

„From Idea into Action“

The implementation and Metamorphosis of the BDS concept

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Foreword

Every now and again, and in every profession, an idea comes along which challenges our traditional thinking and action. It calls for a reappraisal of values, the reformulation of systems and the development of new tools to transform the idea in action. The idea captures the spirit of its times and a core group of early adapters seems to grasp its message almost intuitively. But, while intuition may be at the heart of creativity, it is analysis, application and results that determine an idea's longevity.

Several years ago an idea was born in the enterprise development community. It grew out of the processed learning of the 80s and the emerging new role of the state in the 90s. It was "raw" but people could understand its common sense. The idea was quite simple, if we want our enterprise development initiatives to have more impact, outreach and sustainability we need to integrate them more into market mechanisms. We need to think more clearly of what happens when we pull out and even to ask ourselves, "are we actually becoming part of the problem rather than the solution?" A tough question for donors!

Despite the intuitive acceptance, one can understand the initial resistance to change. The common response was, "Yes...., a good idea but very hard to do!" This publication is about how one development organization, GTZ, with political and financial support from the BMZ, took this idea and forged it on the anvil of experience. Though there are many publications on the projects that have come out of this forging process, this paper is more about the impact that this idea had on the thinking and behaviour of development professionals as they struggled to learn the new skills they needed to transform this idea into action.

Anyone who has attempted to change their behaviour will appreciate the need for support from respected friends and colleagues undertaking similar changes. In these conditions failure is not seen as the end of the process but rather as part of the learning and adaptation essential for eventual success. In this respect GTZ's Economic Reform and Market Systems Development network, between 1997 and the present, played a lead role in fostering changes in thinking and behaviour for many within the whole organization. This network stimulated more than 60 enterprise development practitioners within their regions to meet every six months, throughout this period, to set standards and to exchange experiences, tools and thoughts on how to make this idea work more effectively.

This publication is a product of a Task Force of GTZ's network. It traces the metamorphosis of thinking in the enterprise development community and more specifically within GTZ over the last 10 years. It shows how an organization that embraces change is able to significantly contribute to the emergence of a new agenda based on market development approaches to increasing the access of the private sector to better and more effective services from public and private organizations. We hope that you will appreciate this candid and analytical reflection of our learning process.

Jim Tomecko

On behalf of the Sector Network 'Assets for Asia'

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Several experts have contributed their comments during the elaboration of the final version of the publication. In this regard we would like to give our special acknowledgements to Corinna Küsel, Joachim Prey, Sabine Becker, Gabriele Trah and Brigitte Späth.

Abbreviations

BDS	Business Development Services
BMO	Business Membership Organization
BMZ	Federal Ministry for Economic Cooperation and Development
DFID	UK Department for International Development
EE	Enabling Environment
EoPSD	Employment oriented Private Sector Development Programme of the GTZ
GTZ	Gesellschaft für Technische Zusammenarbeit
ILO	International Labour Organisation
LRED	Local and Regional Economic Development
PPP	Public-Private Partnership
PSD	Private Sector Development
PSP	Private Sector Promotion
MSME	Micro-, Small- and Medium-sized Enterprises
NGO	Non-Governmental Organisation
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish Agency for International Development and Cooperation
SME	Small and Medium-sized Enterprises
VC	Value Chains

Introduction

“When you are trying to do something, you end up learning a lot.”

Ten years ago three letters became synonymous with a paradigm change in private sector development projects of the international donor community: BDS, or Business Development Services. BDS came to stand for a market development approach with special emphasis on sustainability, impact and outreach of donor interventions in developing countries. Its emergence must be seen in the context of a continuous innovation and learning process of donors based on earlier experiences and approaches in private sector development (PSD).

Within the German Development Cooperation especially the Federal Ministry for Economic Cooperation and Development (BMZ) and the German Technical Cooperation (GTZ)¹ were main drivers of the BDS market development approach. They placed it at the top of the international development agenda of the Committee of Donor Agencies for Small Enterprise Development in the middle of the 1990s. BMZ also promoted this approach in other German development institutions. In recent years the GTZ has implemented a large number of projects and adjusted BDS to the complex challenges in weaker markets.

In 1995 there were no guidebooks on implementing BDS. It was seen more or less as a “learning by doing” process. After 10 years of practical learning it can be stated that the BDS market development approach has helped to make projects more effective and raised the sustainability of interventions. This publication reports on the learning processes within the German Development Cooperation in the last decade. It shows how the BMZ and the GTZ acquired and developed the expertise for promoting and integrating BDS into its Private Sector Development (PSD) concepts and strategies. It looks back at challenging as well as good experiences and tries to categorise the lessons learned. And it looks ahead to define coming challenges for market and private sector development strategies.

Although much has been published about best practices, this article is mainly sourced on some 30 interviews with GTZ practitioners, consultants and international BDS experts. In order to collect basic information about GTZ project managers’ perceptions and opinions, eighteen questionnaires were sent to BDS projects in different countries. This publication aims to preserve and share the learning processes. Another aim is to promote a market development approach that does not follow minimalist support interventions but considers and responds to the complex requirements. Ten years of experiences in BDS market development have to be further incorporated into future work.

¹ The GTZ is a closed limited liability company (GmbH) owned by the German Federal Government. It implements 2,700 development projects and programmes in more than 130 countries, with its own offices in 67 of them. Of 10,000 employees, about 1,000 people work at the head office in Eschborn near Frankfurt am Main. Website: www.gtz.de, www.bmz.de.

The following chapters will demonstrate the learning paths and are organised into four headings and sections:

- A) Where we came from (chapter 1: History of the BDS approach)
- B) How we have learned (chapter 2: BDS and GTZ: efforts to promote its integration)
- C) What we have learned (chapter 3: Lessons learned in the last decade)
- D) Where we want to go (Conclusion and outlook)

Where we came from ...

I. History of the BDS approach

“The BDS market development approach entails the essential elements of competitiveness. It can be interpreted as an interface between macro, meso and micro requirements from an entrepreneurial perspective: first there is the market with suppliers, workers and services, then institutions with additional public and private services and last but not least there is the policy level with regulations, laws and the potential to encourage or hinder the development of entrepreneurs and the market. The approach therefore presents a transmission belt for donor interventions to promote innovative support programmes.” (interview statement)

I.1 The challenges since the 1990s

The GTZ and the BMZ have always interpreted the BDS market development discussion and its implementation into donor approaches as a logical result of important accumulated learning experiences in micro, small and medium enterprise (MSME) promotion during the 1980s and 1990s. Its emergence can be seen as a process and move towards a more market-based approach with a continuous striving for more outreach, impact and sustainability instead of a total rupture with earlier support approaches.

Nonetheless its breakthrough in the middle of the 1990s was the upshot of a general perception that traditional support approaches lacked impact and sustainability.

The BDS discussion started in 1995. It culminated in the so-called “blue book”, published by the Committee of Donor Agencies for Small Enterprise Development, which became a guideline of best practices and in a sense a catalogue of criteria for comparing small and medium enterprise (SME) projects. More important than the publication of the blue book itself were the intensive international discussions, evaluations and reflections undertaken in numerous projects, international working groups and conferences and their identification of the key weaknesses of traditional approaches.

The donor approach followed up to that point was mainly supply-driven. Although important project activities were implemented to improve preconditions for a BDS market development approach (like developing human and organisational activities and strengthening public and private support institutions) there was insufficient understanding of the real demand side of MSMEs and the functional logic of markets. Instead of facilitating the development of service markets, donors and governments often acted as direct providers of services and in some cases crowded out private service opportunities. The emphasis on the support of public services or NGOs encouraged an incentive logic in which the latter organisations reacted more to the demands of the donors than to those of the business sector. Mainly standardised support products and services were offered, frequently free of charge. Service delivery was

mainly regarded as a public good, rather than there being any differentiation between public and private duties and responsibilities.

