



Stage III: Action

OVERVIEW

Stage III provides the process for implementing the intervention. Various resources are presented in Action, which provide further information. Firstly, some commonly used options for intervention are presented. This is followed by considerations to address low-income, remote, and underserved enterprises. After this, core topics such as micro-finance, BDS, and partnerships and networks are presented and finally, performance measurement is briefly addressed.

Action

- examines various possible intervention tools that address the demand-side and supply-side, or both;
- introduces approaches that have proven to be successful in integrating and reaching poorer entrepreneurs;
- provides guidelines for micro-finance, business development services, and partnerships and networks; and a framework for the measurement of the performance of the intervention.

METHODOLOGY

Step 1: Look at various possible intervention tools/instruments. Several intervention tools/instruments have been developed that address the demand-side and supply-side, or both. These are briefly presented below.

Vouchers and matching grants address enterprises' lack of information about services and reluctance to try a service. The aim of this tool is to induce the market for BDS by providing information and encouraging enterprises to try services by subsidising their initial purchase.

Information to enterprises addresses enterprises' lack of information about services and providers. Its aim is to expand demand by increasing awareness.

Clusters or networks address enterprises' lack of ability to pay for services and provider inability, or unwillingness to sell services in small enough quantities for individual enterprises. Its aim is to help enterprises overcome diseconomies of scale when purchasing services by enabling them to purchase services in groups.

Business linkages address enterprises' isolation and inability to pay for services up front. It also addresses providers' lack of knowledge about enterprises. Its aim is to create or expand BDS embedded within business relationships between enterprises and other firms.

Technical assistance addresses providers' lack of technical or managerial skills. Its aim is to build the capacity of new or existing service providers to serve enterprises profitably.

Product development and commercialisation address lack of appropriate products for enterprises in the market and provider reluctance to target new consumer segments. They aim to commercialise new products and services through existing providers by assisting with product development, market testing, and initial marketing of new products.

Social venture capital addresses a lack of supply in the market. Its aim is to increase the supply of services by assisting providers to expand or help new providers enter the market.

Step 2: Prioritise underserved enterprises. In developing countries, there is usually a group of poorer entrepreneurs who are underserved in ESS. This could be due to remoteness, non-functioning markets, or social barriers such as gender or ethnicity. For an organisation such as SNV/Nepal, for example, combining the market development approach with ESS and integrating and reaching the poorer segments of entrepreneurs provide a special challenge.

Although additional research is needed about how service markets include and exclude the poor, some approaches used by SNV/Nepal have proven to be successful in addressing this challenge.

From Social Mobilisation to economic development. The process of SM presented in this toolkit supports the establishment of groups. These groups form a good basis to advance the economic activities of group members. APPA (for example, the entrepreneur's window) supports the identification of potential viable economic activities and MAD

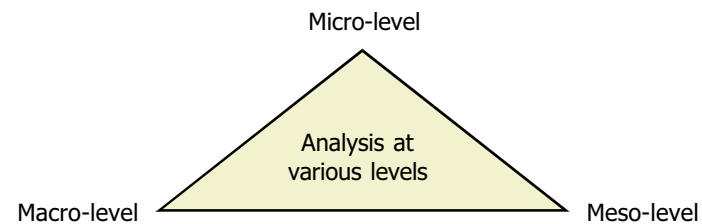
helps to develop these economic activities into profitable enterprises. The establishment, support, and growth of these enterprises can be facilitated by ESS presented in this toolkit.

Self-learning. A few key members of the groups can access certain services (for example, training in business planning) and can share this knowledge with their fellow group members.

Clustering and networking. Groups might have access to services that individual entrepreneurs might not have access to. The advantage of clustering and networking is that it will result in economies of scale. Furthermore, a group of entrepreneurs requiring the same service is usually in a better position to negotiate with potential providers.

Multi-actor approach. Usually, a variety of actors are involved in providing services to potential, starting, and existing entrepreneurs. These actors come from the private sector, government, and civil society. Each plays a distinctive role and coordination between them is important when it comes to targeting underserved entrepreneurs.

