

**BUSINESS DEVELOPMENT SERVICES
FOR SMALL ENTERPRISES:
GUIDING PRINCIPLES FOR DONOR
INTERVENTION**

2001 EDITION

PREPARED BY THE

**COMMITTEE OF DONOR AGENCIES
FOR SMALL ENTERPRISE DEVELOPMENT**

February 2001

**BUSINESS DEVELOPMENT SERVICES
FOR SMALL ENTERPRISES:
GUIDING PRINCIPLES FOR DONOR
INTERVENTION**

2001 EDITION

PREPARED BY THE

**COMMITTEE OF DONOR AGENCIES
FOR SMALL ENTERPRISE DEVELOPMENT**

Secretariat:
SME Dept., MSN F2K-207
World Bank Group
1818 H Street NW
Washington, DC 20043 USA
Fax: (202) 522-3742

February 2001

TABLE OF CONTENTS

FOREWORD.....	iv
PREFACE.....	v
1. UNDERLYING ASSUMPTIONS AND PRINCIPLES.....	1
1.1 Vision.....	1
1.2 Scope of BDS	1
1.3 Actors and their roles	2
1.4 Achieving outreach and sustainability	3
2. PROGRAM PLANNING, DESIGN, AND EVALUATION	5
2.1 BDS market assessment	5
2.2 Demand-side versus supply-side interventions	6
2.3 Delivery and payment mechanisms	6
2.4 Subsidies	6
2.5 Exit strategy	7
2.6 Focus on technical assistance and incentives	7
2.7 Selecting partner institutions.....	7
2.8 Role of BDS facilitation.....	8
2.9 Performance measurement and evaluation	8
3. OTHER IMPLICATIONS FOR DONORS	10
3.1 Donor control.....	10
3.2 Donor visibility	10
3.3 Donor coordination.....	10
ANNEX I: DEFINITIONS.....	11
ANNEX II: BDS PERFORMANCE MEASUREMENT FRAMEWORK.....	13
ANNEX III: MEMBERS OF THE COMMITTEE OF DONOR AGENCIES FOR SMALL ENTERPRISE DEVELOPMENT.....	14

FOREWORD

Donor agencies have long recognized the important contribution that small enterprises (SEs)¹ can make to poverty reduction, employment and private sector development. SEs, especially microenterprises, offer both a safety valve for the survival of surplus workers unable to find steady wage employment and an opportunity for the entrepreneurial poor to raise their incomes. SEs, especially SMEs, also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage-earning opportunities for the poor while raising national income. For these reasons, donors as well as national governments have attempted to promote the SE sector through support for financial and non-financial services appropriate for SEs.

After several years of efforts to build a consensus on principles for selecting and supporting intermediaries in micro and small enterprise finance,² the Committee of Donor Agencies for Small Enterprise Development (see Annex III for membership) turned its attention to Business Development Services (BDS)—the wide array of non-financial services critical to the entry, survival, productivity, competitiveness, and growth of SEs. The Guiding Principles presented here grew out of efforts of the donor community to assess the generally unsatisfactory performance of past interventions in BDS, review current innovations and good practices, and develop a more effective strategy for BDS as one instrument of private sector development.

While now enjoying widespread support among many of those representing member agencies of the Committee, these Guiding Principles (as with other Committee publications) have not been officially endorsed by each member agency. Rather, the Committee is issuing this document in hopes of further stimulating dialogue among donors, practitioners and governments on the objectives and effective methodologies for supporting services aimed at developing small enterprises. This dialogue is expected to lead toward more effective interventions to support a dynamic, indigenous private sector in developing countries.

William F. Steel and Leila M. Webster (World Bank Group), Co-Chairs
Committee of Donor Agencies for Small Enterprise Development

¹ Small enterprises are often disaggregated into microenterprises and small- and medium-scale enterprises (SMEs), with the specific definition depending on the purpose and country context. See Annex I for Definitions.

² *Guiding Principles for Selecting and Supporting Intermediaries in Micro and Small Enterprise Finance* (1995), as well as other publications, can be downloaded free from the Donor Committee website [<http://www.ilo.org/employment/sedonors>] or obtained in hard copy by request to the Secretariat.

PREFACE

At its 1995 Annual Meeting in Budapest, the Committee of Donor Agencies for Small Enterprise Development decided to focus on BDS for small enterprises, with the objective of identifying and documenting best practices in this area. A BDS Working Group was formed, and Preliminary Guidelines were drafted and published in January 1998.³ Many agencies played an active part in this process, including GTZ, ILO, SDC, and DFID.

Building on this work, a series of international and regional conferences were organised under the auspices of the Donor Committee. Again, many member agencies played leading roles in some or all of these conferences, including the DFID, Ford Foundation, GTZ, IADB, IFC/Mekong Project Development Facility, ILO, USAID and the World Bank, while others contributed financially or supported papers and participants. The regional conferences focused on Africa (Harare, Zimbabwe, September 1998), Latin America and the Caribbean (Rio de Janeiro, Brazil, March 1999), and Asia (Hanoi, Vietnam, April 2000); the international conference accompanied the Rio conference in March 1999. In addition, a Virtual Conference on the Performance Measurement Framework for BDS was held in May-June 1999.