The role of the blue book (quotations from international BDS experts)

“The blue book was only an invitation to think, not a gospel truth!” (Alan Gibson).

“The guidelines and discussions were effective because they pointed out the necessity of change”. (Susanne Bauer, international consultant)

“Putting BDS into practice means the creation of locally applied support structures. This necessity was underestimated in the beginning of the discussion.” (Marita Brömmelmeier, GTZ)

“The BDS criteria are good, but have to be applied to the local circumstances.”(Sabine Becker, international consultant)

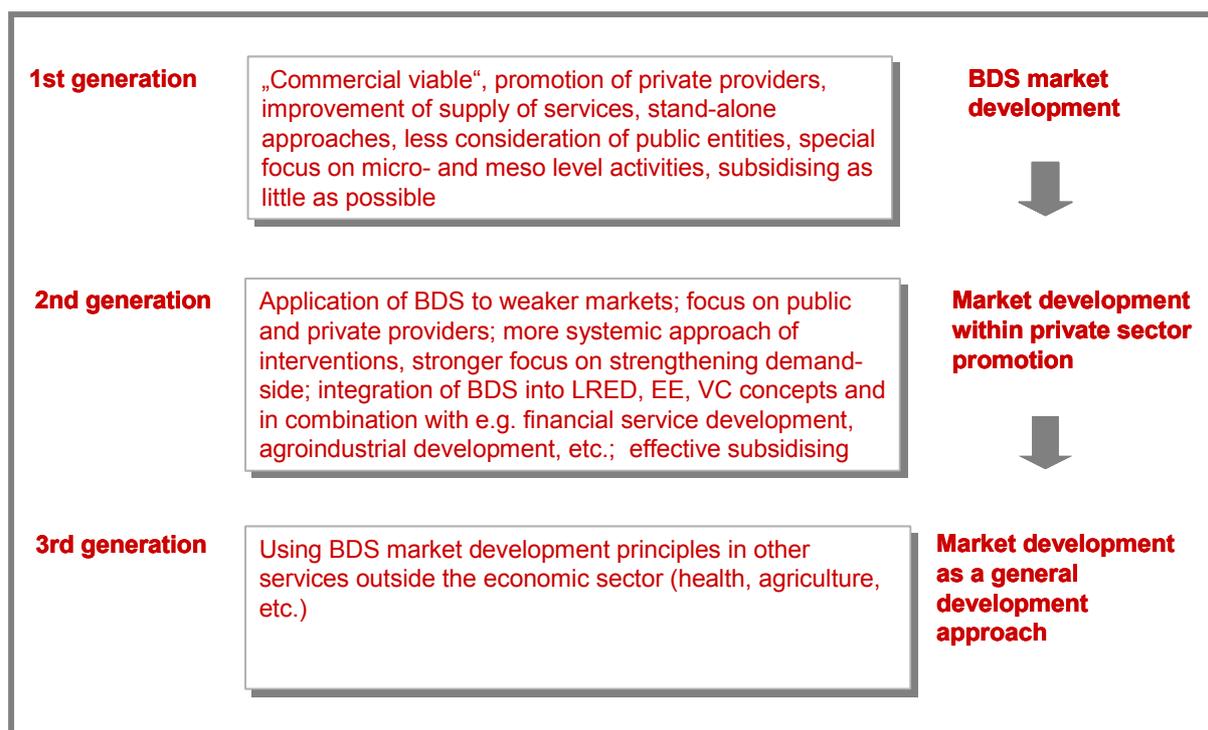
“The BDS blue book never followed a dogmatic approach because there are no standardised answers.” (Jim Tanburn)

“The guidelines posed a set of challenges that demanded a new set of “think tools” to design and implement more impactful interventions (Jim Tomecko, GTZ)

“The theory in the blue book was good. In practice we were still beginners.” (Joachim Prey, GTZ)

Especially in weak markets, where supply and demand are often mismatched, it became increasingly important to rethink interventions from the donor and governmental sides. The innovative aspect of the BDS market development approach was its emphasis on analysing the functioning of markets and strengthening them as a whole. Strengthening the “market place” became the objective instead of strengthening isolated aspects within the market that might distort rather than improve the economic situation.

BDS are primarily services for entrepreneurs, especially for SMEs, to improve their productivity and competitiveness. In contrast to earlier SME approaches, they should be conforming to the market and be offered by competing providers. The 1st generation of BDS projects therefore mainly focused on the support of private providers, the matching of supply and demand of services and a very resolute interpretation of the blue book guidelines in terms of subsidisation, demand and private sector orientation. It soon became obvious that BDS support is not enough to strengthen BDS markets, especially in economically weaker countries. The 2nd generation of BDS market development included additional elements, more actors and integration of the BDS market development approach with private sector promotion, value chains (VC) and an enabling environment. There is a trend towards a 3rd generation that this publication does not address. The present international discussion on concepts like “Making markets work for the poor” and the trend to transfer a general market development approach into other sectors (like health, agriculture, etc.) has been influenced by lessons learned from the BDS concept, e.g. how to operationalise the market development objective and relevant tools, indicators, processes, partners or intervention mechanisms.

Graphic 1: Generations of BDS and their specific aspects

I.2 The 1st generation of BDS

While it was relatively easy to find a commonsense assessment of the weaknesses of traditional approaches, it became more challenging to design practical market-oriented projects that followed the new line of BDS thinking. The 1st generation of BDS projects generated a set of maxims for application of the concept:

- Focus on market-oriented and demand-led interventions. Market and demand assessments became an integral tool for identifying appropriate interventions and for developing products accordingly.
- Initial market research focused mainly on “stand alone” services like advertising, communications, consultancy, accounting, finance and technology
- Market distortions should be minimised by scrutinising the use of subsidies and by examining existing incentives.
- Focus on commercially viable solutions in which SMEs are seen as clients rather than beneficiaries.
- Focus on private service providers as a new target group. It was supposed that they would act in a more business-like and market-driven manner.
- New definitions emerged for the roles of public stakeholders: Public providers like donors, business member organisations (BMOs) and non-governmental organisations

(NGOs) should withdraw from direct delivery of potential private services and become facilitators of the BDS service market and limit their functions to more public good services such as demand stimulation, information, market linkages and advocacy.

- Project staff of donors and partners must become more business-like, applying more flexible and demand-oriented tools instead of standardised models. This also includes the need for new business skills beyond traditional project management skills.

“Everything has to be commercial” for a short while became the mantra of some BDS experts. However, in recent years, this 1st generation BDS approach has been criticised by some as being too rigid and fixed on commercially viable private service solutions. Insufficient emphasis was placed on the weak institutional and market realities in many developing countries. The roles of public entities were also not adequately incorporated into implementation interventions. Private service providers were predominantly identified in urban areas, mainly oriented towards the demand of the more solvent medium and large enterprises.

I.3 The 2nd generation of BDS

The second generation began with BDS projects also being implemented in regions practically devoid of the necessary conditions, such as support institutions, private service providers and relatively stable political contexts. In recent years discussion of BDS market development has become more pragmatic, more differentiated and more appropriate to different local realities. The more BDS projects worked in weak markets, the greater became the need to adapt the approach to given conditions. These circumstances also demanded more specific market analysis, more specific and differentiated interventions and tools and the identification of additional services.

Key tendencies of the 2nd BDS generation were:

- Greater emphasis on applying BDS to different local circumstances and the shift of emphasis from BDS to market development.
- Less importance given to distinguishing between public or private providers. Most significant is that the appropriate provider delivers services in a more sustainable and market-oriented way.
- A more systemic approach to interventions in which local and national government entities and BMOs as public service providers play important facilitator roles to promote BDS.
- The importance of integrating weaker sectors and entrepreneurs (agricultural sector, micro enterprises) into BDS approaches.
- The integration of a BDS market development as an element into private sector development (PSD) programmes like local and regional economic development

(LRED), value chains or enabling environment and thereby an extension of a market-oriented approach overall.

