

**Business Services for Small Enterprises in Asia: Developing
Markets and Measuring Performance**

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**BDS Market in East Java, Indonesia
(Market Assessment and Application
of Performance Measurement Framework)**

**By
Peter Bissegger**

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CASE STUDY

BDS MARKET IN EAST JAVA, INDONESIA

(Market Assessment and Application of
Performance Measurement Framework)

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by: Peter Bisseger,
Swisscontact Indonesia

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0. Summary

This case study is a research paper on the topic “BDS Market Development in East Java”. In addition, it serves as a means to review experience made in the application of the Performance Measurement Framework (PMF) in the course of Swisscontact’s Small and Medium Enterprise Promotion projects in Indonesia. Swisscontact, a private Swiss foundation, has been engaged in various technical co-operation projects in Latin America, Africa, Europe and Asia. In Indonesia, Swisscontact pioneered a business-oriented approach in the field of Business Development Services (BDS) for Small and Medium Enterprises (SMEs), collaborating with 11 Business Centers on Java island.

In 1999, Swisscontact conducted comprehensive research into the BDS market in East Java. The (sometimes unexpected) findings are presented and interpreted in his paper. In East Java the potential number of BDS customers amounts to approx. 150,000, 30% of whom are active in the manufacturing industry. The 219 BDS providers (mostly NGOs, private businesses, educational institutions, and cooperatives) who took part in the Swisscontact survey proved to be a mixed lot, many of whom did not even know the actual cost of their own products. The 79 institutions that survived a first screening offered a total of 364 services (the top three: 1. Entrepreneurship/Leadership, 2. Technical Training, 3. Starting-up a Business) at widely different quality, duration and cost. In case of problems, entrepreneurs reported to consult family members and friends first; only 11% obtain counsel from specialized institutions (such as BDS providers). In spite of this, almost half of all SMEs have – at one time – made use of BDS. However, only 15-20% of them paid some money for the services. In Chapter 4.4. “Lessons Learned” the author concludes that the BDS market in East Java is still far from being “developed”, and makes suggestions on how to further refine the BDS approach.

Swisscontact applied the Performance Measurement Framework (PMF) at two of its Business Centers, WPU Malang and PT Centrama, Surabaya. No major problems came up in obtaining BDS provider data, as Swisscontact had previously developed a detailed benchmarking tool for performance assessment of BDS providers, covering most PMF indicators. Most questionable are indicators that are expected to measure impact. The author has his doubts, whether – at least in the field of training and counseling – direct impact of BDS can be assessed properly with such kind of indicators.

1. Country Background

1.1. Physical Environment

The Indonesian archipelago stretches a huge 5,200 km from the northern tip of Sumatra in the west up to the border of Papua New Guinea in the east, covering an total area of 5 million sq km (2 million sq km are land). Of the 10 largest islands in the world, Indonesia claims the better part of 3 (New Guinea, Borneo and Sumatra). Of the 13,677 known islands that make up the territory, about 1,000 are permanently inhabited.

1.2. Political Context

Indonesia declared its independence on August 17, 1945. Aware that the country may be the most fragmented nation in the world, its founding fathers gave it the state crest “Bhinneka Tunggal Ika” (Sanskrit for “Unity in Diversity”) and supported it by a Constitution that provides for a very strong presidency. Holding this diverse nation together has been (and is going to be) the main task of its leaders.

After the failure of “Guided Democracy” practiced by Indonesia’s first President, Sukarno, most Indonesians welcomed the ascent of General Suharto who stepped into the limelight in the wake of the 1965 “communist” coup attempt. In March 1966, Suharto officially assumed presidential power; his increasingly oppressive rule was to last a full 32 years. The South-East Asian economic crash of 1997 and increasing dissatisfaction with the Suharto regime led to violent street protests and public disorder, forcing President Suharto to resign in May 1998. The consequent transition government headed by B.J. Habibie organized general elections in June 1999 which were followed by presidential elections in October 1999. Neither Ms. Megawati (chairperson of election winners PDI-P), nor Habibie (candidate of the former ruling party Golkar) was finally propelled to the highest office in country. It was a compromise candidate, the popular, but ailing Islamic cleric Abdurrahman Wahid, defeating Megawati in a 373:313 vote. Aiming to subdue immediately arising violent protests of PDI-P loyalists, Ms. Megawati was awarded the vice-presidency.

1.3. Economic Situation

Indonesia is a developing country whose major strength lies in the agricultural sector and the abundant supply of natural resources, while the relatively low quality of human resources constitutes its main constraint. Over the past three decades Indonesia emerged as one of South East Asia's "tiger cubs", boasting annual GDP growth of 6 to 8% per annum and an increase in per capita income from USD 70 (1969) to approx. USD 1,100 (1996). This strong economic performance was based upon a vibrant industrial sector, strong export performance (including crude oil and natural gas), booming tourism, and an emerging service sector. However, benefits of economic growth have not been equally distributed across the country and income disparities have risen dramatically. Growth has been mostly concentrated in a limited number of regions and has been enjoyed by a relatively small number of politically well-connected enterprises and personalities. Many sectors were monopolized by large conglomerates, resulting in an inefficient high-cost economy with extensive corruption, collusion and nepotism.

1.3.1. *The 1997 Crisis and Beyond*

Since mid-1997, Indonesia has been engulfed in the worst economic recession since independence. In 1998, the local currency (IDR) lost 70% of its former value at one point, annual inflation reached 77%, the economy contracted 13.7%, bankruptcies were the order of the day, the banking sector came close to collapse and the conglomerates that dominated the country for 20 years simply collapsed. Prices and unemployment soared, foreign investment and per capita income plummeted.¹ Food shortages and social unrest became rampant all over the archipelago. The government found itself hostage to foreign aid (IMF, WB, ADB, CGI donors) without which even civil servant salaries could not have been paid.² The Indonesian government was obliged, among others, to dismantle monopolies, to cancel prestige projects, to reform the banking sector and to revise monetary policy and the national budget. Just weeks before the Indonesian currency collapsed in mid-1997, reputable organizations such as the World Bank and ADB had still praised the country's "sound economic fundamentals". Nobody had expected such a dramatic and fast deterioration.

The crisis clearly exposed the underlying structural weaknesses of the Indonesian economy: excessive levels of borrowing, unhedged foreign (currency) debt; non-performing loans (especially in the property sector); a weak, insufficiently supervised and under-regulated financial sector; and large-scale distortions of the economic structure as a result of high-level state intervention and widespread corruption and nepotism.

Following two years of turmoil, Indonesia is showing signs of recovery. Economic growth, for example, is expected to be slightly positive in 2000 and the exchange rate of the Indonesian Rupiah (IDR) has been relatively stable over the past 12 months.³ However, these (and other) positive developments are no proof of fundamental change: it is expected that unfavorable conditions will prevail for quite some time. The new government under President Abdurrahman Wahid has taken various steps to stabilize the economy and to woo tourists and investors back to the country. These efforts have, however, been hampered by violent (sectarian) clashes and separatist movements in various provinces.⁴

The social cost of the economic crisis has been high: UNICEF has warned that Indonesia may lose a generation if the government fails to improve children's health (nutrition) and education.⁵ An increasing number of people today live in absolute poverty,⁶ aggravating social instability.