The BDS Working Group prepared a draft document giving guiding principles (entitled Guidelines at that time) using the papers and discussion from these conferences. The draft served as a basis for discussion and a focal point for the emerging consensus on principles for donor intervention in BDS. The draft document was discussed and revised during consultations at the September 1999 meeting of the Donor Committee in Rome; the March 2000 conference in Hanoi; the July-August 2000 BDS Training Programme in Glasgow (led by the Springfield Centre); the September 2000 ILO seminar in Turin, Italy (Emerging Good Practices in Business Development Services: First Annual Seminar); and the October 2000 Donor Committee Annual Meeting in Vienna. The Small Enterprise Education and Promotion (SEEP) Network of North America also provided a substantive input through its BDS Working Group. Indeed, the collaborative process by which this document was prepared was an exciting experience in which much was learned and shared.

Motivating the search for a "new paradigm" for BDS was the shared recognition that traditional interventions have failed to provide quality, affordable BDS to a large proportion of the target population of small enterprises. There was a general feeling that publicly-provided and publicly-funded services have not achieved their objectives: enterprise productivity and competitiveness, job creation, poverty alleviation, and social mobility. Moreover, good performance measurement was lacking to be able to evaluate and compare programs.

The "BDS market development framework" grew out of the conviction, shared within the donor community, that achieving economic and social goals was possible

³ The *Preliminary Guidelines* (the "yellow book") are now available in English, French and Spanish, and thousands of copies have already been printed and distributed. They can be downloaded free from the Donor Committee website, and hard copies are available on request.

only by relying on private-sector actors to provide a diverse array of services. Relying on the private sector to achieve greater outreach demanded better understanding of how BDS providers could be financially self-sustainable, or even profitable. With agreement on the basic goals of BDS interventions—impact, outreach, sustainability, and cost effectiveness—the process described above was launched.

Different agencies and BDS programs collect different data for evaluation purposes, effectively preventing them from making meaningful comparisons of project performance. The Performance Measurement Framework (PMF) and other initiatives represent major ongoing work by Donor Committee members to agree on some common performance framework and measurement methodologies. Yet there remain unanswered questions regarding the degree to which standardized performance indicators can be applied across BDS programs with different objectives and instruments. As with BDS intervention instruments, current practice in performance measurement is not yet well adapted to the BDS market development paradigm.

Despite substantial work to date, the field covers a wide range of possible interventions, and definitive "best practice" has yet to be formulated and agreed. Current practice in many cases is still far away from the principles set forth in this document, and agencies will need to think about how to transition from current practice to best practice. These Guiding Principles are not intended to give final answers, but rather to serve as a starting point for improved practices and discussion on unresolved issues.

Jim Tanburn (ILO), Gabriele Trah (GTZ), and Kris Hallberg (World Bank)
Principal authors, on behalf of the BDS Working Group

BUSINESS DEVELOPMENT SERVICES FOR SMALL ENTERPRISES: GUIDING PRINCIPLES FOR DONOR INTERVENTION

1. UNDERLYING ASSUMPTIONS AND PRINCIPLES

1.1 Vision

The ultimate objective of donor intervention in Business Development Services (BDS) is to improve small enterprise (SE) performance in developing countries, as a means to achieve higher economic growth and employment, reduce poverty, and meet social objectives. Better BDS is only one means to these ends. Improving SE performance requires many ingredients, such as a policy environment conducive to enterprise competitiveness, access to financial and non-financial services, and expanding markets for SE products and services. These Guiding Principles are not intended to cover all of these elements, but rather the specific contributions which BDS can make to small enterprise development.

The ultimate vision for BDS, on which these Guiding Principles are based, is of a well-functioning market with a diverse array of high-quality services that meet the needs of a large proportion of SEs affordably. Thus, these Guiding Principles are based on a private sector-led, market economy framework which reflects:

- a fundamental belief in the principles of a market economy, where the State has a role in providing an enabling environment, in correcting or compensating for market failures, and in the provision of public goods, but not in the direct provision of private goods that can be more efficiently provided by the market;
- the assumption that the majority of BDS are private goods and are thus similar in nature to any other service, so market rules apply; and
- the expectation that with appropriate product design, delivery and payment mechanisms, BDS can be provided on a commercial basis even for the lowest-income segment of the entrepreneurial SE sector.

1.2 Scope of BDS

Business Development Services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion. A distinction is sometimes made between “operational” and “strategic” business services. Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labor laws and other regulations. Strategic services, on the other hand, are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise, its access to markets, and its ability to compete. For example, strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing. The market for operational services may already exist, since there is often articulated demand and willingness to pay for these services. In contrast, markets for strategic services for SEs have largely failed to develop, and they are the focus of most donor interventions in BDS.