- PSD projects that have not integrated a specific BDS market development component but with market development an underlying aim. It often goes hand in hand with activities that focus on interventions at the macro and meso levels like the development of an enabling environment to improve the local and national investment climates.

The use of embedded services, sub-sector and value chain approaches and the introduction of more specific market assessments, rapid appraisal and action-oriented approaches have facilitated understanding of the specific problems and address the specific needs of the different business groups. The present direction of donor activities towards a market development approach demonstrates that the most important elements of BDS have received attention. In recent years BDS market development has moved from a focus on services for SMEs to becoming a mainstream approach for finding market-based solutions to the problems of targeted sections of the private sector.

How we have learned ...

II. The role of The BMZ and the GTZ in putting the BDS market development approach onto the international agenda

Within the German Development Cooperation, specifically the BMZ and the GTZ, have promoted the BDS market development approach from its start and became one of its main drivers (see interview statements in the box).

The development of the BDS market development approach started in 1995 and emerged in the 'Committee of Donor Agencies for Small Enterprise Development'. After this donor forum had published guiding principles for selecting and supporting financial intermediaries (the so-called "pink book") the GTZ, together with other leading international donor representatives like DFID, ILO and SDC, presented the idea of developing guidelines for non-financial business development services.

The role of the GTZ in the implementation of the BDS approach

"The GTZ played a central part in the BDS approach especially in the first years."
(Jim Tanburn)

"The GTZ was in the forefront of rethinking what donors should do and what not!" (A. Gibson)

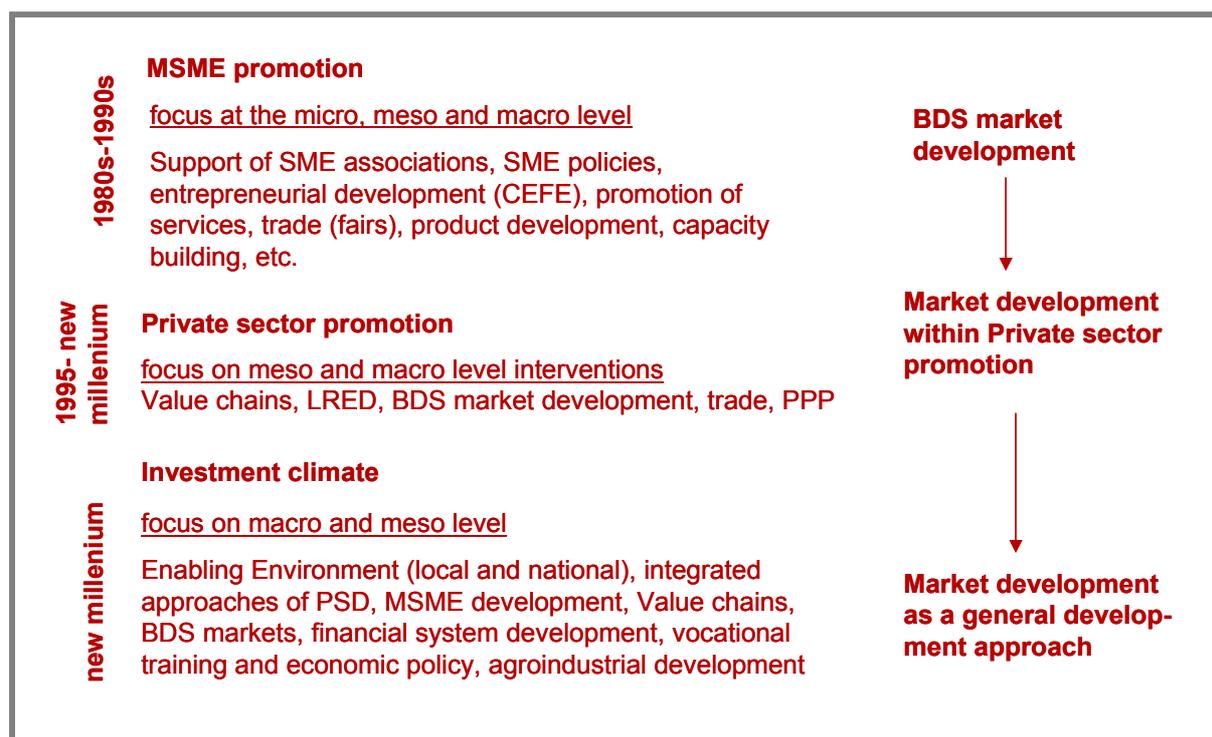
"GTZ is very good in sharing information and results and encouraging the discussion on important issues" (Jim Tomecko)

The GTZ was especially interested in this approach due to its large volume and breadth of experience in MSME and PSD during the 1980s and 1990s. In earlier times the GTZ and other institutions like the German Development Service have contributed especially to building up the meso or institutional level for SME development, linking entrepreneurs with business and governmental institutions, addressing also organisational development aspects, the improvement of the supply-side of services and developing the human and organisational capacities needed for a BDS market to emerge.

The BMZ and the GTZ were aware of the weaknesses of supply-oriented conventional approaches due to experiences with large numbers of different economic stakeholders. During the 1990s the ministry had already started to redesign their sector concepts in regard to MSME and private sector promotion, putting emphasis on systemic interventions, the principle of subsidiarity and the involvement of market and demand-oriented aspects. From the start of the 1990s the PSD department of the GTZ followed a continuous structural reform process directed towards a more market-oriented intervention approach, integrating the sys-

temic development approach with interventions at the macro, meso and micro levels. It also broadened its PSD approach. Starting with MSME promotion emphasising interventions at the micro and meso levels, it continuously moved towards a higher outreach and a private sector development approach that also reached out to larger enterprises. It further moved towards improving the business environment or investment climate with increased interventions at the macro and meso levels (see graphic).

Graphic 2: Trajectory of PSD-Strategies within the GTZ and parallels towards markets development



The key role of BMZ and GTZ in promoting the BDS market development approach can be traced back to several steps:

- At the 1995 meeting of the ‘Committee of Donor Agencies for Small Enterprise Development’ in Budapest the GTZ presented the idea of developing guidelines for non-financial business development services.
- GTZ took over a steering role in MSME discussion in subsequent years. The BMZ financed the main study on best practices, the GTZ contributed expertise to it. This spawned the BDS blue book. Jointly with other donors the GTZ organised several international conferences.
- It founded BDS working groups and exchange events within the GTZ and within its regional sector networks to drive implementation procedures and BDS knowledge exchange.

- Some GTZ PSD staff participated in the writing of the blue book, guided the international discussion and contributed to international BDS training events.

By number of projects, GTZ became one of the largest implementers of the BDS market development approach. Out of 86 PSD projects and programmes in 2005, 40 involve at least one BDS component integrated with programmes focusing on SME, LRED or EE promotion.

One of the main challenges in BDS market development is to adjust the interventions to varying market conditions. The practical experiences of the GTZ have grown a treasure trove of tools and instruments staff can draw on to tailor solutions to a wide variety of conditions (see box below: How BDS affected individual thinking).

How has the BDS approach affected the individual thinking of project leaders?

“BDS was for me the answer to PSD. Otherwise I would probably not be in that business anymore.”

“The requirement to understand business and business promotion.”

“I need to try and understand my clients better.”

“Thinking about cost and benefit of each intervention.”

“I no longer think: How can I fix the problem? Rather: Why has the market not addressed this problem?”

“I will never be able to go back to supply side SME promotion again.”

