

**Designing and Delivering High-impact,
Cost-effective Business Development Services (BDS)
for Small and Medium-scale Enterprises (SMEs)**

An Interim Report on Case Study Research

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INTRODUCTION

Recent evidence suggests that minimalist credit - which has in recent years come to be the primary instrument of small producer support in Third World development - tends to have little impact in terms of enhancing agricultural and manufacturing capacity and productivity. Small enterprises generally need improved access to markets and to a range of productive resources in addition to finance in order to break out of the saturated, low-value markets in which they are often trapped.¹

The purpose of this project is to carry out an analysis of approaches to the design and delivery and the cost-effectiveness, sustainability and impact of various business development services (BDS) in order to inform the development community:¹

- About the experience of five NGOs in the provision of business development services (BDS)² in selected projects.
- About the advantages and difficulties associated with alternative types of business development services and methods for delivering the services.
- On lessons learned on the design of new business development services.
- On information relevant to the debate over minimalist credit vs. business development services.

The research objective is to generate principles of good practice that can guide future activity in the design, implementation and evaluation of BDS activities. As the purpose involves a retrospective review of complex operational links in diverse projects and settings, the case study was chosen as the most appropriate methodology.

THE PARTICIPATING AGENCIES

This project is a collaborative effort between four international and one national SME support organization.³ The five NGOs whose projects are being reviewed in the ongoing project discussed in this paper are in the business of generating incomes and economic growth for small producers. The overall goal of their BDS activities is to build more competitive enterprises through innovative and value-adding productivity and marketing improvements. The five partners have agreed that two SME projects from each support organization will be studied under a comparative framework in order to draw some conclusions on critical factors in cost-effectiveness, impact and sustainability. The participating NGOs and their projects in this research effort are:

¹ *It is not the purpose of this study to evaluate organizations or compare development conditions in the different countries. The measure of success for this study will be the influence it has on other organizations considering or conducting business development services projects in a range of sectors.*

² *BDS is the term currently being applied by practitioners and donors to non-financial technical assistance to small and micro enterprises.*

³ *The research is being supported by Canada's International Development Research Center (IDRC). Since its inception in 1970 IDRC has designed and implemented a wide range of research projects focused on aspects of small-scale enterprise. Research that can enhance the productivity of SMEs remains a current priority with IDRC.*

EnterpriseWorks Worldwide⁴ has programs in Africa, Asia and Latin America. Services provided include: sub-sector analysis and business planning; technology adaptation and commercialization; improved access to raw materials; product and service development; market assessment and marketing activities; business and technical assistance and training; common service facilities; and institutional capacity building. EnterpriseWorks Worldwide monitors effectiveness of small producer supports against four objectives: outreach, sustainability of impact, funding diversification, and cost effectiveness.

The **Intermediate Technology Development Group (ITDG)** has programs of support to small producers in Africa, Asia and Latin America. Most of the projects supported and implemented by Intermediate Technology are intended to demonstrate or prove a technological innovation or an alternative approach to improving the performance of small scale producers. They therefore have a large element of research or experimentation in them, and they have been undertaken as much with a view to learning lessons as to delivering support services. It draws from its international learning to produce various information packages for a wider audience.

Mennonite Enterprise Development Assistance (MEDA) is an association of Christians, in business and the professions, committed to applying biblical teachings in the marketplace. MEDA aims to work with the poorest of the economically active, and targets women. It works in Latin America, the Caribbean, Africa and Asia where it develops pilot projects and programs that establish viable businesses. MEDA's objective is the establishment of sustainable businesses through the provision of credit, business training and interventions addressing production and marketing barriers. Its Regional and Country managers provide monthly monitoring and quarterly financial statements to headquarters on the progression of the projects toward sustainable business enterprises.

TechnoServe works in Africa, Latin America and Poland, with programs to create and strengthen micro, small and medium scale businesses. Services include sub-sector analysis, agri-business planning, private sector market linkages, institutional capacity building, and commercialization of smallholder agriculture. TechnoServe uses six core indicators to measure the impact of its projects: community investment, outreach, jobs and income, sustainability, and cost-effectiveness.

Sarvodaya Economic Enterprise Development Services (SEEDS) is the economic development division of the largest indigenous Sri Lankan NGO. Sarvodaya Shramadana Movement is a voluntary NGO incorporated as an approved charity in 1972. It implements two broad "Empowerment Programs". One deals with spiritual, moral, cultural and political empowerment, and the other, covers social, economic and technological empowerment. The economic empowerment program, is implemented by SEEDS through three Specialists Units: the Rural Enterprises Program (REP), the Management Training Institute (MTI), and the Rural Economic Development Services (REDS) - the focus of the case study.