1.3.2 *Indonesia's Small and Medium Enterprises weather the storm*

To the surprise of many, Indonesia's SMEs have been the country's most resilient economic actors during the economic crisis. They have not, however, survived unscathed. Even before the economic meltdown, Indonesian SMEs had faced numerous obstacles, some of which were exacerbated in the past 2 ½ years, such as choking off credit, increasing prices of raw materials and services, and people's low purchasing power. Nonetheless, SMEs identified opportunities amid the economic chaos; they substituted imported goods with lower-cost domestic materials and products, turned to export markets,

¹ Per capita income of USD 1,100 (1996) fell to approx. USD 500 in 1998

² Approx. half of Indonesia's Draft State Budget 2000 (April to December) is dependent on foreign funds

³ IDR 6,500 - 7,500 per USD, compared to IDR 2,450 before the crisis and over IDR 15,000 at its peak

⁴ Sectarian strife has caused another human tragedy: a total of 640,000 refugees had to leave their homes in 1999, many of whom are still living in makeshift camps in 8 provinces

⁵ Official figures indicate that school attendance has dropped from 90% to 60% in some areas, while malnutrition among children has risen to 35%

⁶ People below poverty line: 1976: 54 mio (40%), 1986: 30 mio (17%), 1996: 22 mio (11%), 1998: 79 mio (40%)

broadened business networks and concentrated on activities with immediate rates of return. Most SMEs were not affected by high interest rates, as only 17% of them have ever gained bank credits. For years, Indonesian policy makers and economists had referred to SMEs condescendingly as a “weak class”; there was little confidence that smaller firms could respond successfully to open and competitive markets. Consequently, the government took a heavy regulatory, “welfare-based” approach, rather than pursuing a more “growth-oriented” strategy. Yet the surprisingly smart response of many SMEs, taking advantage of opportunities in the midst of economic turmoil, underscores the flexibility and dynamism of Indonesian entrepreneurs.

2. Institutional Context

2.1. Swisscontact Foundation

Swisscontact is a private foundation engaged in technical co-operation, based in Zurich, Switzerland with projects in approx. 25 countries in Latin America, Africa, Eastern Europe and Asia. Swisscontact’s fields of activities include Vocational Training, Small Business Promotion and Urban Ecology. In Indonesia, Swisscontact has been active in the field of vocational training (since 1974), in Small Business Promotion (since 1990) and in the field of Urban Ecology with projects in clean air and cleaner production (since 1995).

2.2. Swisscontact’s Small Business Promotion Program in Indonesia

Swisscontact’s Small Business Promotion Project in Indonesia⁷ (SMEP) currently consists of three main components:

The “SHARE” component focuses on the macro level with the objective to create a conducive environment for SME development. Main instrument of the “SHARE” component is the support of SME groups in policy dialogue and advocacy. One of the main topics in policy dialogue is the promotion of a business – oriented BDS approach for BDS provision, as Swisscontact applies it in the SMEP program.

The “Business Center” component supports Business Development Service (BDS) providers in a business-oriented approach, aiming to improve the supply of demand-oriented services for SMEs. Based on a business plan (which forms the basis for the selection of co-operation partners), Swisscontact provides financial and non-financial support over a period of up to 3 years. The Business Centers (BCs) are expected to achieve financial viability within this timeframe, selling services to SMEs. New partner organizations are selected by tender and financial support is based on the business plan worked out by the respective institution. Swisscontact provides financial support for initial investment and for the preparation phase (50% of total cost), also making contributions to overhead costs during the start-up phase. Beside financial support, Swisscontact supports BCs in product development, human resources and institutional development. Up to now, Swisscontact has supported 11 such BCs, all of them located on the island of Java. As per end of 1999, 4 Business Centers have achieved financial viability and are no longer supported, while 5 institutions will be further supported until the end of 2000. Two Business Centers did not achieve financial objectives.

The “Voucher Program” was started as pilot project in the province of East Java in August 1999 in collaboration with the World Bank. The objective of this program is to develop the BDS market in this region by improving market information and transparency for both BDS providers and SMEs and by offering SMEs a financial incentive to take advantage of BDS. A total of 38 BDS providers are currently participating in the program. Two types of vouchers are offered: the “SME Voucher” for existing enterprises and a “Junior Voucher” for people who plan to start a business. Vouchers are distributed through the network of public telephone kiosks. Within the first six months, approx. 4,300 vouchers were distributed, 2,300 of them were purchased by SMEs⁸, approx. 700 of which have already been used. The value of a voucher is max. USD 7 (or 50% of the price of the service, if the service costs less than USD 14).

⁷ SMEP is financed by SDC, Swiss Agency for Development and Cooperation. The yearly budget amounts up to app. USD 0.5 mio. per year for 1999/2000

⁸ SMEs have to pay a small amount (USD 0.15) per Voucher to the telephone kiosk

3. BDS Market in Indonesia

3.1. Policy Re-orientation in BDS Provision

BDS (Business Development Services) for SMEs (Small and Medium Enterprise Promotion) as a market is a new development in Indonesia that started some 3 to 4 years ago. Before, BDS were mainly social-oriented - with all its implications: Main players were Government institutions and NGOs that followed the philosophy of “helping the poor SMEs”. Services were thus provided for free (some SMEs were even paid for participation) and provided BDS were highly supply-driven. Most multilateral and bilateral donors involved in BDS programs followed the same philosophy. Swisscontact was the first international organization that introduced, in 1995, a *business-oriented approach* in providing BDS to Indonesian SMEs. By now, this approach has – at least in theory – been widely accepted not only by the main donors, but also by the Indonesian Government. The latter has re-oriented its SME support policy, away from direct intervention on micro-level towards a policy that focuses on creating a conducive environment for SME development. In line with this new policy, the Ministry of Co-operatives and Small Businesses (which used to play an important role in SME promotion) has been down-sized to a state ministry with very limited resources and is expected to work mainly in the field of research and policy development. Today, the government prefers to act as facilitator in SME promotion, rather than being directly involved in implementation; private co-operation partners are welcomed.

3.2. Demand Side

Small Enterprises (SEs) in Indonesia total about 38 million, including agriculture and cottage industry. The number of SEs outside agriculture and cottage industry is only about 2 million, of which more than 95% are located on the island of Java. However, it does not make much sense to talk about national figures – BDS markets are always specific in terms of geographic area and business sector. Therefore, this paper focuses on the province of **East Java**.