The evolution of this body of expertise was encouraged especially through intensive efforts in

- product development and knowledge management as tasks shared by headquarters and the regional structures (see box “regional sector networks”);
- the support through specific sectoral projects (Sektorvorhaben) financed by the BMZ and implemented by the GTZ. These projects have research agendas and involve pilot initiatives focusing on the development of innovative aspects, tools and approaches that should be integrated with future strategies and focus areas;
- improving human resource management, e.g. qualification and training of staff, organisation of and participation in international PSD and BDS conferences and courses and introduction of more business-oriented criteria for the selection of managerial staff;
- a decentralised project management system giving local project management sufficient freedom to test innovative tools and at the same time providing headquarter inputs of good practice experiences;
- a longer-term (three to eight years) project orientation in partner countries;

- close cooperation with other donors in the partner countries and at the headquarters level.

Regional PSD networks as base of GTZ knowledge management

At the end of the 1990s the GTZ introduced regional sector networks as an integral part of the GTZ's overall knowledge management and quality assurance system.

All GTZ PSD projects are integrated in five regional networks (Asia, Africa, Latin America, South Eastern Europe/Central Asia, Middle East).

Their task: to develop better concepts of projects and programmes, easy access to each other's information and resources, learn easily from and with each other, create economies of scale, reduce development costs.

Activities: annual meetings, joint projects (e.g. product development), working groups on different topics, info-website creation, newsletters, etc.

In regard to BDS: working groups on BDS, joint publications, international BDS conferences, jointly developed BDS products and regional BDS projects, BDS courses, quality assurance criteria for SME promotion, etc.

These circumstances have enabled the GTZ to mainstream the BDS market development approach and take a leading role in the international donor discussion on further integrated market development approaches in value chains, LRED or the investment climate.

What we have learned ...

III. Lessons learned in recent years

Ten years of hand-on experiences informed many learning processes and nourished continuous improvement of strategies, tools and intervention designs. Interviews identified main challenges and lessons learnt: These are especially

- the challenge of following a demand-led development approach and encouraging information and awareness,
- the identification of appropriate intervention approaches,
- convincing and incorporating partners into the BDS approach and clarifying different roles of the stakeholders,
- the successful application of BDS market development within more integrated development approaches like LRED, value chains or investment climate and
- the definition of minimum requirements for the success of BDS market development.

III.1 Demand orientation as a complex challenge at different levels of intervention

One of the major elements of the BDS market development approach is its strong emphasis on demand orientation. Interventions have to be based on “what the market tells us” and not what the donor, the state or the project believes the market needs.

Implementing demand orientation is challenging because policy makers, donors and enterprises often lack the information and awareness about constraints on market development or are not aware of more intelligent intervention options. Hence the main question for GTZ and the staff of BDS projects was and is: how can we make interventions more sustainable, less supply-led and more market-oriented?

The BDS concept of the GTZ treats the improvement of BDS markets as an element of an overall strategy to promote systemic competitiveness. In addition to the support of institutions and providers it sees an important role of the state in supporting the development of BDS markets. BDS markets demand

- macroeconomic stability,
- transparent and entrepreneurial-friendly policies and laws at the macro level,

- transparency about supply and demand of consultancy services and institutions that provide information and advocacy at the meso level
- and access to information for improving entrepreneurial competitiveness at the micro level.

Promoting market development only at the micro, meso or macro levels (or the other way round) often inadequately utilises synergy effects created by a systemic approach.

Following a demand-oriented approach demands especially the right information and awareness about market conditions and best practice intervention.

The GTZ has used several strategies to increase information and raise awareness:

- Assessing the market as a first criterion:
 - Several market and needs assessment tools² have been developed to improve the understanding of market size, service demands of entrepreneurs, the supply of service providers, service gaps, matching demand and supply for/of services, awareness of existing services, value chains, as well as surveys about legal constraints and distortions for the delivery of services. These types of information shed new light on the interaction between local, regional and national stakeholders in regard to service provision and to the entrepreneurial, institutional and legal constraints and opportunities.
 - Cross-cutting assessments were complemented with more specific (sub)sector, territorial or service-specific assessments.
 - First assessment approaches were based more on quantitative analysis. Later qualitative and participative methods such as workshops and rapid appraisals gained importance in seeking closer understanding of the specific needs of business and a close understanding of their way of thinking as well as regular contact with them.
 - Compared to traditional approaches of more standardised interventions, these different forms of assessments became a precondition for identifying market-oriented intervention approaches.
- Systemic interventions as an integral part of the BDS concept:
 - The BMZ and GTZ put special emphasis on systemic intervention approaches. Awareness and information constraints about the market concern policy makers, institutional representatives and entrepreneurs. Hence GTZ projects try to develop interventions that impact at entrepreneurial, institutional and policy levels.

² Market assessment tools like the Usage, Attitude, Image Market Study (UAI), Product Concept Price, Sensitivity Tests, customer satisfaction surveys, surveys about policy and legal environment studies, etc..

- Some projects have started their interventions with a special focus on the macro level (see the example of Vietnam in the box), others are focusing their systemic interventions on the micro, meso and macro levels (see the Sri Lankan example in the box). The important aspect in this regard is the objective to address main constraints of market development through coordinated activities that increase the outreach, sustainability and impact of the interventions.
- Gradual promotion of demand orientation
 - Especially in weaker markets it is more difficult to follow a strictly demand-oriented and systemic approach (see “other” examples in the box). Often the market situation allows interventions only in specific areas like organisational development, support of specific providers, small demand-oriented interventions. Nonetheless, they are integrated in an overall strategy that aims to lift BDS market development in the medium and longer terms.
 - Most interventions to promote demand orientation will not have an ad-hoc success. Creating awareness of the importance of a BDS market and of using services is especially time-intensive.
 - The adjustment of public and private institutions towards a demand-oriented approach involves capacity building and a change of traditional ways of doing things. This also needs time.
 - Especially in weaker markets, demand orientation has often to be combined with some supply-oriented pilot activities for demonstration effects.

Specific elements that help to promote demand orientation are

- the integration of continuous follow-up activities to keep the wording “demand orientation” alive;
- the intensive use of public relations,
- the use of outcomes from market assessments for information, awareness and transparency creation;
- the integration of quick results into the overall project approach to demonstrate direct impact and maintain motivation.

Nucleus in Sri Lanka: systemic BDS intervention from the entrepreneur's point of view

Four years ago the BDS component of the Enterprise Strategy Support Program (ESSP) in Sri Lanka started with the support of BDS providers and business linkages. After one year of experience the project changed its approach because of the low demand on the part of entrepreneurs for services. ESSP focused on the NUCLEUS approach with which it

- stimulates ideas of the Nuclei members to improve their enterprises,
- motivates entrepreneurs to demand tailor-made BDS products,
- influences changes in business environment and
- initiates organisational development in chambers through the Nuclei (bottom-up approach).

Activity: A Nucleus is a working group of entrepreneurs from the same sector guided and facilitated by a counsellor employed by a chamber or association to define their problems and service demands and upgrade their businesses. This approach tackles several demands at different intervention levels: 1) the Nucleus creates awareness and information at the entrepreneurial level and concrete demand for BDS which leads to increased demand for BDS. Several chambers and associations use the Nucleus approach to strengthen and improve their membership, their role as facilitator, their organisational capacity (meso level) and therefore also their bargaining power on framework conditions (macro level, e.g. tax regulations). The chambers are strengthened in their role as service provider as well as effective lobbyists.

Achievements: The Nucleus approach enables quick results, encourages learning processes and mobilisation with the different important stakeholders and strengthens their own capacities. At present six business chambers and associations run between 5 and 15 nuclei each. Of the almost 1000 Nuclei entrepreneurs all have used BDS at least one time in the last year which is a significantly higher BDS usage compared to non-Nucleus members. The Nucleus approach has tripled its influence in the last 2 years and demand is increasing also in other regions. Subsidisation is only giving indirectly and along a performance-oriented strategy to disseminate the approach in many chambers and associations.