⁴ Formerly *Appropriate Technology International (ATI)*

THE PROJECTS

The various cases include a mix of BDS services and take place in different production sub-sectors, macro-policy environments, and socioeconomic contexts. The projects also vary in the amount of funding, geographic location, and size. The sample of ten case studies will be subjected to a second level of analysis by the project Steering Committee. This secondary analysis will be undertaken by the NGO representatives who also represent different specialties and experience backgrounds.⁵

Table 1: Types of Business Development Services Provided by the Participating NGOs

Business Development Service	Percent of NGO Projects offering this BDS	
	Total NGO projects (N=82)	Selected Projects (N = 10)
Sub-sector Analysis or market assessment for identification of business opportunities	41%	80%
Marketing or development of market linkages	58%	70%
Technical training, extension, or assistance	73%	60%
Business management training	57%	60%
Product or service development	53%	60%
Feasibility studies and business planning	54%	50%
Access to financing	47%	50%
Access to raw materials or intermediate goods	29%	40%
Development, adaptation, or access to productive technology	62%	40%
Common service facilities or business incubators	15%	10%
Policy Advocacy	10%	0%
Capacity building for organizations involved in enterprise development	21%	0%

Some of the projects being studied also provide credit or equity capital to allow producers to take advantage of productivity enhancements and the role of this access in the quality and impact of BDS is also being considered in the ongoing studies.

⁵ *As case studies are the appropriate methodology when studying complex relationships that change over time many of the questions and much of the learning is dependent on an analysis and inductive interpretation that will only take place when the individual cases are all completed.*

Table 2: The Case Study Projects

EnterpriseWorks Worldwide	Zimbabwe Oil Press Project Ltd., Zimbabwe Coffee Producers, El Salvador
Intermediate Technology Development Group	Light Engineering Workshops, Zimbabwe Food Processing, Bangladesh
Mennonite Economic Development Associates	Joint Venture Marketing Company, Bolivia Cocoa cooperatives, Haiti
Sarvodaya	Ornamental Fish Production, Sri Lanka Pineapple Growers, Sri Lanka
TechnoServe	Irrigated Agricultural Groups, El Salvador Multipurpose Cooperatives, Ghana

To date four of the ten case studies have been initiated and first drafts have been prepared. A brief description of the partner organizations and their cases follows.

Intermediate Technology Development Group - Light Engineering Workshops

The Zimbabwe office (ITZ) was established through a Technical Co-operation Agreement with the Government in 1989. Utilising a sub-sector approach, Intermediate Technology has worked with small-scale manufacturers on the development, production, and maintenance of the ‘tools of production’ (capital goods) for a wide range of small-scale productive activities. This has included work with rural blacksmiths, welding shops and small machine shops. The project has introduced grinding mills, ice making machines and other products to be marketed to people who will use them to generate business income. Services offered include product development, tool-hire, technical information, and marketing support. These activities have led to sustainable and responsive services, which have benefited farmers, carpenters, grain millers, and village energy consumers, thereby achieving considerable scale of impact beyond the enterprises supported directly.

A recent service innovation, the subject of this case study, was the creation of a cost-recovering tool-hire service (in Zimbabwe) as a focus - and a magnet to draw in active artisans - for other BDS such as product and skills development. This commercial enterprise is achieving significant scale of impact through its focus on strategically placed engineering workshops. The project shows a high degree of cost recovery from tool-hire services, while raising the range and quality of artisan products and facilitating access to jobs and subcontracts that otherwise would not be available to them.

EnterpriseWorks Worldwide - Zimbabwe Oil Press Project Ltd.

The Zimbabwe Oilseed Processors Project is managed from the ATI-Zimbabwe Office of EnterpriseWorks Worldwide. The project is designed to 1) help small-scale oilseed growers and other microentrepreneurs capture the value added through local processing of oilseeds through use of ram press, 2) increase rural consumers' access to low-cost edible oil, and 3) produce seedcake for animal feed. ATI-Zimbabwe will continue to do training, market development, new product development and further the transition from an NGO project to a commercial company.

The Zimbabwe Oil Press Project Ltd. (ZOPP) was created in 1996 as a commercial entity that serves as a broker between press manufacturers and distributors, acts as a wholesaler of presses

and is currently seeking to establish a mass manufacturing facility that would export low-cost presses to other African countries. ZOPP provides training and technical assistance and quality standards to help existing metal workshops produce the product and serves as a domestic and export sales broker between manufacturers and customers. Each press sold is the basis of a small local business that presses oil for local producers.