3.2.1. Small enterprises in East Java

Small enterprises in East Java have the following characteristics:⁹

Table 1:

| | |
|--|--------------------|
| East Java Population | Approx. 37 million |
| Surabaya (capital city) Population | 3 million |
| % of labor force active in agriculture | Approx. 70 % |
| Number of SE ¹⁰ units (incl. cottage industry, excl. agriculture) | Approx. 3 million |
| Potential BDS customers: SEs with 5 or more workers (approx. 5%) | Approx. 150,000 |
| Main SE sectors: | |
| Manufacturing Industry | 30 % |
| Trade, Hotels and Restaurants | 22 % |
| Service Sector | 10 % |
| Transportation and Communication | 8 % |
| Others | 30 % |

3.2.4. Regional distribution of SMEs

The following map (Graphic 1) splits East Java into four regional markets. A look at the SME potential in the four areas reveals a very heterogeneous SME distribution.

Graphic 1 deleted for reasons of volume of file. It shows: North (12%), East (13%), South-West (22%), North-South (57%).

⁹ Profile of Small Enterprise Clusters in Indonesia, 1995

¹⁰ The Indonesian statistics cover only Small Enterprises (SEs); there are no figures on medium sized companies; officially, SEs are defined as businesses with assets less than IDR 600 million (approx. USD 85,000) excl. buildings and land

3.2.2. *Swisscontact's SME survey data*

In the framework of the recently introduced “Voucher Program” (see Chapter 2.2.), Swisscontact conducted a baseline survey among SMEs in East Java, aiming to get a deeper insight into the actual demand for BDS. The study was conducted among 200 SMEs¹¹ in East Java in October 1999, resulting in the following findings:

- **Business size**, 42% of the SMEs declare a monthly turnover of less than USD 720, 23% USD 720 to 1440, 12% USD 1440 to 2160, and 23% state turnovers of more than USD 2160.
- **Business sectors**: 18% of the enterprises are in the agribusiness sector, 36% in trading and services, and 46% in the industrial sector.
- **Years in business**: 36% are less than 5 years in business, 26% between 5 to 10 years, and 38% for over 10 years.
- **Market orientation**: 83% of the enterprises produce only for the local market, 17% for local and export markets.
- **Legal registration**: Only 42% of the business have (full) legal registration, 55% have not yet registered or their registration is in process, 3% declined to answer.
- **Business Networks**: 59% of the SMEs have no business membership, 17% are co-operative members, 8% members of business associations, 3 % are member of informal SME self help groups and (only) 1 % are members of the Chamber of Commerce and Industry.
- **SME problems**: Access to credit (35%) and access to markets (30%) are stated as main obstacles, followed by problems in human resources (9%), management (7%) and production (6%).

3.2.3. *SME attitude towards BDS*

- **Whom do SMEs consult ?** In case of business problems, 54% of SMEs ask family members or friends for advice, 32% ask business partners, 11% get advice from specialized institutions such as BDS providers, 2% ask business associations and 1% ask universities for counsel.
- **Participation in training or consultation**: 47% of the respondents have never attended any training/consultation, 13% have joined 1 training/consultation and 40% have participated in more than one training or consultation.
- **Type of training or consultation attended and fee paid**:
 - 47% participated in general business development training/consultation, whereof 17% of all participants paid for the service (average USD 30);
 - 25% participated in marketing training/consultation, whereof 18% paid an average of USD 27;
 - 18% obtained product quality counsel, 19% of which paid an average of USD 42
 - 20% participated in access to credit training/consultation, 21% of which paid an average of USD 14.
 - 15% participated in skill development training/consultation, 32% of which paid an average of USD 62.
- **Relevancy of training to help solve business problems**: The SME judgment is quite clear and more or less the same for all training/consultation categories. Only 30-40% of the participants have the impression that the training/consultation really helped them solve problems, 60-70% feel that there was no immediate benefit !
- **Willingness of SMEs to pay for future training**: Overall, about 40% of the respondents express their readiness to pay. A closer look indicates that this willingness is significantly higher among SMEs that have undergone training before (45%), compared to those who have never had any such training (35%). Readiness to pay seems to be highest for skill development services.

3.3. Supply Side

The start of the “Voucher program” provided an excellent opportunity to get a clearer picture about the supply-side. How many BDS providers would one expect in a market the size of East Java? 50?, 100? Through public announcement and direct mailing, Swisscontact invited all BDS providers in East Java to attend an orientation meeting on the “Voucher Program” and – to our surprise – more than 200 BDS providers responded. Based on a survey among these institutions, the following picture can be drawn:

¹¹ Random selection of 200 enterprises, sample taken from government data on SMEs in East Java

3.3.1 Type of BDS institution

Donors tend to have a too idealistic picture of a BDS provider: A BDS provider is expected to be a professional organization with clearly defined products and customers, sharp cost calculation and competitive pricing. Reality is different: A closer look at the participating 219 institutions shows that many of them are not even able to define their products, are not aware of the actual costs (most of them provide services for free), do not have a clear organization and BDS provision often constitutes only a small part among their activities. In order to identify the most appropriate institutions, a first screening was made, based on a number of criteria related to organization, experience, products, pricing and delivery. The result was list of 79 BDS providers (see Table 2).

Table 2:

| <i>Type of Institution</i> | <i>Before Screening</i> | | <i>After Screening</i> | |
|----------------------------|-------------------------|-------|------------------------|-------|
| | Number | % | Number | % |
| Private Businesses | 74 | 33.8 | 27 | 34.2 |
| NGOs | 88 | 40.2 | 29 | 36.7 |
| Government Agencies | 3 | 1.4 | 1 | 1.3 |
| Educational Institutions | 32 | 14.6 | 14 | 17.7 |
| Cooperatives/Associations | 17 | 7.8 | 6 | 7.6 |
| Financial Institutions | 5 | 2.3 | 2 | 2.5 |
| Total | 219 | 100.0 | 79 | 100.0 |

The proportion of the different types of organization has remained roughly the same before and after the screening; a clear indication that unprofessional business strategy is not a privilege of NGOs! Surprisingly high is the number of educational institutions, which may be due to the fact that - several years ago - the Indonesian Government invited and motivated universities to establish special units for SME support. The small number of selected government agencies is due to the fact that they tend to provide services for free, but Swisscontact's survey excludes organizations providing only free services.

3.3.2. Location of service providers

Where are BDS providers based ? The table below shows a relative congruence between location of SMEs and location of BDS providers. More than 70% of all providers are located in the economically most potential South-North corridor. In percentage of SMEs, other areas - especially the north sector - are underserved, but the concentration of BDS providers in the South-North corridor may express higher purchasing power and higher economic dynamic of SMEs in that area.

Table 3:

| <i>Sector</i> | <i>Location of SMEs</i> | <i>Location of BDS providers</i> | <i>No of SMEs per BDS provider</i> |
|---------------|-------------------------|----------------------------------|------------------------------------|
| South-North | 54.7 % | 71.0 % | 529 |
| North | 11.5 % | 5.7 % | 1,327 |
| East | 13.1 % | 9.5 % | 936 |
| South-West | 20.7 % | 13.8 % | 1,035 |
| | 100.0 % | 100.0 % | |

3.3.3. Type of services provided

Table 4 below gives an overview over the services provided by the 79 selected service providers. Overall, they offer around 370 different services, which can be grouped into 12 categories of services. The methodology of categorizing is, of course, open to discussion, as the main questions are how deep the categorization should be and how to allocate services that cover more than one category. However, in the end it is the purpose of the statistic that defines whether the categorization is useful or not. According to our findings, Entrepreneurship/Leadership training is the service most often offered (12%), followed by the group of Technical Training, etc. (see Table 4). The rather high number of services provided in the field of "Starting-up Business" may be a direct impact of the current economic crisis in Indonesia, as thousands of jobless workers were forced to start their own (micro) business for the sake of survival. With an average of 19 institutions offering a certain type of service, the BDS market in East Java can be characterized as highly competitive.