GTZ Vietnam: enabling the national and local BDS environment

The GTZ SME Promotion Project in Vietnam supported the creation of a conducive policy framework and market for BDS through an intensive BDS awareness creation process at the national level.

Activity: First, the GTZ supported a BDS market assessment study focused on a limited number of services and a study on the policy and legal environment for BDS in Vietnam. The studies identified legal constraints and inconsistencies with the Law of Enterprise, lack of legal instructions and confusions on eligibility conditions to provide legal services. The project promoted not only policy and regulatory constraints to the development of BDS but also inputs and concrete proposals for action.

Achievements

- Creation of awareness and influencing the public opinion with regard to BDS, bottlenecks for BDS development and the need to “outsource” enterprise functions to BDS providers for increased competitiveness.
- Through the involvement of key institutions the project managed to transform research results into policy changes e.g. to facilitate market entry for legal and intellectual property consultancy services and to simplify procedures for establishing vocational training schools.
- Additional activities like quality management and entrepreneurship trainings and the development of websites for information has also had an impact at the provincial level to integrate BDS principles into policy making

During the last year the project shifted its focus from the promotion of BDS from the macro level (overarching BDS framework conditions, cross-cutting issues) towards more decentralised interventions (support of value chains and LED in four provinces).

Further short description of examples:

- The GTZ programme Employment oriented Private Sector Development (EoPSD) in Nigeria (is organising a radio broadcast aimed at local SME owners and operators for the provision of information and raising awareness. The project is commercialised with the support of banks, associations and NGOs. Additionally it has developed rapid appraisal methods to identify concrete demands of entrepreneurs and is adding this approach with training of private consultants who respond to this demand.
- In Bangladesh NGOs are delivering many (often highly subsidised) services. In one component the BDS programme of the GTZ (progress) supported the creation of a network of partner NGOs called “BS-Net”. BS-Net is a facilitator and aims to support its members in their efforts to provide efficient, non-market-distorting BDS services.
- The PSD project in Ethiopia supports about 50 business service institutions (private and public) and follows with them a BDS approach. Main activities are the qualification of enterprise consultants and facilitators within these institutions combined with a very field and action-oriented approach in regard to the identification of business needs and services. The project supports 9,600 entrepreneurs.

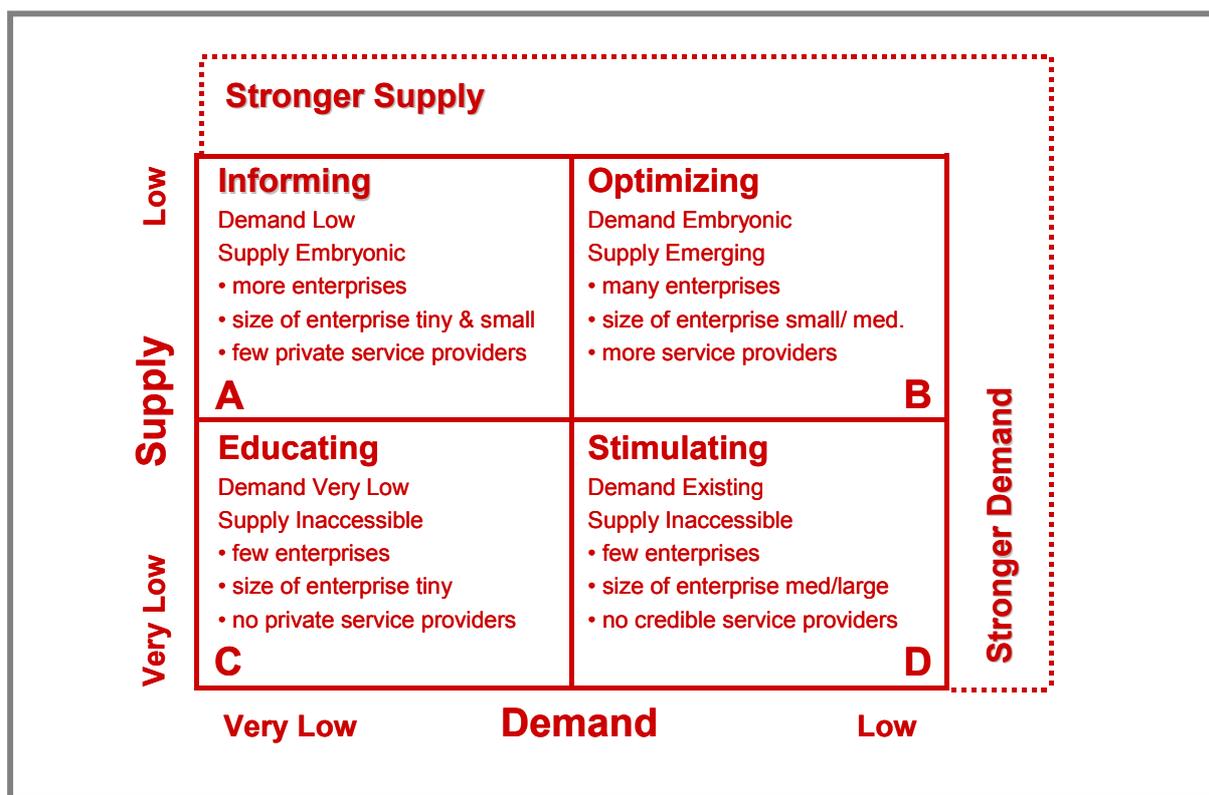
III.2 Identifying appropriate intervention approaches

The goal of demand-oriented interventions is not to impose external solutions but to ensure that donor and state activities are shaped by an understanding of the “rules of the game”, in regard to the constraints that inhibit the local market’s development.

Market circumstances not only change from country to country but also within countries between regions and localities and between sectors. Apart from understanding market functions and failures in these different localities and identifying overall systemic considerations, new market insights demanded the renunciation of blue print approaches and the development of new tools appropriate to local norms, skills and resources.

In comparison to many other donor organisations, the GTZ often intervenes with less financial means. Its advantage lies in its longer-term presence and comprehensive strategy orientation in the partner countries. Especially during the last decade the consistent development of new innovative products and instruments became a priority, supported by the regional sectoral networks, the BMZ-financed innovation projects (Sektorvorhaben) and by many pilot activities on the ground. It has added to a set of differentiated interventions.

Graphic 3: Alternate Strategies for Donors/Facilitators



The following graphic and table³ incorporate the GTZ learning experiences of BDS in recent years. They try to give some orientation within the complex tangle of influencing factors, possibilities of intervention and suitable instruments. Within the system of coordinates most of the BDS projects are oriented more or less towards the centre, integrating different forms of strategies and tools.⁴

According to the GTZ learning experiences

- a local situation like in quadrant C, where both demand and supply are very low, is perhaps one of the more complex scenarios for market development. The focus should be on education and awareness creation with an impact expectable only in the longer term. Examples of these approaches can be found in very weak markets, especially in African countries where basic capacity building towards business institutions, private service providers and government entities is very important.
- In a situation such as quadrant A of a very low demand and low supply, the emphasis should be on information and elementary capacity building of public and private service providers. Impact will be in the medium-term.
- The third situation (B) is that of low demand and low supply, a best-case scenario with a relatively well-developed market. Interventions might aim at cost-recovery with private service providers in the forefront and a clearer differentiation of the roles of the actors (government, public service providers and business associations). The impact of such interventions would be faster.
- Where the demand is low and the supply very low or non-existent (D), as can be the case in export markets where appropriate service providers are often located in the destination markets, there is a case for modest interventions that highlight the need for a certain BDS and try to establish linkages through demonstration. If BDS provision is very weak, but there is a willingness to incorporate a market development approach in the long run, facilitators (or donors) might sometimes act more as service providers to initiate the process (example GTZ Palestine) but this needs caution.