To date approximately 2,000 presses have been produced and sold.

Sarvodaya Economic Enterprises Development Services - Ornamental Fish Production Promotion

The Rural Enterprise Development Section (REDS) of Sarvodaya identified the production of ornamental fish as an opportunity appropriate for low income people and undertook to promote the industry through its network of community organizations. The objective of the ornamental fish production project was to provide a higher margin alternative to traditional agriculture by introducing an environmentally friendly, economically viable, product to supplement farm incomes or replace the traditional crop farming. For this project the services of REDS included identification of the opportunity, preparation of a prototype feasibility study, recruitment of potential farmers, organization of technical training "fish clinics", networking of producers with wholesalers, follow up extension services and organization of producers into information sharing clusters.

REDS trained 345 recruits of which 115 established fish producing enterprises⁶. Unlike traditional agriculture this project provides a steady and a regular source of income to many of the fish farmers for the first time, thus enabling them to rise above the poverty level. In respect of Sarvodaya's social objectives, it was observed in the field, that for many the spirit of sharing and caring among neighbors has been restored.

The Mennonite Economic Development Associates - Export and Marketing Services Company

MEDA spearheaded the cultivation of a new crop of edible beans in Bolivia among small holder, colonizer farmers⁷. The beans allowed farmers to nearly double their incomes. MEDA led in opening the first export markets for Bolivian beans to Brazil and this was followed by the formation of a national association of bean producers (ASOPROF) from 17 farmer cooperatives and other producer groups comprising over 2,500 families. ASOPROF and MEDA invested in a commercial marketing company called ASOMEX with a mandate to process export orders for ASOPROF and to seek markets for other products in local and export markets. ASOMEX aims to increase the income of the small urban and rural producers by offering competitive marketing and export services of three types: Export processing services (documentation; logistics, transportation and financial arrangements with the buyer) for ASOPROF; Brokering, through buying from producers and selling for export; Commission services, market research and contact development to bring buyers and sellers together.

Since 1993 ASOMEX has developed local and export markets for beans in Japan and Colombia, has diversified into markets for corn and rice, and has been successful in exporting furniture, wood products and blue jeans produced by microenterprises to Paraguay and Argentina. ASOMEX has been marginally profitable but has yet to provide the investors with a return on

⁶ From the outset the project was treated as a one-time, marginal cost activity with only a nominal sum charged to the trainees. Cost recovery is estimated at 33%.

⁷ Settlers

their equity.

BACKGROUND

The case studies are undertaken in a context of ongoing inquiry into what makes BDS work more efficiently and more cost effectively. There is a solid body of advice on policy for NGOs, based on lessons learned, but not a great deal is available on operational or field level benchmarks regarding the actual design and delivery of BDS. McVayⁱⁱ derived a series of principles from research of BDS practitioner field activity. Most of these are reinforced in Gibson'sⁱⁱⁱ guidelines for donor interventions:

- services should be demand driven, not supply driven
- an accurate need assessment is an important first step, this usually requires involvement of potential clients
- a focus on particular subsectors or services helps develop services that are more relevant than services designed for a general audience
- institutions should specialize in providing a few key services, and create linkages with other institutions who can provide complementary services
- service delivery should be business-like, fees for services is an important part of that
- programs need to reach scale, which is often achieved through “leveraged” interventions (one-off interventions that affect large numbers of entrepreneurs, such as policy changes, introducing new technology, etc.)
- programs need to develop sustainable service delivery mechanisms, usually through NGOs or the private sector

The Inter-American Development Bank^{iv} and others have called for research in the field to establish a catalogue of Business Development Services, for further analysis of “the relationship between the demand and supply of BDS services, and defining reasonable expectations for the sustainability of BDS programs.”

At the level of operational guidance McVay has provided a typology of constraints that confront entrepreneurs divided into three broad categories: **internal constraints** such as low skill level and lack of management skills or knowledge; **external constraints** such as government policy; and **access constraints** such as lack of access to healthy markets. This typology can facilitate research to systematically categorize Business Development Services according to the constraints they were designed to address. Indeed she makes the case for more cataloguing and research of BDS activity that will contribute to the learning agenda which must be developed to identify the “best practices” of strong programming.