Table 4:

| <i>No.</i> | <i>Category</i> | <i>Number of Services per Category</i> | <i>Percentage of Total Services</i> | <i>Number of Providers offering such Services</i> |
|------------|-------------------------------|--|-------------------------------------|---|
| 1. | Entrepreneurship / Leadership | 44 | 12.1 % | 32 |
| 2. | Technical Training | 39 | 10.7 % | 9 |
| 3. | Starting-up Business | 38 | 10.4 % | 29 |
| 4. | Computer / Homepages | 38 | 10.4 % | 23 |
| 5. | Accounting / Taxation | 37 | 10.2 % | 24 |
| 6. | General Management | 36 | 9.9 % | 24 |
| 7. | Credit Proposals | 33 | 9.1 % | 21 |
| 8. | Financial Management | 30 | 8.2 % | 21 |
| 9. | Marketing | 25 | 6.9 % | 19 |
| 10. | Farming | 18 | 4.9 % | 12 |
| 11. | Product Management | 17 | 4.7 % | 11 |
| 12. | Export / Import | 9 | 2.5 % | 9 |
| | Total | 364 | 100.0 % | Average: 19.5 |

3.3.4. Does supply match demand ?

In the SME survey entrepreneurs were asked, for what training they would be willing to pay in future, resulting in the following priority: 1. Skill Development; 2. Product Quality; 3. General Business Development; 4. Access to Credit, and 5. Marketing. The low ranking of “Access to Credit” and “Marketing” is astonishing, as it is in contradiction to the stated main problems faced by SMEs (Access to Credit and Access to Markets rank highest in terms of problems – see Chapter 3.4.3.).

Comparison with services offered indicates an undersupply of technical services, for which demand is highest, but the accumulated categories “Technical Training” and “Product Management” on the supply-side account only for around 15% of the total services offered. *These figures indicate a gap between supply and demand for technical services.*

The demand for general business development is well covered by the supply-side categories “General Management”, “Entrepreneurship / Leadership” and “Financial Management”, which account for approx. 30% of services offered. Similarly, the field of “Access to Credit” is well reflected on the supply side with nearly 10% of services for credit proposals.

3.3.5. Cost of BDS

The table below provides an overview over the price range for the services offered:

Table 5:

| <i>BDS Categories</i> | <i>Average Price (USD)</i> | <i>Minimum Price (USD)</i> | <i>Maximum Price (USD)</i> | <i>Median Price (USD)</i> |
|-------------------------------|----------------------------|----------------------------|----------------------------|---------------------------|
| Credit Proposals | 59.10 | 3.60 | 285.70 | 28.60 |
| Financial Management | 376.20 | 7.10 | 2,857.10 | 32.10 |
| Accounting / Taxation | 75.90 | 5.70 | 1,028.60 | 28.60 |
| General Management | 537.20 | 14.30 | 6,922.90 | 35.70 |
| Product Management | 763.4 | 14.30 | 2,857.10 | 50.00 |
| Marketing | 266.70 | 7.10 | 2,857.10 | 25.40 |
| Export / Import | 1,083.90 | 14.30 | 2,857.10 | 1,126.80 |
| Starting-up Business | 714.50 | 6.40 | 11,821.40 | 25.00 |
| Entrepreneurship / Leadership | 1,044.40 | 14.30 | 6,922.90 | 57.10 |
| Farming | 42.10 | 12.90 | 285.70 | 21.40 |
| Computer / Homepages | 334.70 | 14.30 | 7,922.90 | 50.00 |
| Technical Training | 2,790.90 | 11.40 | 18,942.90 | 42.90 |
| Total | 456.70 | 12.10 | 2,857.10 | 33.90 |

The most eye-catching fact is probably the wide price range for services provided: the cost of technical training, for example, varies between USD 11 and USD 18,942! What does this mean?

- The huge price range shows that the price paid for a certain service is an inappropriate indicator for comparison – as the extent of the service remains unknown. The USD 11.40 training may be a half-day training (at USD 2.80/hour), while the USD 18,942 service may consist of a 1-year course. A better indicator would certainly be the cost per hour.
- The wide price range also indicates, that instead of using average figures, the *median value* is much more appropriate for comparison.

The median price of services varies – except for the category “Export/Import” – for all categories between USD 21 (Farming) and USD 57 (Entrepreneurship/Leadership), while the median price for all categories amounts to approx. USD 44.

3.3.6. Pricing by BDS providers

Are NGOs cheaper than private BDS providers? Table 6 below provides an overview over pricing according to type of institution:

The most active players in the BDS market are the Private BDS Providers, offering 42 % of all services, followed by NGOs and Educational Institutions, while Associations / Cooperatives and Government Agencies together account for less than 5% of BDS activities. Unsurprisingly, Government offers the cheapest services, followed by NGOs, Educational Institutions and Private BDS Providers. The high price for services offered by Associations and Cooperatives is astounding, but due to the small sample number (only 11 services), the result cannot be representative. Nevertheless, it is interesting to note that SME member institutions obviously expect that SMEs are willing and in the position to pay substantial amounts of money for their services. Assuming that private BDS institutions provide services based on full cost, the table indicates that Government and NGOs are heavily subsidizing, while Educational Institutions also tend to offer services based on actual cost.

Table 6:

| <i>Type of BDS Institution</i> | <i>% of Total Services</i> | <i>Average Price (USD)</i> | <i>Minimum Price (USD)</i> | <i>Maximum Price (USD)</i> | <i>Median Price (USD)</i> |
|--------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|---------------------------|
| Private BDS Providers | 42.3 % | 318.8 | 3.6 | 11,821.4 | 42.9 |
| NGOs | 32.7 % | 533.7 | 3.6 | 4,285.7 | 21.4 |
| Educational Institutions | 20.2 % | 1,781.6 | 7.1 | 18,942.9 | 35.7 |
| Associations / Cooperatives | 2.9 % | 1,189.6 | 10.7 | 2,857.1 | 192.9 |
| Government Agencies | 1.9 % | 38.3 | 8.6 | 142.9 | 17.9 |

3.3.7. Further Information on BDS providers¹²

- **Number of different services offered:** Most BDS providers (70%) offer between 1 and 5 different services, 10% between 5 and 10 different services and only 5 % offer more than 10 different services, (15% blank).
- **Frequency of services offered:** 40% of the BDS providers offer between 1 and 5 services per month, 35% between 6 and 10 services per month, (25% blank).
- **Number of customers per month:** 40% of all the BDS providers have more than 15 customers per month, 15% state to have between 11 and 15 customers per month and surprisingly, 35% of the BDS providers have less than 10 customers per month, (10% blank).
- **Turnover per month:** 35% of the BDS providers state to have a turnover of less than approx. USD 700 per month, 20% between USD 700 and USD 1,400, 20% between USD 1400 and USD 2,100; only 5% claim to have a turnover of over USD 2,100 per month, (20% blank).