However, what constitutes a “strategic” service may vary according to time and circumstances. For example, communication services may simply facilitate normal business

operations for larger enterprises, but for micro enterprises they may be a crucial vehicle for strategic reorientation. Responding to the immediate SE demand for lower-end services may also lead to greater demand for higher-end services, so they are a legitimate focus of donor interventions to build SE competitiveness. For this reason “business development services” are defined broadly here to include a wide array of business services, both strategic and operational. This implies a variety of markets through which such services may be provided, with different structures (competitive or concentrated), patterns of evolution, and implications for how to intervene.

Some types of BDS are supplied on a “stand-alone” basis by specialized service providers. Sometimes, providers bundle BDS together with other services or products—for example, when assistance in adopting new technologies is combined with design and training services. The delivery of BDS as part of business-to-business relationships—including supplier/buyer, subcontracting, franchise and licensing relationships—is particularly common for smaller firms. In these cases, BDS are delivered as part of another transaction—for example, design assistance received by SEs who sell their products to larger firms, or training received as part of the purchase of equipment. Business associations and informal business networks are another vehicle for delivering services to SEs. Designing interventions to promote BDS market development within these “business systems” is a challenge for donors.

In addition to different types of services and types of delivery mechanisms, there are different types of payment mechanisms for BDS. The price of the service may be charged as a direct fee, as a component of the price of a bundled service (e.g., when SEs accept a lower price for their products in exchange for technology assistance from buyers), or on a commission basis (e.g., when marketing service providers are paid upon successful sale of SE products). There is some evidence that SEs are more willing to use services offered on a commission basis than on a fee basis, since this type of payment mechanism reduces risks and cash-flow requirements.

Finally, many kinds of BDS in developing countries may not be easily visible, particularly to donors and other outsiders. Recent research indicates that BDS are already being provided sustainably to very small enterprises on a for-profit basis. This local, grassroots BDS provision is often ignored by the development community due to the significant cultural and financial divide between for-profit providers and donors. Thus, statements which have often been made in the past, indicating that the provision of BDS by the private sector is negligible, should be revisited, and treated with some caution.

1.3 Actors and their roles

The actors involved in BDS markets include:

- **Small enterprises (SEs)**, the demand side of the market, are microenterprises and SMEs that are mostly profit-oriented and are the actual or potential clients of BDS providers.⁴
- **BDS providers** provide services directly to SEs. They may be individuals, private for-profit firms, NGOs, parastatals, national or sub-national government agencies,

⁴ Self-employment and “survivalist” microenterprises may also benefit from development of BDS products suited to the lower end of the market, and their awareness of business principles and the value of BDS may be enhanced through programs such as “grassroots management training,” which are justified primarily on social and equity terms (e.g., to compensate for inadequate education in rural areas).

industry associations, etc. They may be small enterprises themselves. They may also be firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship.

- **BDS facilitators** support BDS providers, for example by developing new service products, promoting good practice, and building provider capacity. BDS facilitators can also work on the demand side, for example by educating SEs about the potential benefits of services or providing incentives to try them. Other BDS market facilitation functions include the external evaluation of the impact of BDS providers, quality assurance, and advocacy for a better policy environment for the local BDS market. BDS facilitation is a function normally carried out by development-oriented institutions having the objective of BDS market development, which may include NGOs, industry and employers' associations, government agencies and others.⁵
- **Donors** who provide funding for BDS projects and programs. In some cases, the facilitator is the project office of a donor.
- **Governments** who, like donors, may provide funding for BDS projects and programs. Beyond BDS interventions, the principal role of governments is to provide an enabling policy, legal and regulatory environment for SEs and BDS providers, as well as public goods such as basic infrastructure, education and information services. There are also many facilitating functions which governments can play in the future, to promote more vibrant service markets.

Figure 1A illustrates the functions of the various market actors, which have different interests depending upon their commercial versus development orientation. A BDS facilitator is likely to be interested in BDS market development as part of a broader economic and social agenda. For a commercially-oriented BDS provider, the BDS market development objective may be irrelevant or even in conflict with its commercial interests—for example, if market development implies a greater number of competing BDS providers. In the BDS market development paradigm, the main function of donors and governments is facilitation of the demand and supply sides of the BDS market, represented by the dashed lines in Figure 1A.