There are many field level support materials such as manuals, guides and “toolkits” for practitioners but much that is available is of a general nature. Little exists with supporting evidence of successful application in BDS interventions in specific sectoral and contextual settings. This is probably because this field, “is complex, involving different forms of assistance to firms with diverse needs...” Adding to that complexity is the fact that “...business development service programs combine specific commercially oriented services geared to the needs of a particular set of clients with more general development assistance that provides benefits to a larger segment of the population.” (Barton, 1997)

The authors of “Monitoring and Evaluating Small Business Projects: A Step By Step Guide for Private Development Organizations”^v provide a series of steps which will help NGOs determine their progress toward their stated goals of helping businesses and their success in meeting the

broader development goals of improving general economic conditions in the whole community and enhancing individuals' control of their lives. While suggestions are made regarding 'Indicators' and 'Tools', NGOs are encouraged to develop those "that most suit your special situation and resources" and are urged to "include the clients in the discussion." This points to the limitations at the operational level of any standardized analytical framework but leaves the practitioners with little definition or methodology guidance. For example, while there is recognition of the principle that cost recovery is desirable there is little consensus on the costs that should be included (e.g. these could be direct costs only or include NGO overheads) nor is there sufficient research to establish a performance standard on cost recovery that could be deemed average, good or exceptional.⁸

The Inter-American Development Bank, USAID, and others are also working on the development of an analytical framework for BDS performance.^{vi} A review of this literature points to some consensus on several key issues:

- The broad performance indicators that will be most useful in defining the effectiveness of development work focused on the delivery of Business Development Services are Impact, Cost-effectiveness, Scale and Cost-Recovery/Financial Sustainability.
- A research agenda needs to be carried out that will establish some standardization of BDS outputs and benchmarks for performance in the areas of scale, impact and cost-effectiveness.^{9 vii}
- More case study research is needed and analysis of case study research should lead to development of a series of best practices to be applied by practitioners at the field level.
- The relationship between demand and supply of BDS needs further study and analysis.
- The complexity and range of BDS activities must be acknowledged but this must not slow the research agenda because preliminary research has indicated this to be a promising field for development assistance.

The above list could be supplemented by addressing some further issues identified in the literature review:

⁸ In developing the analytical framework for the case studies covered in this research project the same limitations and complexities were encountered - for instance the common and easily understood performance measures, such as 'jobs created'. To illustrate the point regarding complexity, in this case as it relates to performance measures, Gibson asks "what is a job?" and proceeds to ask a series of questions, such as, "is it full-time or part-time? Is it permanent or seasonal? Is the creation of the job at the expense of another job in the immediate area"... and so on. He concludes that common and easily understood performance measures such as 'jobs created' can be very useful but their simplicity can be illusory.

⁹ *There is much inconsistency in the use of the terms best practices and benchmarking in the development field. Benchmarking refers to the process of establishing standards of outputs relative to inputs by continuously measuring a firm against industry leader. It is thus a measure of productivity or efficiency. Best practice on the other hand identifies methods or work processes whose outputs best meet customer requirements. It is thus a measure of effectiveness.*

- Does the provision of BDS have the potential to cover costs and to become sustainable? In the context of the current *raison d'être* of most NGOs this would impose a somewhat contradictory situation re sustainability. Barton describes this well : “On the one hand, to manage various types of business development services on a sustainable basis, NGOs need to adopt commercial practices and approaches...on the other hand, to the extent that NGOs are geared to attract donor funding and manage donor-funded programs, NGOs need to meet a completely different set of operating requirements...(Barton, *ibid*)
- Barton also points to the inherent tension between the development assistance role of BDS and their aspiration to become commercially viable. He writes “...business development service programs combine specific commercially oriented services geared to the needs of a particular set of clients with more general development assistance that provides benefits to a larger segment of the population.” What implications for sustainability and the institutional form that BDS delivery takes? Which contexts lend themselves to the predominance of one approach over the other and what mix of the two approaches can still manage cost-effectiveness?
- Although participation of the entrepreneurs in the service design and involvement in its delivery makes for building local capacity, this also necessitates a degree of flexibility and unpredictability and these in turn affect premises for service planning and implementation.

Finally, although virtually every author reviewed talked of the need for the establishment of benchmark criteria for "best practice", maybe not enough has been said of the folly of supposing that a universal or standardized approach is a feasible or even a desirable objective. The context specificity of the different approaches and experiences can be distilled for principles but there cannot ever be measurement tools that can yield equally comparable results across the variety of sectors and locations of these services. There needs to be debate and discussion in this forum and in the wider literature on the very premise behind the search for “best practice” and a close look at the more realistic goal of investigating and delineating **good** practice in its myriad forms.

THE CASE STUDY RESEARCH DESIGN

The cases chosen for study in this research were selected from a list of 82 projects of the participating NGOs. Each of the NGOs provided an institutional profile and a brief description of projects proposed for inclusion in the study. As indicated in Table 1 these projects represent a mix of BDS in various permutations and combinations. The three services that have been targeted for study are:

- Business planning and managerial assistance.
- Technology development and adaptation.
- Market assessment and development of market linkages.