In very weak markets like in many African and other least developed countries, basic capacity building of business associations, government entities and service providers still play an important role. Following a market development approach under these circumstances requires the consideration of gradual steps in which capacity building is combined with demand orientation and matching of supply and demand from the outset.

³ The graphic and the table content was developed by James Tomecko, GTZ with some additions by the author.

⁴ At the end of the publication there is a list of BDS projects with some information about their main intervention areas.

In recent years GTZ projects have followed several changes. They include shifts

- from a strong emphasis in supporting business providers to improve their quality of service supply towards a stronger focus on supporting the demand side,
- from an earlier focus on the support of private providers towards a stronger focus on the quality of the existing services,
- towards a stronger focus on private service providers,
- towards no direct subsidisation and if so only for pilot project activities,
- towards being a provider of services only as exception and mainly to stimulate demand.

Instruments according to interventions with GTZ examples (see also list in the appendix)			
Education aimed at influencing business culture	Information aimed at influencing understanding	Optimisation aimed at full fee purchase	Stimulation aimed at link-ages and inducing trial
Business education (some GTZ projects concentrate on youth (e.g. El Salvador) or unemployed target groups)	Social marketing of business services	Identifying market niches (in many SME projects)	Facilitators take on short term roles as service providers to create demand (Palestine, Tunisia, etc.)
Training for employment (Nigeria, Guatemala and others)	Demand creation by BMOs (in most value chain projects)	Short term vouchers (e.g. Nicaragua, Palestine)	Partners more BMOs and governments (especially in LRED, and EE- projects)
Business awareness creation (in most BDS projects)	Some capacity building of service providers (in most BDS projects)	TA for service providers like in product development, business models, or service marketing (Nepal, Nigeria, Tunisia, Honduras, Bangladesh, etc.)	Tendency to focus on sub-sectors (value chain projects especially in weaker markets)
Business opportunity identification (in most SME and LRED projects)	BMOs and government in LRED (in most LRED projects)		Matching grants with firms (e.g. Nicaragua)
Referrals to advanced training, basic BMO capacity building (most BDS projects support trainings through intermediary institutions)			Market linkage research, sector based strategies, technical innovation, policy research (most BDS and LRED projects)

III.3 Incorporation of partners into the approach and clarification of their roles

Ownership is considered an important precondition for the effectiveness and sustainability of the BDS approach and one of its key quality indicators. But how do we get support for an approach that differs in many aspects from traditional ways of doing things? People or organisations cannot be expected to immediately understand and support it. Nonetheless it has to be ensured that ownership of the partner organisations exists or is achieved in the course of a project/programme to secure sustainable learning processes and impact.

The BDS market development approach has challenged projects but even more partners in different ways. It comprises the willingness and motivation of conceptual, institutional and individual learning processes and changes under framework conditions that are complex and often not alterable within a short period of time.

Getting national partners to “buy in” demands some critical success factors, like

- leaving flexibility in partner selection as an integral component of the BDS market development approach,
- diversifying partners (multi-partner approach) with a stronger involvement of private institutions,
- new incentive forms that go beyond subsidisation and financial issues,
- forms of interaction that create trust towards the procedure and the supporting donor organisation,
- strategic considerations how to integrate the partners in the most effective and sustainable way,
- strong efforts in capacity building to provide a deeper understanding and anchoring an awareness and mentality change from a supply-oriented towards a business-oriented perception.

Following these success factors has been encouraged through efforts that now play a key role in the German development community DC as a guideline for successful project implementation:

- a stronger emphasis on personnel management competencies and business knowledge from the project managers to convince and guide the partners on this new road;
- use of instruments that encourage cooperation between public and private partner institutions and create learning processes on both sides;
- an incentive structure based on the motivation of learning and taking over responsibility instead of financial incentives;

- increased involvement of partners in management, marketing and implementation of the project;
- emphasis on follow-up processes, participatory approaches and a mixture of short-term and longer-term results to create trust and to keep the momentum;
- integrating network and information management competencies to decrease market and network failures;
- continued improvement of the skills of the local GTZ staff and their participation in the GTZ regional sector networks, international conferences as well as in capacity building activities regarding BDS and PSD.

Statements: Difficulties of incorporating partners

“Most governments feel left out of the concept.”

“Explaining BDS is time-consuming Most partners would like to get a hand book.”

“In many partner organisations subsidies ed support is part of the operational culture.”

“It is difficult to make benefits explicit and to create trust.”

“BDS involves higher insecurity for everybody.”

“Theory tells us about different roles of actors. Making this explicit to the partners is a great challenge.“

“Market analysis and the development of a vibrant BDS market demonstrate low direct visible outcomes whereas target groups and political institutions favour concrete tangible results.”

”Traditional partners like chambers, NGOs, public institutions do not like BDS. Older staff often finds it impossible to make the “leap” to BDS market development.”

“Our partners often ask: why don’t we just create providers or develop and deliver BDS? Can’t we deliver services which are better instead of just market appropriate?”

“Private partners are often more excited.”

The strategy of the BMZ and the GTZ is to support a network of different partners (private, public, policy and implementation-oriented entities) with different tasks as well as different organisational structures and attitudes. Within each country the roles of the government, business institutions, providers and enterprises have different historic path dependencies. Especially in developing and transforming countries where markets have a long trajectory of distortions or where market forces (private entities) are in general very weak, it is difficult to differentiate clearly between public and private tasks.

The GTZ’s gradual BDS market development approach gives flexibility to cooperate with public and private actors against the rigid understanding of the 1st BDS generation. At the same time it puts emphasis on the need to progressively encourage private providers where possible and reduce market distortions from public services where necessary. In very weak markets where the private sector is underdeveloped, public providers can take over an important innovative role to encourage pilot projects. Government and donors can also promote

the private sector through capacity building and support in organisational development to be able to play a stronger role towards the development of the market forces.

The discussion around BDS has led to a clarification of desirable roles:

- BMOs have to fulfill important tasks in trying to influence local and national governments in regard to business environment decisions and link their entrepreneurs with suppliers and private service providers. At present the BMO support within the GTZ is often integrated in approaches like value chains and LRED as well as in strengthening their role in the improvement of the business environment. Supported tasks within BMOs are e.g. advocacy, promotion of networks like business linkages, provision of business information and the increase of awareness and demand orientation.
- With the increasing importance of enabling environment issues the GTZ has increased its support to governmental entities in the provision of qualified public benefit services like policies, regulations or legislation, or the design of economic promotion strategies. Nonetheless reality shows that in many poor countries government institutions are still the dominant business service providers. Under these circumstances many GTZ projects moved towards the promotion and education of public and private business consultants or they concentrated on the cooperation with those public and private service providers that demonstrated real motivation to follow a demand-oriented approach.

An ongoing challenge for the GTZ and the international donor community will be to strengthen the roles of the private and public sectors in a market development approach. Whereas systemic and more integrated approaches (see next chapter) provide a good strategy for this, pilot or demonstration projects provide a further opportunity. Several case studies use “pilots” to encourage innovative ways of doing things, like:

- encouraging the role of government entities and BMOs as facilitators of the economic development process (see box GTZ South Africa and Sri Lanka-Nucleus approach);
- applied training courses for potential business providers to improve the number and quality of the services supply (e.g. in Nigeria, Tunisia, Ethiopia, etc.);
- taking over the role of a provider as a time-restricted demonstration effect to encourage innovative approaches or products and to later hand over to national institutions (see the cases of GTZ Palestine, Honduras, etc.). Nonetheless, these strategies need to be justified according to the market analysis and the longer-term strategy of the programme.