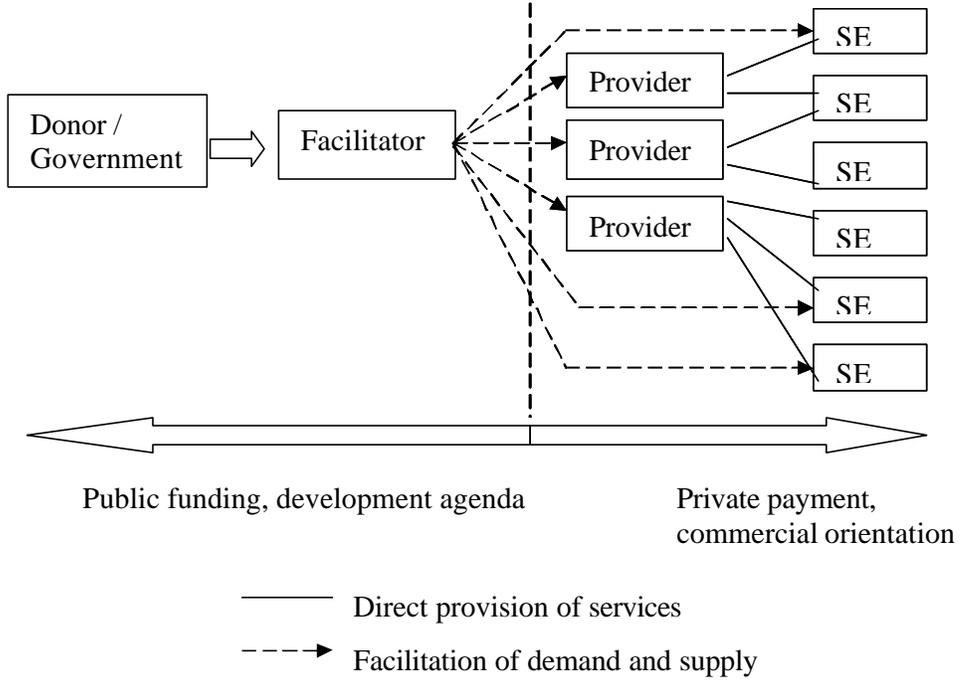
1.4 Achieving outreach and sustainability

Traditionally, donors and governments have intervened in BDS markets at the level of the BDS transaction: directly providing services to SEs via public BDS providers (Figure 1B), or permanently subsidizing services delivered by other BDS providers. In the old approach, donors and governments have tended to substitute for underdeveloped BDS markets, possibly crowding out existing or potential commercial providers of services. Traditional approaches have failed to achieve high outreach (access to services by a large proportion of the target population of SEs), since the numbers of SEs served is limited by the amount of subsidies available. In addition, institutional sustainability has been low, since programs often cease when public funds are exhausted; this effect has often been masked in industrialized countries by the much greater level of funding available.

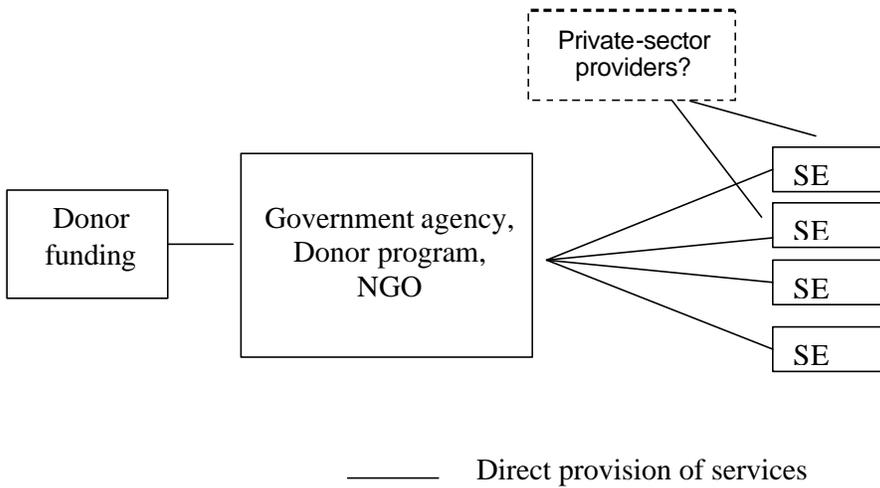
⁵ Some facilitation services (e.g., training of trainers) may develop commercial potential and be spun off. For the purpose of these Guiding Principles, organizations providing such services on a commercial basis may be considered simply as providers of services rather than as BDS facilitators in a market development sense.

Figure 1: Actors and Their Roles

A. New Approach: Facilitate Market Development



B. Old Approach: Substitute for the Market



The BDS market development paradigm is driven by the belief that the objectives of outreach and sustainability can only be achieved in well-developed markets for BDS, and not by direct provision by donors and governments. This shifts the focus of public and donor intervention away from direct provision and subsidies at the level of the BDS transaction, toward the facilitation of a sustained increase in the demand and supply of services. In the market development paradigm, subsidization of transactions (Figure 1B) should be replaced by private payment for services, as in Figure 1A. Similarly, donor and government support should be shifted away from direct support to particular BDS providers toward facilitation functions that develop the market in a sustainable way. The objective of BDS market development challenges donors to push the commercial orientation of the BDS market as far as possible through strategic investment with a development orientation.

2. PROGRAM PLANNING, DESIGN, AND EVALUATION

2.1 BDS market assessment

Before designing interventions to develop BDS markets, it is critical to understand existing markets—in order to identify weaknesses and opportunities, the reasons behind the lack of demand for or supply of services, and the extent of market distortions. This understanding can help to identify local mechanisms of service delivery and payment, choose the intervention strategy and instrument, identify local institutions and networks to build upon, and provide a baseline for measuring progress in market development.

