from clients about their business plans and credit proposals – an important product for them. SC felt that the standard of these was

inadequate and that remedial action was needed. The local business centre management felt that they were not in control.

Source: Extract from Gibson and Hitchins (2000).

Conflict between financial sustainability and outreach

The pressures to attain financial sustainability appears to reduce the outreach of business centres, i.e. their ability to provide for the target clientele, which are usually small enterprises. This is a particularly clear outcome in the business centres in Russia, where the move towards sustainability has reduced the outreach of business services, since the aim is now to focus on groups that are able to pay market-based rates. This means that business centres no longer provide support for: women entrepreneurs; young businessmen; micro-enterprises; SMEs that have serious financial problems and cannot pay for services; and business associations and NGOs (Astrakhan 1999).

The apparent conflict between financial sustainability and outreach seems to represent a serious weakness in the Business Centres model – all our cases studies show lower outreach after cost-recovery measures have been firmly instituted in the centres. In Latin America, for instance, this limitation extends to the provision of services: dissemination and extension activities are likely to diminish because the cost of these services cannot be entirely absorbed by the firms, especially small ones (García 2000:135). One option to overcome this problem is to group smaller firms together to create a collective demand wherein enterprises could share the cost of services – other factors such as organisational constraints may, however, limit the feasibility of this alternative.

Balancing of financial sources

In view of the potential negative effects of financial-sustainability goals, two possible options emerge from the literature: (1) *Cross-subsidisation* from remunerated and highly profitable activities to less lucrative ones, in order to cover the costs of those services that the target clientele cannot pay. The problem with this alternative is that it would be very difficult to undertake in countries with small BDS markets. (2) *Mix of funding sources*, from private and public sectors, in order to strike a balance between clients' fees, income-generated activities, and other operations that require a degree of subsidy, especially to reach the smaller and poor enterprises which are excluded from commercial BDS providers. In this alternative, special institutional linkages also play a role in the increase of outreach. For example, contributions (in kind or cash) from private foundations, universities, and national non-governmental support organisations can greatly enhance the ability of business centres to provide for smaller firms.

3.3.2 Clusters and Linkages

In contrast to the previous model, the Cluster approach is sector- and/or place-specific. It refers to a concentration of enterprises that belong to the same industrial sector or are located in the same geographical area, which get together to co-operate on joint development projects, including efforts to gain access to BDS. Business Linkages, meanwhile, generally refer to vertical interactions between small and large enterprises in order to benefit from one another and improve access to BDS. The most outstanding examples of these models are the UNIDO programmes in Central America and India (see Table 1c). As with previous models, there are some advantages and disadvantages attached to the Clusters/Linkages approach.

Fostering complementarities and co-operation

Building on the premise that inter-firm cooperation does not always emerge spontaneously, UNIDO seeks to act as facilitator to the formation of clusters and aims at promoting complementarities (and specialisation) in order to overcome common problems and achieve collective efficiency far beyond their individual capabilities (Ceglie and Dini 1999). It is, in fact, an approach that involves the whole business system: enterprises (through the formation of clusters); their suppliers and buyers (by facilitating links with them); and support institutions (most relevantly, by helping BDS providers develop appropriate services for clusters' members).

There are four typical phases in the development of clusters: (1) the formation of clusters - when the creation of sufficient levels of mutual trust is paramount. To this end, an external agent – the cluster 'broker' – is trained by UNIDO to stimulate this process. Entrepreneurs are then exposed to intensive interactions which involves role assignment, criticisms based on the analysis of results; and reassignment of responsibilities; (2) restructuring at the firm level, which aims at adapting individual enterprises' production and organisational capabilities to the needs of the common objectives of the cluster; (3) the improvement of the institutional environment, which includes upgrading the capacity of BDS suppliers for better provision of services to small enterprises; and (4) the enhancement of dialogue between private and public sectors, in order to promote a coordinated industrial policy in support of clusters and small enterprises. See also Box 4 for common elements of cluster development of the UNIDO programme.