¹² Data based on detail survey among 40 BDS provider, Swisscontact, November 1999

- **Average turnover per customer:** For 50% of the BDS providers the turnover per customer is less than USD 70, 15% state to have an average turnover per customer between USD 70 and USD 140 and only 10% have a turnover higher than USD 140/customer, (25% blank).
- **Turnover per staff:** 20 % of the BDS providers state to have a turnover per staff of less than USD 70, 25% between USD 70 and USD 140 and 30% have a turnover of more than USD 140/staff (25% blank).
- **Contribution by sponsors:** 50% of all BDS providers obtain contributions from sponsors of more than 60% of total cost for their services !

4. Performance Measurement Framework

4.1. Project Background

The PMF was applied at two Swisscontact-supported Business Centers, PT Centrama and WPU Malang, both located in the Indonesian province of East Java. Two other former Swisscontact BCs were not included, as access to their data was limited.

WPU Malang was established in 1996 as a foundation (NGO). WPU services are limited to technical training for automotive, motorcycle and electronics workshops plus training in accounting. WPU is based in the East Java city of Malang (approx. 800,000 inhabitants), but also offers services in several towns south of Malang. WPU employs 4 full-time staff and co-operates with a large number of external instructors for training. Training is based on 40-hour modules, normally taught during the evening hours. In 1999, WPU opened a second business branch as a polytechnic institution, offering technical training for students in automotive and in the electronics sector. Income from this business branch is not included in the financial figures.

PT Centrama was established in 1997 as a limited company, located in Surabaya (the capital of East Java with approx. 3 million inhabitants). Centrama was initially linked to an NGO specialized in SME promotion, but became independent in 1998. Centrama provides mainly start-up training for aspiring entrepreneurs. In 1999 Centrama also introduced trading activities for SMEs. Those activities are, however, not supported by Swisscontact and not integrated in the PMF figures.

In 1999, Swisscontact Indonesia – in collaboration with the Springfield Center – developed a benchmarking tool for performance assessment of Business Centers. This tool is much more comprehensive than the currently applied PMF. It is expected to serve mainly as internal guidance and control instrument for BCs and to cover Swisscontact's information requirements. The benchmarking tool is currently in its test phase and is going to be adjusted based on experience made. **Annexes 1, 2 and 3** provide an overview over the various indicators and assessment instruments applied. Data for the PMF indicators are mainly based on the benchmarking information. BC financial figures are based on the monthly accounting reports, which BCs are obliged to submit to Swisscontact.

4.2. PMF Indicators

4.2.1. Outreach

| Assessing BDS Markets | | | | |
|---|---|---|------------------------------|---|
| Objective | | Indicators | | |
| | | Program 1998 | Program 1999 | Market |
| 1. Expanding the Market for BDS | 1.1. Market Size: Number of SMEs purchasing services | 652 | 388 ¹³ | 150,000 ¹⁴ |
| | 1.2. Market Size: Amount of sales by BDS providers* | Total ¹⁵ : 20,690 SME: 11,271 | Total: 35'443 SME: 12,320 | USD 789,000 ¹⁶ |
| | 1.3. Market Penetration: % of potential SME market reached with a BDS | 25% | 12.3% | 53% ¹⁷ |
| 2. Developing a high quality, diverse, competitive market | 2.1. Number of BDS providers* | 2 | 2 | 219/79 ¹⁸ |
| | 2.2. Number of BDS service-types | 20 | 21 | 364 ¹⁹ |
| | 2.3. Well distributed, wide price range for BDS services | USD 8 - 22.5 | USD 9.5 - 17 | Min USD 3.6 ²⁰ Max USD 18,942 |
| | 2.4. Average price for a unit of BDS | USD 11 | USD 14 | USD 33.9 ²¹ |
| | 2.5. Number and proportion of multiple-user customers i | n.a. | 70% (17/20) ²² | 40 % ²³ |
| | Market Distortion: Average subsidy content of a BDS | 63.5 % | 66.6% | 85% ²⁴ |
| 3. Increasing access to BDS services by under-served groups | Extent of Access target population: women ²⁵ | 19,9% (130 / 652) | 35,6 % (138 / 388) | n.a. |
| | Target Market Penetration | n.a. | n.a. | n.a. |

4.2.3. Comments on Outreach indicators

a) Information on the BDS Market

It is quite difficult and time-consuming to collect data for a whole market. In our case, it was only possible through the “Voucher Program”, where improving transparency of the BDS market is a clear objective and the project can afford to spend more time and money on data collection (for illustration: the direct cost for the BDS provider survey and the SME baseline survey amounted to approx. USD 10,000, plus approximately 3-4 person-months of working time of projects staff). Despite this immense input: the reliability of data is sometimes in doubt. Beside cost and time, the main constraint is to find qualified interviewers who have the necessary understanding of SMEs and BDS.

b) What is a BDS provider? There is no clear definition of the term “BDS provider” and donors tend to have an idealistic picture of such institutions. Is a school that provides not only normal classes, but also a course in accounting a BDS provider? Are the criteria for BDS providers based on the participants (majority of participants are SMEs) or based on content (appropriate for SMEs)? Among the 200 service providers interviewed, only about 40 have a clear focus on SMEs, all others have a broad target range.

¹³ The fall in the number of customers is both the result of the economic crisis and the different orientation of Centrama (more activities in trading than training).

¹⁴ Estimation, 5% of total number of micro and small enterprises (3 million); it is assumed that workshops with 5 or more fixed employees are potential customers for BDS

¹⁵ Total includes income from 3rd parties (sponsors), but Swisscontact contributions are excluded

¹⁶ Based on BDS provider survey (1999) among 40 providers, projected to 79 BDS providers

¹⁷ Based on SME survey 1999, see Chapter 3.3.2

¹⁸ Based on BDS provider survey 1999, see Chapter 3.5.

¹⁹ Based on BDS provider survey 1999, see Chapter 3.5.

²⁰ Based on BDS provider survey 1999, see Table 4

²¹ Median value (not average); the average price would be USD 456; it is recommended to apply median values

²² Sample only 20 SME, based on service assessment form

²³ Based on SME survey 1999, 40% participated in more than one BDS

²⁴ Estimation based on BDS provider survey 1999

²⁵ Swisscontact does not define specific target groups for Business Centers, as the definition of the target market is regarded as strategic management decision of the BC. Nevertheless, Swisscontact encourages BCs to improve access to BDS for women

d) Turnover: It is nearly impossible to get reliable data on BDS provider turnover. The main problem is the wide spectrum of their activities (not only services for SMEs) and the lack of a transparent accounting system. Most providers do not know how much of the total turnover is generated by services for SMEs. Besides, it is difficult to obtain such “strategic” data without having a close, long-term relationship with an institution. The figures stated in the PMF table thus represent rough estimations.

d) Market penetration: Depending on the type of services provided, it is more or less difficult to define the potential market for a provider. The market of WPU Malang with its specialized technical training can be defined easily, while Centrama’s market for start-up training is much more difficult to assess. Actually, market penetration is better defined *per product*, rather than per institution.