BDS market assessments need not be large studies: the scope should fit the objectives of the institution doing it, and in many cases a rapid assessment may suffice. Donors and BDS facilitators doing initial market assessments may choose a broad scope that will allow them to benchmark the stage of development of BDS markets, identify existing or potential BDS providers to work with, and measure progress in expanding the demand and supply of services and the range of products available. For individual BDS providers, the market analysis is likely to be very narrow in scope, focusing on the specific service to be supplied, the characteristics of the target market, and existing or potential competitors. For both BDS facilitators and BDS providers, the relevant "BDS market" will need to be defined according to the specific type of service, target clientele, and geographical coverage.

When doing a BDS market assessment, it is important to consider:

- what those in small enterprises are aware of, currently want and are willing to pay for, and what might be successfully marketed to them in the future. While recognising the difference between "perceived needs" and "real needs", appropriate weight should be given to perceived needs, relative to the more traditional expert assessment of real needs. Note also that it is difficult to determine willingness-to-pay in underdeveloped and/or distorted markets, and for services which are totally unknown locally, and that test-marketing may be more reliable than a survey;
- differences in consumer segments, for example: which types of SEs are acquiring services, and which aren't; gender differences; differences in desired features of the services;
- informal and indigenous sources of supply;
- services bundled with other goods and services or delivered as part of business-to-business relationships;

- the potential crowding out (displacement) effect of direct or subsidized provision of services by donors and governments; and
- the evolution of BDS markets over time.

2.2 Demand-side versus supply-side interventions

The choice of demand-side and supply-side interventions to develop BDS markets should correspond to the market development constraints and opportunities identified in the market assessment. Examples of demand-side interventions are information to raise SE awareness of the potential benefits of BDS and incentives to try them such as vouchers and matching grants. Supply-side intervention options include introducing new models of doing business and developing new products and services, as well as technical assistance, training and other capacity-building for BDS providers. Some interventions can work on both sides—for example, strengthening business-to-business linkages and quality assurance that builds client confidence in services being offered.

2.3 Delivery and payment mechanisms

Reducing the risks and costs of BDS requires attention to delivery and payment mechanisms as part of the design of BDS products. Particularly for the smallest microenterprises, flexible and innovative approaches to delivery and payment mechanisms are needed to boost demand for services. The use of indirect payment mechanisms for BDS—commissions and mark-ups rather than direct fees—can reduce the cash flow burden on SEs, allow them to share the risk that benefits from BDS will not occur, and reduce administrative costs for BDS providers. Donors should encourage BDS providers to design payment mechanisms that are appropriate to the local situation and the characteristics of their clients.

2.4 Subsidies

Long-term donor subsidies to the demand or supply of BDS are likely to distort BDS markets and crowd out the commercial provision of services, thus undermining the objectives of impact, outreach, cost effectiveness, and sustainability that are the pillars of the BDS market development paradigm. Subsidies may be justified in the short term as an investment in the development of BDS markets (e.g., through development of new products and models). However, even temporary subsidies can create distortions, and are justified only if their market development impacts outweigh their distortionary effects. Therefore, donors must exercise care in the application and duration of subsidies:

- **Specificity:** Subsidies in BDS markets should be designed to achieve specific market development objectives. The starting point is the BDS market assessment (Section 2.1 above), which can identify points of intervention to address specific market development constraints.
- **Duration:** It is not possible to state a specific duration for temporary subsidies for BDS market development, given the wide range of types of services and stages of market development in different countries. What is important is that subsidies in BDS markets should be time-bound with specific criteria for their reduction and elimination as market development objectives are achieved—in other words, donors and facilitators must have a clear exit strategy for subsidized interventions.

- ***Point of application*** : Subsidies applied at the level of the BDS transaction (i.e., direct subsidies to reduce the cost or price of services) are likely to be more distortionary than developmental. As a general rule, transactional subsidies are more distortionary than pre- and post-transactional subsidies. Pre-transactional subsidies include, for example, those used for R&D and the development of service products, test marketing and product adaptation, capacity building, and raising awareness. Post-transactional subsidies could be used for monitoring and evaluation of the impact of interventions on BDS market development or social/economic development, which may be outside the scope of evaluations conducted by BDS providers as part of good management practice.

A particularly difficult issue is defining the extent to which BDS services have characteristics of public goods that might justify longer-term subsidies. Although most BDS are considered to be private goods, there may be times and situations when they have a strong public goods nature, in that benefits are broadly available without being fully appropriable by an individual supplier. Accelerating structural change in nascent markets may require support for services in areas such as information, dissemination of best practices and technologies, and human resource development. Research and development and quality assurance (e.g., through certification of trainers) are market-enhancing activities whose costs may be difficult to fully recover. Besides such cases of public goods, BDS providers may choose to cross-subsidize between clients with greater and lower ability to pay as a business strategy or in pursuit of social objectives to increase outreach to target groups. While such objectives should be distinguished from the SE and BDS market development objectives that underlie these Guiding Principles, the principles of subsidizing in the least distortionary and most cost-effective way and developing appropriate products and delivery mechanism still apply.

2.5 Exit strategy

Consistent with the temporary nature of subsidies, BDS interventions should have a clear exit strategy defined from the beginning. The exit strategy should be linked to the achievement of the intervention's market development objectives—for example, the creation of sustainable BDS providers or the development of viable products tailored to the lower end of the market.