While this focus will remain, the relationship to other services offered could not be ignored and in particular the relationship of BDS and access to or the provision of credit will be an element in some of the cases. The considerations for screening the proposed projects down to a set of ten for case studies included the following:

- geographic location
- sub-sector representation
- rural/urban setting
- gender representation
- effectiveness performance - cost, impact, sustainability
- breadth and depth of available project documentation

In general the case studies are to describe and analyze the services, the client interface, and the strategy and operations of the local delivery organization.¹⁰

Data are being gathered on:

- the business development service activity
- who was involved in this activity (for example stakeholders, service providers, affiliated organizations) and the level nature of their involvement in design and delivery
- how it was done, including any innovative aspects of the design and delivery process, tools, techniques, workbooks, checklists etc.
- the management of the organization and the project : planning, organization, supervision, monitoring and evaluation
- the performance of the project on measurements of cost effectiveness, impact, and sustainability

The analysis will consist of:

- causal relationships (both positive and negative) that can be established between elements of the design and delivery of the business development services and the performance outcomes
- assessment of lessons learned from the case study and recommendations on aspects of design and delivery within the context of the project; and
- derivation of an overview of BDS principles and practices that might be worthy of emulation

Descriptions of services and performance indicators used for the BDS in this project are as follows:

- **Marketing** includes services related to the design/selection, pricing, sale and distribution of products, advertising or promotional activities, and acquiring access to raw materials, inputs, and equipment. Acquiring access or developing distribution linkages to foreign markets and/or suppliers (exporting or importing) is considered a marketing activity.
- **Technology** transfer refers specifically to helping entrepreneurs access and use new inputs, equipment, or production processes, which can increase their efficiency, scale, and returns. Production includes the actual production of agricultural, manufactured, or artisan goods, as well as the rendering of services that involve production, such as bicycle or automobile repair, food preparation, tailoring, shoemaking, etc.
- **Management** refers to the tasks of directing the business, which include financial planning, and record keeping, hiring, training, and firing employees, and long and short-term business planning
- **Delivery Mechanism**, in this context of this study, refers to the way in which business development services are transmitted to clients. For example, information about markets can be transmitted through an information referral center, an individual counseling session, through networks, by subcontracting and franchising, counseling and mentoring, consultancy, or business incubators.
- **Impact** refers to positive and negative effects on the economic and social well -being of individuals, households and communities. Impact encompasses the magnitude of the effects as well as the scale (number of people affected). In projects where this is relevant it may also include effects on public health or environmental quality and natural resource base.
- **Cost effectiveness** is a measure of the efficiency of service delivery that compares the project outputs

¹⁰ The researchers receive terms of reference that in addition to a project overview provide representative guiding questions on what is to be described and the analyses to be undertaken. They receive as well a set of descriptions of the subset of business development services, examples of project monitoring indicators to be used to determine project effectiveness on cost, impact and sustainability, and a personal briefing.

(achievements in terms of activities or the resulting impacts) and the costs. It may vary considerably (positively or negatively) with the funding and geographic scale of the activities.

- **Sustainability** has several aspects -- the ability to maintain BDS services or levels of impact after the project funding has concluded. The sustainability of service delivery examines the extent to which BDS activities can be continued. This can be achieved in diverse ways such as obtaining full cost recovery from clients for further NGO activities; tapping a continuing source of related income; institutional strengthening of NGOs, or working through cooperatives and other producer or trade associations. The sustainability of impact involves enabling clients to continue their activities without the need of additional project assistance or spinning off of BDS activities from into self-sustaining enterprises.

Analysis

Table 3 lists a number of indicators that can be used to assess performance on these criteria. In deriving the list of indicators the project Steering Committee (one representative of each participating NGO) recognized that some may not apply to all projects and others may need to be modified in certain cases. But they are specific enough to focus on the three key issues of impact, cost effectiveness and sustainability while recognizing that benefits may be derived by the delivery organization and the larger society as well as the clients who are direct recipients of the BDS. The effectiveness of the BDS will be assessed through available project data and may be supplemented by a limited amount of field research. At the level of the individual case study this methodology will permit the identification of cause and effect relationships between effectiveness outcomes and BDS design elements. A secondary analysis of all ten cases will permit a number of comparative questions to be addressed.