4.2.3. Assessing BDS Providers

| GOAL 2 : ASSESSING BDS PROVIDERS | | | |
|----------------------------------|--|--|--|
| Objective | Indicators | | |
| | | 1998 | 1999 |
| 1. Supplier Sustainability | BDS Supplier cost-recovery of operational costs from client fees | SME: 36.5% 3 rd parties: 30.5 % Total : 67 % | SME: 33.4% 3 rd parties: 62.6 % Total: 96.0 % |
| 2. Program Cost-Effectiveness | Simplified cost-benefit assessment comparing total program costs to aggregate program benefits for entrepreneurs | n.a. | n.a. |
| | Total program cost per customer served | USD 42.5 (incl. OH) (USD 11.7 financial only) | USD 38.6 (incl. OH) (USD 8.8 financial support only) |
| | Total program cost per supplier assisted | Financial: USD 7,617 Non financial: USD 20,089 Total cost: USD 27,706 | Financial: USD 3,397 Non financial: USD 11,607 Total cost: USD 15,004 |
| | Total program cost per USD 1 increase in supplier revenue | SME revenue only: USD 8.7 | SME revenue only: USD 28.8 |

4.2.4. Comments on BDS provider indicators:

a) Supplier sustainability: Swisscontact supports Business Centers for a period of maximum 3 years. Within this timeframe, the institutions are expected to achieve financial sustainability by selling their services either to SMEs directly or to sponsors that wish to fund SME-supporting programs. In this approach, financial sustainability as indicator has high priority.

The market overview shows clearly that the Indonesian BDS market is still highly subsidized and SMEs in general are not (yet) used to pay for services. In such an environment, a purely business-oriented approach (BCs sell to SMEs) is therefore difficult to apply. Most Business Centers prefer to offer their services both directly to SMEs and to third parties (sponsors).

In order to have comparable data between different projects, a clear definition on cost to be included is required (e.g. depreciation, capital cost etc.). In line with the Swisscontact benchmarking tool, above figures include all cost.

b) Cost-benefit assessment: It is almost impossible to make an aggregate benefit assessment in a BDS support program. The main problems are:

- Benefits from BDS have to be assessed individually, which requires high input for monitoring.
- When is impact visible? Is impact visible directly after the training/consulting or maybe after one year? When should the assessment be done?
- How can impact be quantified? What is the impact in USD of entrepreneurship training?
- How can we be sure that an impact is really due to a BDS and not due to other factors?
- Can we believe in the reliability of data collected?
- Are the high costs of a (reliable) cost-benefit assessment justified?

The question of cost-benefit assessment is (in the writer’s point of view) not too important, as long as BDS providers generate income directly from SMEs. The fact that entrepreneurs are willing to pay for a

service indicates sufficient benefit. Cost-benefit as an indicator obviously becomes more important in case of heavily subsidized services. Related to the “Voucher Program”, Swisscontact plans to conduct an SME survey on cost-benefit in the first semester 2000 (too late to be of use for this paper).

c) Program Cost: The costs of the overall project that are directly related to the BDS program *in the market area*.²⁶ Program costs include all financial and non-financial contributions, such as local staff capacity for consulting and monitoring (salaries, travel and accommodation). Not included are expenses related to expatriate staff and general administration costs.

In order to have more relevant data on total program cost, it is recommended to split total program cost into: a) financial contribution for investment, b) financial contribution for running cost, and c) cost for non-financial support in terms of advice and training (project overhead cost). Such cost separation allows a better comparison of efficiency of the different approaches. Swisscontact applies much more specific indicators to assess cost efficiency (see Indicator Framework in *Annex 3*).

4.2.5. Impact

| Assessing BDS Customers and SMEs | | | |
|---|---|-------|------------------------------------|
| Objective | Indicators | | |
| | | 1998 | 1999 |
| 1. Increase customer acquisition of BDS | Customer satisfaction with BDS | n.a. | 65% satisfied 35% not satisfied |
| | Repeat customers (percent of customers that buy more than once) ²⁷ | 76.2% | 69.8% |
| 2. Increase customer use of BDS | Percent of customers who improve business practices, as defined by the supplier | n.a. | 85% |
| 3. Increase customer benefits from BDS | Change in Value-added (Sales-Raw materials) | n.a. | n.a. |

4.2.6. Comments on Impact Indicators:

Customer satisfaction and increased use of BDS: Figures for customer satisfaction with regard to BDS are based on a sample of 10 customers per BC. Identifying levels of customer satisfaction is part of Swisscontact’s benchmarking tool (see Client Assessment Form in *Annex 1*). As the tool was introduced in 1999, only limited figures are available by now. Customer satisfaction assessment is conducted by external parties.

Increased customer benefits from BDS: Swisscontact has integrated a number of impact indicators in the benchmarking tool (see *Annex 2*: SME Financial Assessment Form and *Annex 3*: Interpreting Indicators). But again, as the tool was introduced last year, no conclusive figures are available yet.

4.3. Conclusions on PMF Indicators

- a) **Market information:** Collection of market data is a costly undertaking (USD 10,000, including SME survey). In our case we benefited from the “Voucher Program” which also needed the respective information. However, particularly at program start, it is worthwhile to obtain an overview over actual market conditions, identifying its weaknesses. An annual survey is not needed, a review every 4-5 years could be sufficient.
- b) **Performance indicators for whom?** Performance indicators may satisfy the needs of BDS providers or those of a donor. Both have different interests. Donors tend to focus on impact, efficiency and effectiveness, while BDS providers tend to emphasize management indicators that serve as

²⁶ Swisscontact supports BCs all over the island of Java and total program cost are separated per market area; it would make little sense to establish one PMF for Java, because information on the BDS market would be difficult to obtain and BDS providers normally operate in a very limited geographic area.

²⁷ For WPU Malang; Centrama offers start-up training only.

controlling instrument. The proposed PMF table is tailored more to donor needs (most indicators are not sufficiently specific to serve as controlling tool). The benchmarking tool developed by Swisscontact Indonesia in 1999, however, caters more to the needs of BDS providers (see Interpreting Indicators in *Annex 3* and Indicator Definitions in *Annex 4*). Assisting BDS providers this way is expected to result in their increased collaboration in data collection. Data that is of importance to donors may (partly) be deduced directly from available management data (e.g. financial sustainability).