2.6 Focus on technical assistance and incentives

Donor interventions should concentrate on support for facilitation, technical assistance and incentives to encourage competitive performance of new and existing BDS providers, innovations, and the development of appropriate service products. These types of interventions often require relatively less financial assistance, but a higher level of skill and market knowledge on the part of donors. The proportion of total project funds allocated to technical assistance is likely to be higher compared to that in traditional interventions that subsidize service delivery.

2.7 Selecting partner institutions

Successful BDS providers deliver services in a business-like manner. They are demand-led, entrepreneurial, and act as commercial market players. Often, successful BDS providers focus on a limited range of core businesses and do them well, rather than diversifying too broadly. BDS providers should develop transactional relationships with SE

clients based on exchange rather than charity, and develop a sound understanding of the needs of their clients as part of their business strategy.

Private, for-profit providers or business partners providing the services as part of a business relationship tend to demonstrate these characteristics best. BDS providers should not have a charity orientation, but may have a social orientation combined with rigorous institutional performance targets. In reality, there are often many not-for-profit BDS providers already in the marketplace, and during the transition to a commercially-oriented model there is much work to be done to assist NGOs and other not-for-profit providers to become more sustainable and businesslike.

For BDS interventions to be both sustainable and locally owned, they must build on what is already there rather than supplanting it with imported visions or models. The choice of partner institutions should also be guided by the principle of subsidiarity: delegating responsibility to the lowest possible level and to those who are closest to SEs, both geographically and socially.

Finally, access to technical assistance and incentives through BDS facilitation programs should be open to all market players in a certain service market that fulfill established criteria. Selecting only one or a few of the market players present for exclusive assistance could lead to further market distortions.

2.8 Role of BDS facilitation

BDS facilitators usually implement publicly subsidised short-term programs that should exit once the market for a certain business development service or services has developed or move on to new market development issues. Some facilitation services (e.g., franchising, training-of-trainers) may eventually be viable on a commercial basis, and there may be scope to spin these off or stimulate local providers of these services.

Because of their different objectives and interests, mixing the roles of facilitation and provision may lead to market distortions and inefficient use of resources. However, particularly in very underdeveloped markets, donors and facilitators may need to start by supporting a particular BDS provider or directly launching a new service or model, in order to demonstrate its potential. As the service becomes established, the donor can then withdraw from a market leader to a facilitating mode, using experience gained in the initial provision to support a range of providers for the new service. If a BDS provider also performs facilitation functions, it should separate these activities insofar as possible for clarity of objectives and evaluation along commercial and development lines, as appropriate. Donor support for business associations in the roles of facilitating or providing BDS (as distinct from general support to such associations as market support institutions) should follow these principles.

2.9 Performance measurement and assessment

Systematic performance measurement provides a good basis for institutions to improve the design of instruments in response to client demand, as well as facilitating decisions by donors on types of interventions to improve the extent and quality of the market.

Three categories of performance measurement are relevant in BDS (see Annex II for a suggested set of indicators):

- **Client impact**, in terms of changes in SE performance (e.g., sales, value added, profitability), or broader social and economic impact (employment, poverty alleviation, etc.).
- **Institutional performance**, according to indicators of outreach, cost effectiveness, and sustainability.
- **Market development**, measured for example by the price and quality of services available, SE awareness, trial and repeat usage, the level of satisfaction of SEs, and the extent to which BDS providers are reaching previously underserved populations.

Different actors in BDS markets have different interests, which in turn determine the type and scope of performance measurement that are relevant to them. For BDS providers, performance measurement is a management tool that helps them design marketing strategies, monitor customer satisfaction, respond to changes in demand, develop new and better products, manage costs, and establish staff incentives. BDS facilitators may be interested in monitoring the institutional performance of the providers they work with as well as progress in the development of BDS markets. Donors need to ensure accountability in the use of their funds and are often focused on the broader social and economic objectives of employment, enterprise competitiveness, and poverty alleviation. It is unrealistic for donors to expect that BDS providers and facilitators will undertake evaluations that are not relevant to their operations. This often means that the cost of measuring the impact of BDS programs on market development or social/economic impact must be borne by donors.

It would be useful for donors to use performance measurement to draw comparisons across programs, in order to choose intervention strategies and establish best practice. Comprehensive comparison is difficult because what is measured depends upon the objectives of the institution or program. It is even more difficult to establish standards or benchmarks for individual indicators, since there are often trade-offs between indicators depending upon the program's objectives and target population (for example, between minimizing the cost of providing services, and serving high-cost groups such as rural entrepreneurs).

There are also many practical problems in BDS performance measurement. For example, the problem of attribution: were changes in performance caused by the intervention or by other factors? Dealing with such measurement problems can be difficult and costly. One approach, consistent with current practice in micro-finance, is to use willingness to pay, or provider sustainability, as rough proxies for impact. In addition, it is probably necessary to field larger, donor-funded impact evaluations for certain types of interventions on a less frequent basis, to test the validity of proxy indicators.