Changing the role of public support institutions from direct service provider to BDS market facilitator: The GTZ case in South Africa

One of the components of GTZ's BDS/LED Programme in South Africa focuses on the introduction of the Market Development Approach for Business Development Services as an important ingredient in a Local Economic Development context. In light of the prevailing culture of publicly subsidised service provision to SMMEs, GTZ decided to influence the predominant thinking by way of setting an example. In partnership with the Eastern Cape MAC Programme (now part of the new national Small Enterprise Development Agency), GTZ is supporting a new SEDA agency in the province to act as a market facilitator in BDS and LED.

Approach: The focus is to shift SEDA's approach from working directly with small firms (in the form of diagnostics and highly subsidised brokering of services) to promoting a market oriented interaction between BDS service providers and SMME's in the context of Local Economic Development opportunities, particularly around subsectors and value chains such as tourism, timber, furniture and the meat industries. The end objective is to disseminate the learning from the pilot to other SEDA centres and eventually to the whole SEDA programme in South Africa.

Activities: Participatory analysis of sub-sectors by public and private stakeholders to identify opportunities and bottlenecks that can be addressed by commercial service provision. Joint development with sector associations and service providers of specific services such as IT solutions for the tourism sector and auctioneering services for the cattle industry to address market failures. Facilitation of institutional alignment and change processes to enable sub-sector growth and BDS interventions. Transfer of approach and instruments via capacity building to other SEDA agencies.

III.4 Moving from BDS towards more holistic and complementary market development approaches like LRED, value chains and enabling environment

As mentioned in the previous chapters, several intervention forms, tools and concepts have been developed in the past 10 years, responding to the complexity of requirements in weaker markets. The improvement of services has become one issue alongside others, whereas the market development principle has increasingly become the guideline on how to intervene to solve problems sustainably. In recent years most BDS projects have been integrated into approaches focusing on LRED, value chains and enabling environment. It demonstrates the trend to mainstream BDS market development criteria into other PSD approaches.

Observing the development of earlier SME and PSD projects it is possible to identify three trends of integrating market development principles in PSD projects:

- many former SME projects that dealt with a broad range of actors have integrated their approach into LRED with stronger emphasis on improving the "local" enabling environment, focusing on the facilitation role of the local government and the increase of private service providers (e.g. in South Africa).

- former BDS projects with a special focus on services have been integrated into value chain approaches and often support activities of BMO promotion as well as sector-oriented consultancy at regional and national policy levels (e.g. advocacy of associations, policy papers, redefinition of laws);
- new PSD projects and programmes put more emphasis on enhancing the investment climate and combine LRED and VC approaches with enabling environment objectives. Market development becomes a crosscutting issue in which BDS might turn up as a specific component to encourage demand orientation within services;
- in the past few years Public Private Partnership (PPP) projects within PSD programmes of the GTZ have received increasing attention, mainly tackling major weaknesses of the service market (e.g. in Vietnam and Thailand). They cooperate with international buyers and suppliers to strengthen national and international value chains.

Advantages of the LRED approach to strengthen market development

- creation of trust, networks, and awareness with different public and private stakeholders
- capacity to make BDS thinking more transparent towards local stakeholders.
- LRED enables specific market and actor analyses and interventions, the identification of local service needs and business opportunities
- LRED includes more actors (public and private) and supports them according to their specific roles in a BDS approach
- In an LRED approach it is easier to follow a local systemic approach focusing change management of roles, organisational development (like BMOs), market development, and business environment

Value chains, LRED and EE approaches have several advantages to promote BDS and market development principles (see boxes at the right). Value chain approaches are able to address more directly the advantages of the business sector (improvement of supplier and buyer relations). Their boundaries are related to the economic relations along the value chain and are able to integrate a wide set of businesses as target group (from poor farmers or micro entrepreneurs to international companies). Territorial approaches like LRED and EE in general act within boundaries of government entities (nation, region, city) and put more emphasis on strengthening the local, regional or national business environment and the facilitating role of government entities within this process. New project approaches of the GTZ follow the combination of systemic market development approaches along LRED, value chains, EE and PPP and overcame the thinking in geographic and public vs. private categories.

Advantages of the Value chain approach to strengthen market development

- It enables the identification of concrete demands for services
- easier to get buy in, motivation and action orientation from business due to its economic rationality
- it enables the use of embedded services
- it contributes to business and institutional linkages (suppliers, buyers, BMOs, providers)
- it is not restricted to territorial boundaries and includes additional actors (like international companies, traders, etc.)
- it entails a concrete objective: adding value to the production process

The relevance of BDS within these different approaches differs according to the objectives of the programme and the local realities. For example

- the KATALYST project (see box) focuses especially on services but also integrates enabling environment issues and BMO development;
- in other weaker markets (like in Nepal, see box) the value chain approach is used as the entrance point to work with services but is combined with LRED and organisational development elements;
- other projects (like a value chain project in Sri Lanka) focus mainly on value chains without integrating LRED.
- PSD projects in Nigeria, Tunisia and many other African and SEE markets are focusing efforts on the promotion and training of private services, on organisational development of sector-focused business associations as well as on LRED elements. In many of these countries the institutional weakness as well as low market awareness constitute the main hurdle for market development promotion.

Advantages of the local and national EE approach to strengthen market development

- Awareness creation at the national or local level about a market development approach
- Decreasing general hindrances (regulations, laws) that undermine an effective market development approach
- Improving additional economic framework conditions in regard to investment climate, infrastructure, financial sector reforms, skills development etc.
- Supporting a market development approach from the national level downwards to the provincial and local level
- Promoting networks and market development guidelines between the different actors (private and public) at different geographical levels

The different projects give an indication of the variety of approaches that have integrated market development elements. Some projects especially in very weak developed countries are struggling with the implementation of a market development approach because the market itself is still distorted. The continuing challenge under these circumstances is to follow a steady increase of demand orientation with their interventions.

The Thai-German Program for Enterprise Competitiveness in Thailand

It is one of the newest GTZ-PSD programs that follow a value chain and sub-sector approach, with the objective of designing interventions that improve the competitiveness of SMEs and the Service Market in 4 selected agro-enterprise sectors.

Innovative aspects: integration of public and private service providers according to their different roles, very specific interventions, planned annual impact measurements of all interventions during the year.

Approach: The project works together with public and private services according to their different roles within the BDS market model. It works together with private service providers to increase demand and supply, whereas to improve policy, legal and regulatory issues it cooperates with public services like BMOs, and government entities.

Example: 75% of oil palm production in Thailand comes from small holders. The program analysed competitive advantages as well as constraints and potentials within specific chain links. Interventions focus on linking different businesses and public and private service providers in defined areas and according to the different public and private roles, e.g. to increase the productivity of plantations crushers or brokers, to provide know-how transfer to the plantation owner to optimise the use of fertilisers and water (embedded services). In order to improve the supply of quality saplings and seeds, certification of higher quality varieties and awareness creation among planters is carried out by nurseries and planters associations.

Nepal: Integrated approach of LRED, value chains, and organisational development

The Private Sector Promotion Program in Nepal redesigned its approach in 2004. Whereas in the past its BDS activities have mainly focused on market research, skills development, capacity building, product concept and testing and support for marketing, the current phase now incorporates the BDS approach in the areas of value chains, LRED, organisational development of BMOs, and conflict transformation. BDS has become a cross-cutting element.

Innovative aspects: the approach unites different elements of PSD that have separately been dealt with in the past: BDS, value chain approach, organisational development of BMOs, and LRED. Another innovative aspect is the cooperation between different German donor organisations in regard to LRED.

Approach: The value chain component focuses on special sub-sectors (e.g. hand-knotted carpets, orthodox tea, herbs, oranges). This is supported through interventions in regard to BDS, Finance, Organisational Development, SME and Trade Promotion. The BMO component focuses on sustainable services, advocacy, and strengthening BMOs role as facilitators in LRED. The LRED approach is followed by a cooperation of 3 German donor institutions (GTZ, DED, SEQUA). They use the Participatory Approach of Competitive Advantages (PACA), a methodology designed to initiate business-oriented LRED initiatives.