Table 3: EXAMPLES OF INDICATORS USED BY PARTICIPATING NGOs IN BDS PROJECT MONITORING FOR EVALUATION

	Cost Effectiveness¹¹	Impact¹²	Sustainability
Local Delivery Organization	<p>Absolute Cost and trends per:</p> <ul style="list-style-type: none"> • Client • Business start • Course offered • Consultant hour <p>Costs relative to client fees, and affordability</p> <p>Gross/Net Profit - margins surplus</p> <p>Case load per professional staff</p> <p>Management staff ratios</p> <p>Overhead to salary ratios</p>	<ul style="list-style-type: none"> • Demographic profile of clients reached • No. of clients served • Total clients as per cent of target group • Quantity of BDS services/projects delivered • No. of professional staff hired and trained • New delivery partnerships • New delivery locations • New BDS “products” • MIS in place and used for planning and cost control - trends 	<p>Growth in:</p> <ul style="list-style-type: none"> • No. of clients • Unsolicited non-nominated clients • Fee revenue • Endowments, grants • Profitability/surplus • Local training, research personnel • New delivery partnerships • Regular meetings of key stakeholders • Planning for new and improved services <p>Reductions in:</p> <ul style="list-style-type: none"> • Costs per client • Subsidy (sustaining grant)
Client{tc "Client"}	<p>Increases in:</p> <ul style="list-style-type: none"> • Operating margins • Value Added • Assets • Local sourcing <p>Decreases in:</p> <p>Input costs/quantities</p>	<p>Revenues (cost savings) from:</p> <ul style="list-style-type: none"> • New technology adopted • management practices implemented • New Product Lines • New distribution channels <p>New Sources of financing accessed</p>	<p>Trends in:</p> <ul style="list-style-type: none"> • debt/equity ratio • net income • new product revenues • Gross revenues • Percent of household income from the business
Society/Economy of Project Locale	<p>Low domestic subsidy to:</p> <ul style="list-style-type: none"> • Delivery organization • Clients <p>Relative cost per:</p> <ul style="list-style-type: none"> • Job created • Business created 	<p>Increase in (net) domestic</p> <ul style="list-style-type: none"> • goods production • service supply • jobs – achieve target group objectives – breakout full time, part time, paid, unpaid, male, female 	<ul style="list-style-type: none"> • Foreign exchange earned/saved • Reduction in foreign workers/ownership • Increases in target group participation numbers/rate • Increases in tax revenues • Increases in domestic value added

¹¹ The components of costs should be identified. In particular whether the costs are on a cash flow or accrual basis, whether local delivery organization costs include relevant overheads of the local, national and international affiliates, whether sustaining grants and or subsidies from any sources are included and their amounts in any case.

¹² Qualitative information can be cited where non-quantitative objectives such as for gender equity, environmental sustainability and indigenous capacity, are explicit goals of the project.

		<ul style="list-style-type: none">• investment• new program competitors emerge	<ul style="list-style-type: none">• Replication by government.• Expansion to other parts of the country
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SOME INTERIM FINDINGS AND CONCLUSIONS

Mission and Markets. The participating NGOs tend to target the people at the poverty end of the income spectrum with a mission that is not solely based on economic values. All strive to achieve equitable involvement of women. For those whose purpose is social empowerment, the need for cost recovery and sustainable enterprises is more a constraint than an objective.

- “Over 90% of clients are poorest of the poor (annual income less than US\$300” (Sarvodaya). MEDA aims to work with the poorest of the economically active, and targets women.
- “ITDG enables poor people in the South to develop and use skills and technologies which give them more control over their lives and which contribute to the sustainable development of their communities.”
- TechnoServe focuses “on the productive poor - those willing to make financial and sweat equity investments in commercial activities.”
- EnterpriseWorks Worldwide’s mission is “to alleviate poverty through business development programs that enable small-scale producers of agricultural and other commodities to build more competitive enterprises.

An issue, given that target groups are of modest means, is the degree to which **cost recovery and the standard for recovery that is deemed appropriate**. The range in the sample is from those who seek a contribution to direct costs (Sarvodaya and ITDG) through those who seek recovery of direct costs and a contribution to overheads (TechnoServe and EnterpriseWorks Worldwide) and those who seek recovery of direct costs, overheads and a profitable enterprise.

Target Sectors. Though quite diverse all participating NGOs are primarily engaged with the small scale sector.