Measurement problems also arise in the categories of market development and institutional performance. The current limited state of knowledge of the dynamics of BDS market development, particularly in underdeveloped and distorted markets (such as in transition countries), makes it difficult to map progress. At the institutional level, indicators of prices and cost recovery are complex when services are bundled or paid indirectly, and measuring sustainability is complicated by the legacy of substantial subsidies received in the past. The staff of BDS institutions often do not have the expertise required to collect high-

quality data, nor is it necessarily desirable to impose the costs of extensive new data collection on commercially-oriented providers.

Convinced of the importance of improving performance measurement in BDS, various donors are supporting research and field-testing new approaches. The Donor Committee has supported work to develop a Performance Measurement Framework for BDS and test whether it is feasible and useful to measure a small number of core indicators across various types of BDS programs and institutions (see Annex for a current summary of this work). These efforts are intended to help develop best practice, not only in performance measurement but also in approaches to market development and the design of donor interventions in BDS.

3. OTHER IMPLICATIONS FOR DONORS

3.1 Donor control

The development of BDS markets to provide greater outreach and sustainability shifts donor focus to the approach and impact, and may involve less control and predictability for the donor than an institutional development approach. There are fewer guarantees that the desired outcome will be achieved in the form originally anticipated. The funding agency must be willing to accommodate this, allowing the market to decide the balance between quality and price in BDS delivery.

3.2 Donor visibility

When players in BDS markets become aware of donor involvement, they may become oriented more towards the donor than to their own clients. While any intervention distorts the market, some of the more adverse effects can be avoided if donors are willing to adopt a low profile when intervening in BDS markets.

3.3 Donor coordination

BDS market development interventions will not work if there is a lack of donor consensus in the field. One donor agency or government working against these principles can quickly and substantially reduce the impact of others. These Guiding Principles are being published, therefore, as a basis for discussion, and to build consensus around the key elements of market assessment, program design and evaluation. It is vital that this consensus translates into close and effective coordination at the field level, if indeed a high proportion of low-income clients are to have access to quality BDS.

ANNEX I: DEFINITIONS

Business Development Services (BDS) are services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of “business development services” in these Guiding Principles includes a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community.

BDS Facilitator: an international or local institution which has as its primary aim to promote the development of local BDS markets. This may include a range of services to BDS providers (e.g. development of new service products, promoting good practice and building provider capacity) and to BDS consumers (e.g. information, education about the potential for BDS purchase). A BDS facilitator may also perform other important functions, including the external evaluation of the impact of BDS providers, and advocacy for a better policy environment for the local BDS market. Currently, most BDS facilitators are public institutions, NGOs or project offices of donors, and are usually funded by governments or donors.

BDS Provider: a firm, institution or individual that provides BDS directly to SEs. They may be private for-profit firms, private not-for-profit firms, NGOs, parastatals, national or sub-national government agencies, industry associations, etc. They may also be firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship.

Cost effectiveness: a service (of a given type and quality) is cost effective if it is provided at the lowest possible cost.

Cost recovery refers to the extent to which the costs of providing a good or service are covered by revenues from the consumers. The cost recovery of delivery may be separated from the up-front costs of initial development.

Impact (sometimes called "effectiveness"): the effect of the service on the performance of SE client (i.e., that which can be attributed to the service itself, not to outside factors), or the broader economic and/or social effect of the intervention.

Outreach (sometimes called "coverage" or “scale”): the proportion of the target population that uses the service. This definition is focused on enterprise clients, and is more restrictive than the broader sense of “coverage of underprivileged groups” such as the poor or women, as used by some authors. Where the target population is limited, and therefore smaller than the total population of SEs locally, then outreach should also be expressed in terms of actual numbers of SEs reached.

Private good: a good (or service) is said to be private if the benefits of consuming it are fully appropriable. For example, if the benefits of a business service accrue solely to the SE purchasing that service, that business service is a private good.

Public good: a good (or service) is said to be public if the amount consumed by one individual or firm does not reduce the amount available for consumption by others. In other

words, it is impossible to exclude others from consuming the good (or service); the benefits are not fully appropriable. The benefits that accrue to others are an “externality”.

Small Enterprises (SEs) include micro-enterprises as well as small- and medium-scale enterprises. These size categories are usually defined by the number of employees or by assets, but these definitions vary by country, institution and objective; no precise definition is adopted here. SEs operate in the manufacturing, agro-industrial, service and trade sectors (excluding farming, forestry, and mining).

Sustainability (financial sustainability): a BDS is sustainable if commercially-motivated revenues are at least as great as the full costs of service provision (direct and indirect costs, fixed and variable costs). Revenues received from the public sector (donors or governments) are not included. Similarly, revenues received as a result of philanthropic or political motivations are not included. Generally, costs should include all those associated with the commercial operation of the provider; in addition to the running costs, these should ultimately include market research, product development, customer feedback etc. In the short term, however, funders may choose to help with some of these costs, for example where risks are particularly high, to demonstrate the merits of product innovation, or to strengthen a group of service providers. The only costs always excluded would be those associated with the additional requirements of funding agencies, such as the development costs for products shared with other providers and detailed impact evaluations. In this definition, financial sustainability differs from organizational viability in the sense of the ability of the BDS institution or service to continue in existence by drawing on grants and other non-commercial revenues.