Box 4. UNIDO Cluster Development

UNIDO is attempting to replicate the success of industry clusters from some Western countries with small enterprises in developing countries. This strategy is being implemented in Honduras, Nicaragua, Mexico, Jamaica and India. Common elements among the programmes are:

- Identification of the collective competitive advantage of each industry cluster and an overarching plan to build local capacity to realise this advantage.
- Hiring of consultants, at cost to the project, to help small enterprises to form groups. The groups are trained and exposed to good practice in industry clusters. Clients pay a fee to join the groups and that fee contributes to the facilitator costs.
- Identification of activities that will directly add value to businesses in the group and that the enterprises could not achieve independently.

- Linking groups to sources of BDS, rather than the programme providing BDS.
- In some cases, initially helping suppliers respond to small enterprises' demand by tailoring BDS products to the small enterprises' groups.
- Monitoring progress in terms of group activity as well as business growth.

UNIDO has found that it is important to allow each group to follow its own path. UNIDO responds to groups' requests, rather than directing the groups. UNIDO also found that suppliers were, in some cases, initially reluctant or incapable of providing tailored BDS to the groups – UNIDO hence decided to assist them with product development.

Sources: Ceglie and Dini (1999), Russo et al (2000).

A clear advantage of the cluster model is its ability to help entrepreneurs overcome market barriers, while supporting private sector BDS providers, i.e. in clusters, firms can gain access to BDS that would otherwise not be available to them individually; equally, by helping BDS suppliers develop specific services, the needs of clusters are better met.

While UNIDO invests public resources to develop markets for BDS, the Business Linkages model seeks to foster a "win-win" relation in the private sector (Grierson *et al* 2000). By disseminating information about market players, this model helps develop small firm-large firm relationships that are beneficial for both, i.e. small enterprises gain access to BDS, larger firms benefit by building a customer base. In this model, external financial support is kept to a minimum, introducing market-based mechanisms as soon as mutual benefits are identified.

The cost of organising groups

A major challenge of the Cluster Model is the cost of forming and consolidating groups. Generally speaking, small enterprises do not perceive 'organising groups' as a service and hence are not willing to pay for it. As cooperation and joint action can be argued to have the qualities of a public good (i.e. once provided, they are freely available to all), the provision of subsidies by donors might be justified, as in the case of UNIDO (Russo *et al* 2000).

However, there are cases in which BDS providers have managed to present group-organising as a market building strategy for which enterprises would be willing to pay: in groups, enterprises can start selling their own products to other members, hence paying for group-organisation is actually a profitable investment (Field *et al* 2000). Perhaps in the majority of cases, a mixture of public and private funding would be necessary, particularly for the initial phases of cluster development and in localities where private BDS suppliers are absent (Sandee and van Hulsen 2000).

For Business Linkages, the driving force tends to be profit and therefore any initial subsidy is kept to a minimum. The strategy here is to identify opportunities for profitable business linkages, where large firms volunteer to work with small ones and expect commercial rewards, such as sub-contracting deals.

Power imbalances

Another important issue is the power imbalances that clusters and linkages can generate. For example, when a large buyer makes purchases from a small supplier, the buyer generally has overwhelming power to dictate the terms of contract. This can result in exploitation of small suppliers. There are a number of possible techniques, however, which could help ameliorate the tendency towards power imbalances:

- *Diversification of buyers*: The larger the number of buyers from one supplier, the less likely its dependence on one buyer. Clusters and Linkages should focus on securing large numbers of buyers and suppliers within the groups.
- *High ownership*: At all levels of group interactions, awareness should be raised in order to involve members and local actors in contracts/projects design, and to encourage continuous feedback in implementation stages.
- *Enhance empowerment*: Members and actors must have the leverage, credibility and resources to play their role. With these, their individual negotiating power would improve.
- *Good facilitating skills*: To secure better communication and transmission of information, 'brokers' should possess excellent social skills and be properly trained in conflict-resolution techniques.
- *Appropriate costing and pricing*: Assistance needs to be provided to small suppliers to establish reasonable and competitive prices when negotiating contracts with buyers.
- *Maintaining a bilateral relationship*: Efforts to address power imbalances should make sure that the linkage remains bilateral between buyer and supplier, in order not to damage the model itself.
- *Right incentives*: Incentives schemes for all actors must be put in place so that the financial *and* social performance of clusters and linkages should be achieved. For example, for 'brokers', an effective incentive has been training for professional advancement (Grierson *et al* 2000, Ceglie and Dini 2000).