- EnterpriseWorks Worldwide emphasizes small-scale producers, primarily but not exclusively, of agricultural products.
- The majority of ITDG’s market is enterprises employing less than five people in seven sectors: Food Production, Agri-Processing, Manufacturing, Transport, Mining, Building Materials and Shelter, and Energy.
- The enterprises assisted by Sarvodaya are self-employment activities with most being in non-farm activities (due to the non-violent philosophy of the NGO those businesses involved in the killing of animals are excluded).
- TechnoServe primarily works with agricultural firms in the 5 to 100+ employees range in both productive and trading sectors as well as with linkage and service providers.
- MEDA’s direct investment and technical assistance approach is entrepreneurially oriented to opportunities but practice has tended to be in agriculture products, particularly businesses that service the producers.

An issue with such a diverse group of industries is the **accumulation of expertise in the distinct competencies required** for the success (key success factors) of each sub-sector while remaining cost-effective relative to the scale of the beneficiary. The cases studied include instances where the ability of project managers to design and implement business services was handicapped by inadequate knowledge or experience of the NGO in the target sector.

Monitoring and Managing Effectiveness. Participating agencies show evidence of increasing work in recent years to design and implement performance measures not merely as evaluation tools but as part of the management information system for planning and control.¹³ They range from a highly commercial and financial set of measures suited to MEDAs direct investment in joint venture businesses to Sarvodaya’s approach to monitoring the progress of village societies through five stages of “graduation”. TechnoServe has ten years of experience with a proprietary system of measuring and analyzing cost effectiveness and the overall impact of their business development activities. The principle use of the effectiveness measures is still for accountability purposes to stakeholders, particularly donors and other funders. However there is evidence of the information being used for managerial decision making and strategic planning purposes.

- MEDA's country managers produce monthly and quarterly financial reports including full financial data on each partner. In addition mid-year and annual reports and analyses of impact and performance to date are carried out. This information is used to make go/no go investment decisions about the progression of undertakings through the project, the program, and the business stages of MEDAs approach to the establishment of sustainable businesses.
- EnterpriseWorks Worldwide uses data collected on a comprehensive set of indicators for strategic planning purposes as well as project management decisions, particularly in costing and pricing of services for improved cost recovery. Projects identified as cost effective are being rapidly replicated in additional locations thus increasing outreach impact. Sustainability is being built by emphasizing cost recovery and scaling up successful activities into for-profit operations in which EnterpriseWorks Worldwide retains an equity position. Further EnterpriseWorks Worldwide utilizes a similar approach with its partner organizations to improve their impact and cost recovery so that the BDS offered by them remains sustainable. EnterpriseWorks Worldwide is rapidly expanding its outreach and impact by increasing its focus on a limited number of program areas for specialization.

The business of business development services.

- MEDAs approach to international development work is the establishment of sustainable businesses through a three stage process of phased investment. The project stage is where an idea is launched by a concept paper based on “reasonable” levels of research. This stage is time-limited and financed by MEDAs core budget, a pool of member contributions and financing through CIDAs NGO Division. The program stage is launched through the development of a plan of operations which contains both a management plan and a proposal for securing the financing needed. At this stage subsidies should decline as the project shows its ability to recover costs and if they do not the program is terminated. During the business stage the ability to manage operations and govern the company should be clear and profit should be evident. The need for a subsidy is replaced by the businesses repaying its loans, paying for BDS and returning a profit to MEDA.

¹³ The work of the NGOs is the source of many of the indicators in Table 3.

- ITDG makes creative use of market mechanisms both for the delivery of project services and dissemination of the benefits that they generate. For instance, in the Zimbabwe Light Engineering Workshops project they demonstrate the use of a profitable tool-hire service as a focus and a magnet to draw in active artisans for other BDS such as product and skills development.
- Sarvodaya extends its outreach and services through a network of over 2,150 village organizations. Sarvodaya provided technical assistance to the creation and development of these organizations but they are now independent institutions owned and managed by the villagers. The monthly meetings of these village organizations offer an inexpensive means for Sarvodaya's BDS divisions to announce and launch new programs as well as a venue for monitoring progress of clients. Sarvodaya is able to quickly test the market and quickly scale up successful pilot projects.
- EnterpriseWorks Worldwide has developed a comprehensive set of performance indicators to supplement its process of conducting midterm and final evaluations of all major projects. Key project characteristics and impact information are compiled in a computerized database for easy retrieval and analysis. An annual report is prepared analyzing the information by project, geographic region, substantive program area, and the organizational portfolio. It also synthesizes the principal programmatic lessons learned. The system tracks program inputs and activities as well as impact project budgets and expenditures, donor and project partner involvement, expected dates and completion dates for baseline data studies and evaluations and known replications elsewhere. As indicated in the Monitoring and Managing Effectiveness section above EnterpriseWorks Worldwide makes extensive use of the information in strategic and operational planning as well as reporting to stakeholders.