Linkages. Facilitating linkages is particularly helpful for underserved and small entrepreneurs. It eliminates certain





misconceptions that providers of services and bigger entrepreneurs have toward small entrepreneurs. It creates win-win situations.

Step 3: *Consider experiences and best practices of micro-finance services.* Financial institutions around the world successfully reach the poor and, at the same time, recover their costs. The following studies indicate critical success factors for the sustainable delivery of financial services to the poor.

Targeting of clients. To ensure that the financial services offered reach the poor, some form of targeting is required. Although this traditionally meant a process of in-depth household surveys, other more cost-effective approaches (based on rapid appraisal techniques) or indirect approaches (such as simply limiting loan size) can yield much the same results. A preference for women clients is advised.

Design of savings' and credit instruments and technology.

The financial services offered by a MFI must be designed in response to the needs and capacities of the clientele and not just be down-market versions of services provided to better-off clients.

Quality of services. Access to financial services must be cost effective for the clients. This means recognising the total set of costs related to a particular transaction (for example, time, transport, collateral, and service fees) and not just the direct cost in the form of interest charged. Most importantly, more than being cheap, services need to be timely and accessible.

Managing costs. Operating costs are kept low and tightly managed by ensuring that each unit (branch) is managed as a separate cost centre that must reach certain performance targets.

Focusing on financial services. Poverty is a complex problem with many dimensions. MFIs should focus on what they do best (financial intermediation) and leave the other components of poverty alleviation to other players. Supplementary services (such as training and enterprise development support) should be kept to a minimum and, if offered, be provided on a cost recovery basis.

Management information system. Financial intermediation is a complex task and requires up-to-date and accurate information for decision-making. Accounting and record keeping systems must be designed and maintained in a manner that generates required information on a day-to-day basis for the long-term management of the MFI.

Step 4: *Study key factors regarding business development services.* Compared to micro-finance, BDS is a relatively new concept. The following are core issues that have begun to emerge from literature and workshops from experienced organisations around the world.

Market development approach. Interventions need to focus on facilitating the expansion of the market for BDS rather than engaging directly in the delivery of services. To do this, it is essential to have a sound knowledge of the market and

interventions need to be designed with specific market development objectives. Interventions need to be able to respond quickly to the market with room for flexibility.

Role of subsidies. In the market development approach, subsidies for transactions should be avoided or limited to a short duration with specific objectives. Subsidies that directly reduce the cost or price of services are likely to distort markets more than subsidies for pre- or post-delivery activities.

A Number of Core Practices Based on a Study of SCOs in Nepal

Vision for growth

Community-based savings' and credit organisations are most likely to grow into large, sustainable financial institutions when they start with at least 25 members. These organisations share a vision to develop the organisation into a formal financial institution owned, controlled, and capitalised by the members themselves.

Effective governance

As such, savings' and credit organisations (SCO) must establish a disciplined approach to savings' mobilisation from the outset. There should be a clearly defined governance structure and process that is characterised by decisions made democratically and transparently.

Financial sustainability

The financial sustainability of savings' and credit organisations is best secured by applying higher-than-(formal) market rates on loans and at least equivalent-to-market rates on savings. The resulting financial spread (generally greater than 10%) is required by the savings'

and credit organisation to break even, given the relatively small size of its financial portfolio. Operating costs should be kept to a minimum.

Credit services

Credit services should focus on small, short-term productive loans that are processed quickly and transparently. These loans need to be secured, but internal guarantees (in the form of unencumbered savings, peer pressure, or usually a combination of the two) are adequate mechanisms to ensure high rates of repayment and collection.

Institutional development

The process of scaling up and institutionalising an organisation initially involves codifying the groups' accepted values and norms (particularly those related to democratic decision-making and autonomy). These are translated into formal by-laws and policies as part of the formal registration process, usually as a cooperative. Thereafter, savings' and credit organisations learn how to best meet members' growing expectations for improved services.