3.3.3 Business Incubators

The model of Business Incubators aims at nurturing enterprises in the early stages of their development, in order to transform them into profitable businesses that would create jobs in local communities. Businesses are offered a working space and hence become 'tenants' of a Business Incubator; other BDS are also provided. After a period of approximately two years of incubation, businesses 'graduate' and are expected to survive and prosper in competitive local markets. Business Incubators first appeared in industrialised countries in the early 1980s; now their numbers are rapidly growing in several developing countries (see Box 5 for a few outstanding examples).

Micro enterprise or 'empowerment' incubators have the added challenge of nurturing businesses in economically depressed regions, where local economies need invigorating and businesses require additional support services, as in our Russian case study. Gender empowerment in business ownership and strengthening minority-group participation are also important issues in these types of business incubators.

Box 5. Business Incubators in developing countries

China: Among developing countries, the largest programme, with 100 incubators. From a modest beginning in the late 1980s with assistance from UNDP, the incubators have graduated over 200 enterprises, expanding their contribution to economic restructuring. Difficulties have been encountered, such as insufficient assistance to tenant companies, low levels of local technological development, and weak incubator management. Incubators in China are generally non-profit, state-owned corporations, reporting to the provincial/municipal science and technology committees and local economic development zone. While the Ministry of Science and Technology's TORCH programme provides policy guidelines, the management is left to the local agencies. Most entrepreneurs come from adjacent universities and technical institutes. The local government often offers free land to help to reduce capital costs, while flexibility in leasing for commercial purposes raises operating revenues. Eight incubators have been transformed into international business incubators, where small foreign high-tech companies will be facilitated to enter the complex Chinese market, while Chinese tenants are helped on joint venturing and exporting.

Uzbekistan: As the government forces the pace of transforming its 70-year command system into a market economy, the business incubator programme is helping to overcome the hindrances encountered by self-owned businesses, including problems of cumbersome registration, high taxes, inadequate banking, materials procurement, and access to credit and business services. With political support at the highest level and initial UN assistance, three pilot incubators were started at Tashkent and Samarkand in mid-1995. Over 200 jobs have been created. In 1996 the Republic Business Incubator Network was initiated and has been expanded to 23 incubators serving 365 tenant businesses and creating 3,000 jobs, with a turnover of about US$5 million. The programme is also being used effectively to leverage small-enterprise-friendly policies. Uzbekistan provides a good example of strong state support and effective donor intervention.

South Africa: has had for many years a network of facilities called 'hives of industry', established by the Small Business Development Corporation. An incubator has now been started in Johannesburg by South African Breweries to help provide alternative livelihoods for their laid-off employees. The technology incubator at Technikon Natal, Durban will empower communities. State agencies - Ntsika and Khula – are establishing three local industrial parks comprising incubators and multi-tenant buildings.

Malaysia: The large state investment of US$80 million in the Technology Park Malaysia near Kuala Lumpur has been 'corporatised'. The core facility is an innovation-incubation-enterprise complex, with dominance in ICT. The integration of support facilities and a small in-house venture capital fund. A dozen incubation variants are operating in Malaysia, mainly linked to universities.

Indonesia: Starting with UNDP assistance in 1994, three pilot incubators were established in Java: at Puspiptek tech-park, Serpong; a regional incubator at Solo; and an industrial incubator in Surabaya. By osmosis, seven more began, many as 'out-wall incubators' which also provided out-reach services to businesses in their own premises. Then, government decided to establish a major national programme, with many more incubators at universities in the out-lying islands.

Egypt: The Social Fund for Development of the government of Egypt has initiated a network of incubators as a component of its extensive employment generation programmes. A business incubator at Tala in the Nile Delta started operations in March 1998 with 8 tenants, and another 8 being inducted. The Egyptian Incubator Association is undertaking the implementation – an NGO set up for this purpose.

Source: Lalkaka and Shaffer (2000).