The Transition to a Commercial Entity.¹⁴

- The EnterpriseWorks Worldwide (ZOPP), ITDG Light Engineering and MEDA/ASOMEX cases address the issue of development projects transitioning to separate, self-sustaining businesses. REDS did not have total cost recovery as a goal but has reached a point where the cost of supporting the program is reduced to levels acceptable to Sarvodaya. None of the projects has attained self-sufficiency as yet but the ITDG and EnterpriseWorks Worldwide projects at least cover direct costs and make a contribution to overhead. ASOMEX is marginally profitable. The gestation period for these self-sustaining business development services enterprises has been long and not without missteps.

¹⁴ *The Sarvodaya project is primarily concerned with cost effectiveness and a reasonable (unspecified) recovery rate on their direct costs.*

Project Identification

- The impetus for the projects was different in each case. The Light Engineering Workshop Project emerged as a result of a study commissioned by IT Zimbabwe in 1991. This was followed by a research project to gain further understanding of the sector. The ZOPP project was initiated as a pilot activity in Zimbabwe by an NGO familiar with the previous work done by EnterpriseWorks Worldwide in Tanzania. This later evolved into a larger joint effort of WUSC EnterpriseWorks Worldwide and other development organizations. Staff that attended a government briefing session identified the Sarvodaya project. Upon hearing of unfilled demand for ornamental fish, staff undertook a study of the industry and generated prototype feasibility studies to determine viability for their clients. In all cases the planning attempts to be market driven involved more of a sector study than a market needs assessment.^{15 viii} This approach was accompanied by misjudgments on product/service features, underpricing, and some aborted product/service lines.

Supervising staff and projects.

- A key success factor for all of the projects is knowledge of the industry and the technology involved. EnterpriseWorks Worldwide and ITDG utilized prior knowledge and technology development to transfer technology from outside and then innovated and adapted in Zimbabwe. Sarvodaya utilized government, university and private sector experts to inform themselves of the specifics of fish rearing and the industry structure and to train the producers. MEDA relies on its resources of experienced business people to oversee field projects through a management information system. However projects did experience inefficiencies in the early stages with both voluntary and forced turnover of key personnel. Clearly the more diverse the projects and sectors an NGO engages in the less industry specific knowledge the management will have to assess the qualifications of personnel and the viability of their plans or to take prompt remedial action.

Market development and NGO value added.

- The development of markets for their clientele is a central element in all three projects. For Sarvodaya this was primarily a matter of using the contact network of their own organization and the government ministries to provide an introductory service for producers, buyers, and suppliers. ZOPP and the Light Engineering Workshop Project have utilized the international networks of their NGOs to seek out international markets. MEDA has used the contacts of their sponsoring business members to establish both supplier and buyer relationships. A principle asset of the international NGOs is their market links outside the project countries which enables them to source and qualify contacts inexpensively.

¹⁵ The distinction here is between a feasibility study to determine whether or not services will be in sufficient demand as to command fees that will at least recover the full costs of providing them and a customer orientation which emphasizes the goal of satisfying customers using an interdisciplinary approach to gain an understanding of what satisfaction is, how to measure it, change it, and orient managers to their customers.

Business Development Services as an Industry.

The cases afford some observations on the conference theme of "Building a Modern and Effective Development Services Industry". Previous literature has suggested that "services should be demand driven, not supply driven". However in the case of EnterpriseWorks Worldwide and ITDG the need had pretty well been established by their experience in other countries. Their situation is similar to other international firms taking a product or service to a new market. An analogy to fast-food franchises is not far-fetched. The franchisor format is taken to many countries with only minor adaptations for local tastes. In fact NGOs could benefit from a supply driven approach in some cases. The ZOPP project and the Ornamental Fish project found themselves advising their clients on how to setup and manage their business to make use of the product/service that was being provided. This is akin to preparing a franchise manual and the clients would have benefited from the NGOs taking on more of the franchisor activities. More generally, when international NGOs take established products and services in fragmented industries to new markets, they would benefit from the strategic orientation to the cloning, chaining and franchising strategies used by international firms in the private sector.

The bottom line.

The performance data and the analysis is not yet in usable form and hence the aim to link good practice with performance on the indicators awaits final submission of the case study reports. But a tentative conclusion is that because these projects at best cover their direct costs their ability to reinvest in maintaining and advancing their knowledge and technology base is compromised. On the other hand none seem at risk of losing their support base. All projects can point to significant benefits derived by their clients and favorable cost/benefit ratios. Specific usable findings await completion of the case studies. But at this point we are assured that the case studies are of projects that merit examination and will elicit operational guidance for program design and delivery.

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