Separate role of provider and facilitator. The role of the provider (organisations that are directly involved in the delivery of services to enterprises) needs to be separated from the role of the facilitator (organisations that support other organisations to provide services to enterprises). This is because facilitators have more of a development agenda, whereas providers are more commercially oriented. Mixing the two roles easily results in ineffective programmes. Interventions should focus on the facilitator's role, unless the facilitator's services are commercialised.

Competition and efficiency. Interventions are often focused on one or a small number of providers, which could distort market competition. If circumstances allow, it is better to promote competition among providers by working with more providers. This will contribute to the efficiency of the intervention.

Exit strategy. The intervention should have a clear exit strategy. Once a sustainable market for (certain) BDS has been developed, the intervention has been successful.

Step 5: *Identify key qualities for forming partnerships and networks.* There are a variety of partnerships at the micro, meso, or national levels. In order to be effective, partners need to have the following characteristics:

A common purpose. Members that form a network should be driven by a common purpose based on common issues faced. Organisations that form a network should have a shared vision and a similar concept of what needs to be addressed and how.

Sharing and communication. The sharing of experiences, skills, information, and resources is essential for a well-functioning network. There should be good communication links.

Values. Partners in a partnership or network should have similar values and these should be discussed before making any commitments.

Linkages. Linkages in a network should be established between members and between members and their centre (secretariat). Further networking should take place before the network structure is put into place.

Decision-making. A core group for making decisions should be identified and maintained. When a structure is put into place, it must be supported across the membership.

Roles and responsibilities. Boundaries and distinctive roles should be maintained. Members must be prepared to contribute to their network before expecting to take anything from it.

Benefits. A network should not only be strong in itself, it should also contribute to strengthen its individual members.

Step 6: Include performance measurement. Performance measurement is needed by providers in order to improve the design of instruments and services in response to client demand. Donors need to measure performance to facilitate their decision about interventions to support market development for services. The following three categories of performance measurement are emerging.

- 1) Outreach
 - expand the market for BDS;
 - develop a high-quality, diverse, competitive market; and
 - increase accessibility of BDS to underserved groups.
- 2) Sustainability and cost effectiveness
 - promote sustainable access to services; and
 - maximise programme cost effectiveness.
- 3) Impact
 - increase consumer acquisition of BDS;
 - increase customer use of BDS; and
 - increase customer benefits from BDS.

A performance measurement framework including goals, objectives, and indicators has been developed and is presented on pages 128 and 129.

Case Study of Micro-Enterprise Development Programme

Initiated by His Majesty's Government of Nepal's Ministry of Industry, Commerce, and Supplies, the micro-enterprise development programme aims to reduce poverty of low-income families and build the capacity of organisations that deliver services. The programme's priority is to build sustainable partnerships among government organisations, local government bodies, non-government organisations, private sector institutions, business membership organisations, and local people. The following points indicate the kinds of linkages that have been facilitated with different stakeholders playing different roles. At the entrepreneurial level, the following guidelines exist for helping entrepreneurs to create alliances.

Assessment of constraints: entrepreneurs begin by assessing the main constraints of (the development of) their business.

Identification of critical services: entrepreneurs list the areas where the need for external assistance is most critical and types of services that are needed.

Selection of members: other members in the market chain are selected who could benefit from the alliance and services provided (continued on next page).

<p><i>Identification of service providers:</i> indirect actors, who are likely to assist in overcoming some of their constraints, are selected for each of the target areas of development. For example, those who can help to solve technical problems, improve management of the enterprise, or contribute to overcoming policy problems.</p>	<p><i>Assessment of existing relationship:</i> an assessment is conducted for the (potential) service providers identified, of the nature of existing relationships, and of how they need to be changed.</p> <p><i>Creation of linkages:</i> linkages are developed with selected key actors.</p>
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Performance Measurement Framework