ANNEX II: BDS PERFORMANCE MEASUREMENT FRAMEWORK

GOAL 1: INCREASE OUTREACH					
ASSESSING BDS MARKETS					
Objective	Indicators	Market		Program	
		1	X	1	X
Expanding the Market for BDS	YEAR:				
	Market Size: Number of SEs acquiring the service through any transaction type.				
	Market Size: Number of SEs purchasing the service				
	Market Size, supply: Amount of annual sales				
	Market Penetration: % of potential SE market acquiring the service				
	Awareness: % of SEs aware of the service				
Developing a high quality, diverse, competitive market	Reach: % of those aware who have purchased services at least once				
	Number of BDS suppliers	n/a	n/a		
	Number of service products	n/a	n/a		
	Number and proportion of multiple-purchasers out of all purchasers (retention)				
Deepening the market: reaching underserved groups	Satisfaction with last service purchase				
	Number and % of SE customers purchasing BDS who represent targeted populations				
	% of potential SE target market acquiring the service				
GOAL 2: SUSTAINABILITY AND COST-EFFECTIVENESS					
ASSESSING BDS SUPPLIERS AND FACILITATORS					
Objective	Indicators	Yr1	YrX		
Achieve supplier sustainability	BDS supplier profitability. (Ratios to be determined.)				
	Profitability of particular BDS Service. (Ratios to be determined.)				
Improve program cost-effectiveness	Simplified cost-benefit assessment comparing total, cumulative program costs to aggregate program benefits (sum of impacts as defined below) for entrepreneurs.				
	Total program cost per customer served.				
	Total program cost per supplier assisted.				
GOAL 3: IMPACT					
ASSESSING BDS CUSTOMERS, SMES					
Objective	Indicators	Yr1	YrX		
Increase customer acquisition of BDS (increase sales)	Percent of customers reporting high satisfaction with a business development service.				
	Repeat customers: % of all customers who purchase at least twice.				
Increase customer use of business development services	Percentage of customers who applied the business service to their business, as defined by the program. (E.g.: percent who accessed new markets, developed new products, improved management practices, started keeping formal accounts, reduced costs, etc.)				
Increase customer benefits from BDS	Change in estimated gross profit, from before and after receiving the service. (If gross profits prove too difficult to collect, the PMF Field research team is also considering using sales data alone.)				
Attribution of the change to the BDS	Of the businesses that improved their estimated gross profits, what percent attribute the change to the BDS?				

This table represents the current state of efforts to develop a set of common indicators that are valid, practical and useful for assessing performance of BDS programs according to key criteria. For further information on ongoing work to apply and develop these BDS indicators, go to the website: www.mip.org/pubs/MBP/BDSFramework.htm.

ANNEX III: MEMBERS OF THE COMMITTEE OF DONOR AGENCIES FOR SMALL ENTERPRISE DEVELOPMENT

BILATERAL AGENCIES

Austria: Ministry of Foreign Affairs

Australia: Australian Agency for International Development

Belgium: Belgian Administration for Development Cooperation

Canada: Canadian International Development Agency (CIDA)

Denmark: Ministry of Foreign Affairs

Finland: Ministry for Foreign Affairs (FINNIDA)

France: Ministère des Affaires Étrangères

Germany:

- Federal Ministry for Economic Cooperation and Development (BMZ)
- German Agency for Technical Cooperation (GTZ)
- Kreditsanstalt für Wiederaufbau (KfW)

Italy: Ministry of Foreign Affairs

Japan:

- Export-Import Bank of Japan
- Japan Bank for International Cooperation (JBIC)
- Japan International Cooperation Agency (JICA)

The Netherlands: Ministry of Foreign Affairs

Norway: Norwegian Agency for Development Cooperation (NORAD)

Sweden: Swedish International Development Agency (SIDA)

Switzerland: Swiss Agency for Development Cooperation (SDC)

United Kingdom: Department for International Development (DfID)

United States: United States Agency for International Development (USAID)

MULTILATERAL AND OTHER DEVELOPMENT AGENCIES

- African Development Bank
- Asian Development Bank
- European Bank for Reconstruction and Development (EBRD)
- The European Commission
- Food and Agriculture Organization (FAO)
- The Ford Foundation
- Inter-American Development Bank (IADB)
- International Development Research Centre (Canada)
- International Fund for Agricultural Development (IFAD)
- International Labour Office (ILO)
- International Trade Centre (ITC)
- Organisation for Economic Co-operation and Development (OECD)
- Organization of American States
- Soros Foundation
- United Nations Conference on Trade and Development (UNCTAD)
- United Nations Development Fund for Women (UNIFEM)
- United Nations Development Programme (UNDP)
- United Nations Industrial Development Organisation (UNIDO)
- United Nations Secretariat
- The World Bank Group