Developing start-up small enterprises

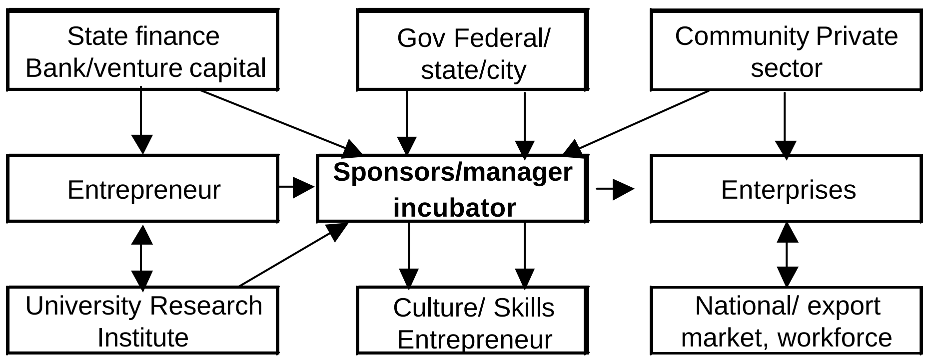
A major strength of Business Incubators is their focus on supporting start-up and young enterprises, and hence in helping to create new ventures. BDS that are provided to these enterprises include: working or production space, shared facilities (such as use of reception area, meeting rooms, parking, security, laboratories, equipment, telephone), counselling to raise confidence and reduce isolation, training in business plan development, technology sourcing, legal advice, marketing services, access to finance and external professional networks. In some cases, business incubators offer financial services directly. In Russia, for instance, incubation programmes offer the only credit available to small and start-up business: this is a leasing package whereby clients apply for equipment leasing, make regular interest payments while using the equipment, and, at the end of two years, become owners. This financial product has been beneficial to clients – who otherwise would not have had access to credit – and also to the Business Incubators which have an additional source of income (Schmertz 2000: 246-247).

The complexity of clients' needs call for special public-private partnerships in the provision of BDS. In the majority of incubation programmes, initial funding generally originates from foreign donors and gradually declines over a period of time. Local government subsidies complement these funds, usually in the form of free use of public buildings. Universities contribute with technical training and advice, while the private sector participates when it sees that the incubation programme could lead to greater business opportunities and promote spin-offs. In Brazil, Business Incubators have greatly benefited from a successful partnership with SEBRAE, the nationwide organisation that supports micro and small enterprises. SEBRAE not only provides specific BDS to incubators' tenants, but also is member of the incubators' governing board and hence advises on how to improve BDS and achieve financial sustainability.

Identifying some good incubation practices

Mian (1997) proposes a model for assessing the performance of some business incubators and identifies a number of indicators. Figure 3 presents these in a diagram, where at centre stage is the sponsor/manager of the incubator, together with linkages with private-public institutions, enterprises and markets.

Figure 3. Linkages and impacts of Business Incubators



Source: Adapted from Mian (1997)

Based partly on this analytical framework, some common good practices of Business Incubators have been found, particularly in relation to the Brazilian experience.

- *Identification of strong sponsors*: Given the challenges of providing support for start-up and micro enterprises, strong and committed sponsors are fundamental to the effective functioning of incubators. In a recent survey in Brazil, relations with local governments, universities and the private sector were deemed highly cooperative – these partners are a mixture of experienced national organisations, such as SEBRAE, and private institutions with clear vision on how to develop business sustainably (Lalkaka and Shaffer 2000).
- *Selecting good locations and planning functional buildings*: It is advisable that the business infrastructure is in close proximity to knowledge centres such as universities, research institutes and private training facilities.

- *Forming well-trained management team*: Well-performing personnel are critical to success. Building individual capabilities of employees and managers and introducing result-dependent incentives are considered important elements to improve such staff performance.
- *Selecting clients with good potential*: Well-motivated clientele are likely to progress during incubation and fulfil their potential. Good practice calls for transparent selection processes, flexible means for graduation, and appropriate pre- and post-incubation support.
- *Providing quality services*: A mixture of services, such as those related to skill development and the provision of physical and financial support, is likely to create synergies between products and, hence, add value to clients' original capabilities and resources.
- *Monitoring performance and assessing impacts*: Internal management systems which are clear, simple and inexpensive, are fundamental to keeping track of progress and helping make timely policy decisions.

Challenging macro-environments

Despite emerging good practices, the macro environment in which business incubators – and other institutional arrangements – operate remains a serious challenge. Even in the case of Brazil, incubators began to expand only after the country's economic situation stabilised after 1993 (almost a decade after these programmes started). The regulatory framework could also be an important hindrance, as well as the lack of appropriate transport and communications infrastructure.