Goal 1: Increase Outreach (Scale and Access)	
BDS market development indicators	
Objective	Indicators
Expand the market for business development services.	<ul style="list-style-type: none"> ▪ Number of enterprises acquiring a service through any method and purchasing a service through commercial transactions* ▪ Amount of sales by BDS providers* ▪ Market penetration: percentage of potential SE market acquiring a service through any method and purchasing a service ▪ A programme's market share of all services acquired through any method and all services purchased ▪ Awareness: percentage of enterprises aware of a service ▪ Reach: percentage of those aware who have purchased a service at least once
Develop a high-quality, diverse, competitive market.	<ul style="list-style-type: none"> ▪ Number of BDS providers* ▪ Number of BDS products ▪ Retention: percentage of multiple purchasers out of all purchasers ▪ Satisfaction with last service purchase ▪ Reasons for purchase, non-purchase, and choice of provider
Increase access of underserved groups to BDS.	<ul style="list-style-type: none"> ▪ Extent of access: percentage of enterprise customers purchasing a service that represents a targeted population (women, micro-enterprises, exporters)* ▪ Target market penetration: percentage of potential enterprise-targeted markets (women, micro-enterprises, exporters) acquiring a service through any method and purchasing a service

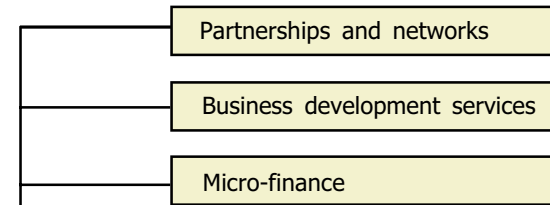
Goal 2: Sustainability and Cost Effectiveness	
Assessing BDS providers	
Objective	Indicators
Achieve providers' sustainability	<ul style="list-style-type: none"> ▪ BDS provider financial sustainability (non-donor revenue/total expenses)* ▪ BDS contribution margin (enterprise revenues from a service — direct expenses for the service/total expenses) ▪ BDS viability (revenue from a service/direct expenses for the service)
Improve programme cost effectiveness	<ul style="list-style-type: none"> ▪ Simplified cost-benefit assessment comparing annual programme costs to aggregate annual programme benefits for entrepreneurs* ▪ Annual programme expenses per customer served* ▪ Annual programme expenses per provider assisted* ▪ Annual programme expenses per firm that 'used' a service ▪ Annual programme expenses per firm that reported benefits from a service

Goal 3: Impact	
Assessing BDS customers	
Objective	Indicators
Increase customer acquisition of BDS	<ul style="list-style-type: none"> ▪ Customer satisfaction with a BDS* ▪ Repeat customers (percentage of customers who buy more than once)*
Increase customer use of BDS	<ul style="list-style-type: none"> ▪ Percentage of customers who improve business practices, as defined by the provider*
Increase customer benefits from BDS	<ul style="list-style-type: none"> ▪ Change in gross profit*

Note: these indicators are in use in a fair number of BDS programmes. Note that the indicators under 'market development' with an asterisk (*) are mainly used to assess the outreach of particular programmes, but are not widely used to assess the BDS market in general.

GUIDELINES

1. Linking savings' and credit: savings is viewed not only as a pre-requisite for credit, but as an important financial service in its own right. While regular, equal, and contracted savings are a useful entry point for mobilising the poor, especially poor women, their needs for savings' services are much more complex and other forms of savings' instruments must be developed in response to their needs.
2. Interest rate structure: the spread between the interest rate offered on savings and the interest rate charged on loans is sufficient to recover costs of the institution (including operating costs, other financial costs, loan losses, and inflation).
3. Cost coverage: as with the provision of financial services, in order to be sustainable, service providers need to be able to cover the costs of their services through transactions with enterprises.
4. The intervention needs to be developed with a vision of sustainability.



Stage III provides guidelines for the following topics

5. The members of the interest group form work groups for each area of enterprise development (market/economy, environment/resource management, social/institutional, technology) and together discuss what kinds of partnerships could help them overcome some of the constraints in that area. Non-financial partnerships for marketing include associations comprising of several production groups to promote trade linkages and standardise product quality. Other stakeholders in the area may want to be involved in the organisation in some way, i.e., local traders, Chamber of Commerce, and local NGOs.

Use of Tools/Instruments

Vouchers and matching grants, information to enterprises, clusters or networks, business linkages, technical assistance, product development and commercialisation, social venture capital, rapid appraisal techniques, and performance measurement.