- c) **Who collects data?** For reasons of objectivity it is obviously desirable to involve third parties in data collection. Swisscontact experience shows, however, that this is an extremely difficult undertaking, as confidential (e.g. financial) data is not readily passed on to complete strangers. Besides, external interviewers are not in a position to assess how realistic the given data is. BDS providers, on the other hand, often have a close long-term relationship with their clients, allowing them to obtain (and assess) confidential information. On the negative side, BDS providers may be tempted to “enhance” information. As a matter of fact, Swisscontact experience suggests that data provided by BDS organizations is more reliable than data obtained through third parties.
- d) **Impact assessment:** It is only natural that donors wish to obtain evidence as to the direct impact of their projects. This is, however, an almost impossible undertaking in the field of training and counseling. Reality is much more complicated than the formula “one training joined = turnover increased or value added”. Business development is the result of a large number of factors; making it practically impossible to find conclusive evidence which of those factors were directly or indirectly responsible for a certain impact. In addition to the above-mentioned problem in obtaining financial data (point 3), real impact assessment is thus an impossible mission. Besides, if donors emphasize impact assessment, there arises the danger that the expected impact is manipulated and supported by misinterpreted data. The simplest and most reliable indicator of BDS impact is thus the readiness of entrepreneurs to pay a certain amount of money for a service. Provided, of course, that the BDS market is free from distortions (see Chapter 4.4.).

5. Lessons learned:

Development of BDS Markets - a Fiction ?

It is common practice among the donor community today to talk about a “market” for Business Development Services. The research agenda put forward for this Congress (The BDS market development paradigm: what is it ?) is highly appropriate. As a result of comprehensive studies conducted in East Java, Swisscontact has gained substantial insight in this field. We talk of a “developed” market, if – among others – the following criteria are fulfilled:

- Clearly defined Supply and Demand (that match in price)
- No (or few) Market Distortions
- A sufficient degree of Market Competition
- Market Transparency

To what extent does the BDS market in East Java correspond to these criteria ?

Supply-Side

The market concept is based on the notion that BDS providers are professional institutions that offer clearly defined products at a price (that covers at least production costs) to a certain clientele. Reality in East Java is different. Most BDS providers are “general merchants” that – among others – also offer (often ill-defined) services to SMEs. Most BDS providers are not oriented towards the SME market, but rather towards sponsors and donors, who are expected to provide funds for their activities. Only a minority (~ 30%) of BDS institutions is more or less keyed to the SME market with clearly defined products. It is therefore premature to speak of a “developed” market on the supply side, even if the broad range of services offered and prices for such service may indicate a well-developed BDS market.

Demand-Side

Demand is expressed through prices customers pay for a product. Our research indicates that a large number of SMEs (approx. 50%) have taken advantage of BDS. However, only a small number (15-20%) of them have had to pay for the service. In most cases, the fees actually paid did not correspond to the

actual cost, as most training activities are supported by donor subsidies. As a consequence, it is equally premature to speak of a “developed” market on the demand side. This conclusion is supported by the fact that – in case of upcoming problems - only few SMEs (~10%) consider the possibility of consulting a BDS organization (most of them prefer to seek counsel from family and friends). There is no indication that demand for paid BDS in East Java is going to rise markedly in the near future.

Market Distortions

As mentioned above, the BDS market in East Java is highly distorted by subsidies made available by sponsors and donors. About half of all BDS organizations surveyed by Swisscontact provide services absolutely free of charge, and – in the case of paid services - an average of 80% of actual costs are borne by sponsors. In this context it has to be taken into account that the Swisscontact survey expressly *excluded* those organizations that provide only *free* services (e.g. most public BDS providers). Consequently, it can be safely concluded that – in the field of market distortions – the East Java BDS market is still far from being “developed”.

Market Competition

The Swisscontact survey in East Java identified over 200 BDS providers; an amazing number in view of only 150,000 potential customers. Obviously, the market competition criteria are therefore more than fulfilled. It is even possible to talk of an over-supply of BDS services, possibly resulting in unfair competition and dumping.

Market Transparency

Market transparency means that potential clients are aware of services offered while BDS providers have sufficient knowledge of actual customer needs. Swisscontact experience in the framework of the “Voucher” program indicates that most SMEs are insufficiently informed about the products available. The vouchers (on which BDS providers and their services are clearly stated) have opened the eyes of many entrepreneurs as to the wide diversity of services available. It is doubtful that the supply side is better informed about actual demand, than the other way round. It is ironic that the services that are sought after most by SMEs (skill development, product management, quality control) are offered least by BDS providers in East Java. On the other hand, BDS institutions seem to be quite well informed about the sponsor market; they tend to adjust their products towards donors, rather than catering to actual SME needs. In conclusion, the East Java BDS market is not yet sufficiently “developed” in the field of market transparency either.

The overall picture of the BDS market in East Java is sobering. Does this mean that donors should “forget” the goal of market development and move on to other fields? No, not at all: BDS market should still remain on the donor agenda. Despite various obstacles, development of the BDS market as an instrument of assisting SMEs is possible, if

- sustainability and a long-term approach are assigned higher priority than short-term results and impressive figures with regard to outreach
- there is consensus among the most important donors and sponsors to limit BDS market distortions to an absolute minimum.

The following recommendations are based on Swisscontact’s experience in BDS development gained in Indonesia:

1.) Donors and sponsors have to make the first step: The BDS markets – as the one in East Java are mostly not in “natural” condition; most of them have been distorted heavily by donor and sponsor intervention. Orientation of BDS organizations towards the sponsor market cannot be blamed on those institutions. It is rather the fault of those (well-meaning) donor agencies who distort the market and prevent the evolution of a market that is based on real SME demand. As long as donors fail to realize that subsidizing BDS services – in the long run – is the wrong way to assist SMEs, the development of a true BDS market is impossible.

2.) The target of market development has to be qualified: SMEs in East Java rarely consult “professional” BDS providers; family members and friends are the preferred resource persons. This finding is not new, Alan Gibson has pointed to this fact. He rightly demands that donors direct more of their attention towards the “indigenous networks”. *“The creation of these (and support of existing, [author]) institutions of learning is key priority, offering an opportunity to create sustainable learning*

capacities.”²⁸ It is expected that SMEs will continue to orient themselves mainly on those “indigenous networks” in the years to come, because they are closer to the “world of SMEs” than BDS providers. This does not mean, however, that there is no room left for BDS offered by truly professional providers.

3.) Specialized products have good prospects: Several business centers supported by Swisscontact have proven that there is a ready market for specialized products that are oriented towards actual SME needs – without any subsidy! This is particularly so, if the result of the service is (to the highest possible extent) concrete and tangible for entrepreneurs (e.g. a worked out business plan, specialized skill training or facilitation of market access). However, this is a difficult, stony path. Most BDS providers chose the easier way via donor funds.

4.) From institution-oriented support to product-oriented support: Swisscontact has found it very hard to convince BDS actors (in the subsidy-oriented environment of East Java) that a *business-oriented* approach – that takes into account the market potential of SMEs – can be successful, too. Most organizations are afraid to embark upon such a scheme. These fears have to be taken serious. Limitation to product-oriented support represents a possible solution: instead of trying (unsuccessfully) to convince BDS providers to change to a fully SME market-oriented policy, a donor may limit support to single products under the condition that those products are offered to SMEs at a price that fully covers cost. For other products, the BDS organization may continue to pursue the conventional practice of sponsor subsidy. Franchising may constitute a model for such product-oriented support.