These obstacles are particularly severe in Russia, where the Volkhov Business Incubators (VBI) operate. In 1995, when these programmes began, the city of Volkhov was extremely depressed: large and small enterprises were shut down, no new businesses were being created, no municipal services were being upgraded, there was no e-mail, no business services, no access to credit, and, although there were few computers, training for learning how to use them was lacking. In addition, Russian government support for private, small enterprises has been non-existent. On the contrary, small businesses are heavily burdened by taxes and licence fees, which also involve bribery or direct extortion. Moreover, criminal groups demand money – and in larger amounts than tax inspectors' bribes – from small enterprises.

In this very challenging environment, the approach adopted for the development of Business Incubators in Volkhov has been quite successful in several respects. It is a private non-profit organisation supported by USAID (for the initial 3 years only) with a clear business-oriented vision. Staff have been carefully selected and rewarded for honesty as well as good performance; and VBI's reputation of being a respectable institution has been carefully guarded. Today, VBIs are regarded as valuable contributors to the development of small businesses in provincial towns, and are becoming self-sustaining.

Whilst the depressed state of the Russian economy can present constraints, it also means that market opportunities are often very considerable – VBIs have capitalised on this with a market-driven approach that is helping them to attain financial sustainability. Other achievements are: (1) an institution has been modelled on the incubator, and named "Non-commercial Business Partnership", which is the first independent, voluntary association established in Volkhov; (2) VBIs have lobbied successfully to reduce transport-leasing taxes in the province; (3) the first credit union in the region is being established with the support of VBIs; and (4) the Russian National Association of Business Incubators has been created to replicate incubators in the country at large (Schmertz 2000).

Section 4. Conclusions: emerging guidelines for BDS delivery

This paper has reviewed three distinct institutional approaches to the delivery of business development services: the government-driven approach, donor partnership with national institutions, and the independent perspective. Drawing on worldwide experience, the paper identifies important advantages and disadvantages in implementing each of these models, which ultimately depends on the specific context and local institutional aims. In these concluding remarks, we summarise some of the emerging general guidelines to BDS providers on how to improve the provision of services, particularly to small enterprises at local levels.

One crucial first step is to assess the local market accurately. This means gaining an in-depth knowledge of the demand for BDS at various levels: national, regional, provincial and village. Similarly, the supply of BDS needs to be clearly understood, including the types of formal and informal providers. Once the nature of market failure is recognised, interventions to help develop BDS provision can add value and facilitate market enhancement. A second fundamental step is to determine the key aim of the intervention, which could be to provide BDS widely, or alternatively to focus on small and micro-enterprises in isolated areas. Most importantly, it is vital to establish whether the primary aim is to help alleviate poverty, develop businesses, or become institutionally self-sufficient, as there are trade-offs between these different objectives. Hence, decisions on implementing one type of institutional objective rather than another needs careful consideration.

Although specific approaches possess particular strengths and weaknesses, some general strategies that can be applicable to all are currently emerging (Gibson 1997, Steel *et al* 2000, Miehlbradt 2002):

- *Demand-driven products*: An important challenge for BDS providers, especially for serving small, poor enterprises at local levels, is to develop low-cost products suited to their clientele' needs. This strategy helps attain the goal of supporting small enterprises and, if products are profitable, it could also help the institution to work towards financial sustainability.

- *Forging institutional linkages*: Given the diversity of small enterprise clients and local contexts, no single type of delivery model fits all. Different types of BDS providers in various institutional arrangements can complement one another, the better to provide for the target population. Forging linkages between institutions and approaches, depending on context, can lead to greater gains.

- *Efficient internal systems*: In order to improve impact of BDS on clientele and attain self-sufficiency, internal institutional systems need to be in place. This includes proper collection of information and measurement of key indicators, which would inform policy decisions, levels of client satisfaction, product design, organisational performance, and financial sustainability.

- *Staff development*: Having a highly motivated and professional staff is crucial for the effectiveness of BDS provision. To this end, practical and topic-specific training courses as well as well-designed performance incentives help raise staff capabilities and modify behaviour, contributing towards the accomplishment of organisational objectives.

Finally, the role of governments in these strategies is to provide an underpinning in the shape of infrastructure and education. For instance, governments can: help ensure that the legal and judicial system supports low-cost contract enforcement; facilitate the flow of market information through data collection and effective communication systems; and make transport, electricity, water and other infrastructure systems widely available in order to help support small enterprises and BDS providers.

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