6.) Parallel development of alternatives: BDS market development is a possibility, among others. At the same time, alternative ways have to be explored and developed. Learning from “indigenous networks”, or “strategic alliances” between small and large enterprises or local and overseas businesses are approaches that – in addition to a well-developed BDS market - may provide a SME-supportive environment.

7.) The macro environment: Demand-oriented BDS are essential for SME development, but they represent only one major factor among others. A banal fact that is sometimes forgotten! Results in Indonesia²⁹ clearly indicate that a sound macro environment (economic and political stability, a working legal system, etc.) and a fair economic policy are highest on the list of SME priorities. An obvious call on government and donors to deal not only with strategies at meso level, but to pay highest attention to the improvement of overall framework conditions for SMEs!

²⁸ Alan Gibson: Business Development Services for SME Development: a Guideline for Donor-Funded Interventions, p. 96

²⁹ SME Survey by Swisscontact and The Asia Foundation in ten major Indonesian cities on conducive SME environment, conducted at 250 SMEs in November 1999 (ten city survey)

Annex 2
SME performance assessment

| | | |
|----------------------------|--|------------------------|
| Business Centre | | Assessment date |
| GENERAL INFORMATION | | |
| Enterprise Name | | Owner Name |
| Address | | Year Established |
| Telp./Fax | | Business sector |
| E-mail | | Main Products |
| Date Joined BC | | Enterprise Form |

BUSINESS PERFORMANCE ASSESSMENT

This form is used to record performance changes in samples of SMEs over a period of two years, based on routine assessments. Change is assessed as a percentage change against baseline data. The objective of assessments is to get a 'snapshot' of key SME performance variables every period, and then compare current data against initial baseline data, to get indicators of % change. One assessment sheet should be used per BC sampled over the period of assessment, typically two years (4 periods).

Getting business data from SMEs can be very difficult; they may lack records, they may not want to provide information (are you a govt. official or tax inspector?), they may not be familiar with business or accounting jargon. The form below should be used to record data from those SMEs which have records. For SMEs without records, the interviewer should try to derive estimates of key information in discussion with the owner, using the form as a guide, and then estimate the main performance variables. Examples of questions are given (comments are also inserted in sheet).

| BUSINESS PERFORMANCE | | I | II | III | IV |
|--|----------------------|----------|-----------|------------|-----------|
| TURNOVER | | | | | |
| Sales income per day/wk/mth? | In Cash | | | | |
| # customers per day/wk/mth? | In Credit | | | | |
| Prices of main products? | TOTAL | | | | |
| COST STRUCTURE | Material | | | | |
| Spending per day/wk/mth? | Labour | | | | |
| Spending on what items (\$ or %)? | Overhead | | | | |
| Biggest regular item of spending? | Owner Withdrawal | | | | |
| Owner takes how much per wk? | TOTAL | | | | |
| ASSETS | Cash | | | | |
| Cost & sale value of major assets? e.g eqpt, vehicles, land, bldng? | Acc. Receivable | | | | |
| Recent purchases/sales (item/\$)? | Stock | | | | |
| What sale value if all stock sold? | Investments | | | | |
| How much do customers owe? | Land/build/vehicle | | | | |
| Cash usually on premises/bank? | Other | | | | |
| | TOTAL | | | | |
| LIABILITIES | Credit | | | | |
| Has business borrowed? | Others | | | | |
| Outstanding bills, payments? | TOTAL | | | | |
| EQUITY CAPITAL | | | | | |
| How much money did it take to start the business? See 'credit'. | TOTAL | | | | |
| CALCULATION | Gross profit | | | | |
| Owner estimate per day/wk/mth? | Net Profit | | | | |
| For 1-2 main products find out input costs and selling price | Cash Ratio | | | | |
| | Debt Ratio | | | | |
| No. employees | Production | | | | |
| | Admin | | | | |
| | Full time (1) | | | | |
| Bookkeeping | Basic | | | | |
| | Double entry | | | | |
| | Financial statements | | | | |

(1) Full time equivalent: 150 days/year @ 5 hours/day (750 person/hours/year)

| PERFORMANCE INDICATORS | I | II | III | IV | % over period I |
|--|----------|-----------|------------|-----------|------------------------|
| Turnover | | | | | |
| Gross profit | | | | | |
| Debt ratio (total liabilities/total assets) | | | | | |
| No. Employees | | | | | |

Average for all enterprises in sample (exclude best average and worst average) for each performance category

Annex 3

**Interpreting Indicators
Framework of Assessment Criteria**

| | OUTREACH | EFFICIENCY | EFFECTIVENESS | SUSTAINABILITY |
|------------------------|---|---|---|---|
| DONOR | I Growth in client base J Growth in participants K Proportion of clients female | A SC selection cost for BC B SC admin cost for BC C SC performance incentive for BC D Other SC investment in BC E SC HRD cost for BC F SC TA cost for BC G Proportion of SC TA hours for BC | H Return on donor investment <i>Other indicators that are a proxy for intervention effectiveness:</i> BC outreach (I,J,K) BC sustainability (T,U) BC effectiveness (P,Q,R) SME level indicators for change (Z,A1-A6) | |
| | | L Proportion of staff (consultants) M Capacity utilisation N Consultant productivity O Asset burden | P Services sold per direct client Q Average fee: national minimum salary ratio R Proportion of turnover direct from SMEs | T Contribution to overhead U Net profit margin V Consulting capacity (internal) W Intensity of external resource use X Focus on core competency Y Organisational development index |
| | | | <i>Other indicators that are a proxy for BC effectiveness:</i> SME level indicators for change (Z,A1-A7) | |
| | | | Z % change in turnover from baseline A3 % change in employees from baseline A4 % clients purchasing BDS for first time ever A5 % clients changing practice A6 % clients giving positive satisfaction rating | A1 % change in gross profit from baseline A2 % change in debt ratio from baseline |
| | | | | |
| | | | | |
| | | | | |
| BUSINESS CENTER | | | | |
| | | | | |
| SME | | | | |
| | | | | |

*Annex 4**Glossary*

| | |
|--------|---|
| ADB | Asian Development Bank |
| BC | Business Center |
| BDS | Business Development Services (for SMEs) |
| CGI | Consultative Group on Indonesia (group of donors) |
| GDP | Gross Domestic Product |
| GOLKAR | Indonesia's former ruling party |
| HRD | Human Resources Development |
| IDR | Indonesian Rupiah |
| IMF | International Monetary Fund |
| NGO | Non-Governmental Organization |
| PDI-P | Indonesian Democratic Party of Struggle |
| PMF | Performance Measurement Framework |
| SC | Swisscontact |
| SE | Small Enterprise |
| SME | Small and Medium-Sized Enterprise |
| TA | Technical Assistance |
| UNICEF | United Nations Children Fund |
| USD | US Dollar |
| WB | World Bank |