KATALYST: a comprehensive BDS market development approach

The project in Bangladesh was started in 2002 with the objective of developing a Business Service Market. Financed by DfID, SDC and SIDA, it is one of the largest BDS projects in which GTZ, in conjunction with Swisscontact, is acting as implementer.

Innovative aspects: KATALYST follows a comprehensive and stringent market development approach that includes private and public services. It bases its intervention on different market assessment forms (sub-sector analysis, cluster analysis, UAI surveys, and enabling environment studies). In this process it identifies key constraints and opportunities and project interventions. It promotes more than 25 sectors and markets comprised of services such as accounting, marketing and quality management services; manufacturing sectors such as plastics, furniture, agro-tools and machinery to agricultural sectors like pond fishery and others. It works with BMOs to improve the enabling environment for businesses.

Approach: Supported services of the project are 1) transacted services as paid services often outside the value chain, e.g. management consultancy, advertising services and market research; 2) embedded services, normally not paid because packaged and bundled within commercial transactions in the value chain, like design advice to a manufacturer from a buyer or knowledge on input use from an input supplier. 3) public benefit services as services provided by chambers or associations which have an effect beyond a single enterprise. They include advocacy for business friendly regulations or information on new trends and opportunities.

Examples: Identified options to improve the machine productivity of mold makers in the plastics sector in Old Dhaka were 1) promoting a market for machine productivity training by identifying and developing commercial trainers (transacted services), 2) Building on mechanisms of knowledge transfer from the machinery supplier in the value chain (embedded service), and 3) assisting the plastic association to raise awareness on the issue (public benefit service). In this case the project selected option 2 based on the specific context. However, different mechanisms are used in different markets.

III.5 Minimum requirements for BDS to succeed

Although BDS market development has been adjusted towards weaker markets, the experiences of the GTZ have also made clear that implementing the BDS market development approach is not always feasible. Minimum requirements must be met to integrate the approach successfully.

These include

- competition-oriented national and local framework conditions or at least a tendency towards opening markets;
- the willingness of main economic stakeholders to introduce innovative approaches;
- a certain degree of donor coordination to decrease market distortions and donor competition;
- a clear differentiation between social and economic-oriented development strategies;
- continuous impact monitoring of implementation.

Without these prerequisites, projects should focus instead on other areas like public policy management, education and macroeconomic issues (finance, trade policy, etc.) or on economic areas like basic business education, business awareness creation and economic self-organisation of entrepreneurs. In some countries (e.g. Laos, see box) the GTZ experienced a situation in socialist policy structures that prevented the implementation of a sustainable BDS approach. Upholding certain key principles, although this might entail closing some projects, is necessary for maintaining GTZ quality standards.

The differentiation of economic and social approaches of development is another key factor in promoting BDS market development. Within the discussion about poverty reduction this distinction often gets blurred. While social and economic interventions have their justification, they follow different rationalities, target groups and objectives. Mixing them can distort rather than strengthen economic development. Within the donor community there are many examples of how to strengthen pro-poor growth through BDS elements. Large externalities and spillovers of BDS interventions in rural areas, new tools and embedded services have demonstrated their capacity to integrate poorer enterprises as long as there is a certain minimum of entrepreneurial potential.⁵

Encouraging BDS donor coordination

The BDS/LED Programme in South Africa strongly influenced the European Commission to adopt its LED and BDS principles and approaches and integrate them into EC's three large provincial LED Programmes. The BDS/LED Programme provides technical advice and conducts training workshops for all three programmes. A LED learning and dissemination facility within the BDS/LED programme will be financed by the EC starting in 2006.

The Small Enterprise Center-Project of the GTZ in the occupied regions of Palestine aimed to link SMEs with BDS providers. It promoted BDS quality criteria of the providers and also encouraged donor coordination on this issue. The project was phased out in 2005.

The GTZ-BDS project PROGRESS and the consortium-project Katalyst have founded a market development group integrating several other donors working in the field of BDS and PSD. It aims to increase donor collaboration and maximise the synergies among its stakeholders. It is doing this by sharing information towards mutual learning, capacity building of partners, advocacy on common issues, the development of codes of conducts, and through carrying out joint programmes.

⁵ See GTZ publication: Making BDS Markets Work for the Poor, 2005.
http://www2.gtz.de/wbf/doc/Making_BDS_Markets_Work_for_the_Poor_0505.pdf

Apart from national distortions brought about by policy and corruption issues, one of the key constraints to promoting BDS market development is the high subsidisation of services by donors. The impact of the BDS approach is weakened when others provide services for free. In many developing countries NGOs but also bilateral donor organisations often take this highly subsidised approach. Thus, donor cooperation has gained importance on the international agenda. The GTZ does not take this issue as a buzzword. Instead of competing with other donors the GTZ has encouraged donor cooperation at international and national levels. GTZ projects (see South Africa, Palestine and Bangladesh examples in boxes) have also encouraged donor cooperation to promote BDS principles and a further reduction of market distortions.

Where we want to go ...

IV. Conclusion and outlook

The experiences of the past 10 years brought the BDS conceptual framework down to earth and filled it with real life. They contributed to many lessons learned, changes in conceptualising and implementing projects as well as to the search for innovative and flexible intervention forms and tools. They challenged organisations like the GTZ and other donors to undergo an intensive reflection process. It entailed a continuous quest to increase impact, to better understand the functioning of markets and to change traditional ways of thinking to cope with new circumstances. Promoting innovative approaches is not new to the BMZ and the GTZ B but the BDS market development approach has been interpreted as an important contribution to rescheduling and renewing traditional ways of doing things. For a learning organisation like the GTZ it posed a variety of challenges. Internal ones for the staff, the organisational structure and the conceptual orientation, external ones in regard to cooperation forms with partners, target groups and other international donors.

For GTZ staff it demands more effort in analysing the market reality as well as increasing creativity to design and redesign interventions and implementation procedures. This involves a continuous search for more impact under often difficult market framework conditions. Staying on schedule with human resource development became increasingly important, as did the implementation of a functioning knowledge management system. Organisationally the BDS concept demanded increasing flexibility to design interventions at the project or programme levels as well as to design monitoring procedures for analysing the impact of the more complex forms of market interventions. In regard to the conceptual work the BDS concept has to be seen as the pioneer of the market development approach with a cross-cutting influence on MSME, PSD and investment climate promotion within the organisation.

At the international level the influence of the BDS concept has spread like a virus. Whereas in its beginnings it triggered international discussions about pros and cons of the market approach, it is now widely accepted due to many insight experiences and adjustments to local realities. Nonetheless, many donors continue to create distortions with over-subsidised intervention methods. In the coming years it will be important to spread the BDS market development approach even further, e.g. in livelihood approaches and within NGOs and other donor agencies to reduce market distortions by supporting organisations.

The GTZ has mainstreamed the BDS market development approach into its PSD strategies. The future objective is twofold. Firstly it will extend the influence of BDS into neighbouring areas like agriculture, conflict transformation, forestry and others. Secondly it will use the valuable learning processes from BDS market development to promote market development as an overarching concept. Following a market development approach as a framework of

economic development is an appropriate way to stay abreast of new international challenges. The BDS concept has already contributed to identifying causes rather than symptoms of private sector development. Following market development opens up a greater focus and consistency to help make markets work more effectively and inclusively for the poor. Because BDS arrived at market development earlier than other areas, the lessons learned like the ones demonstrated in this publication are of wider relevance for future realistic implementation approaches. Discussions like “making markets work for the poor” as well as different pro-poor growth strategies with a specific focus on interventions at the macro and meso levels should be further enriched by realistic implementation procedures based on intensive hands-on experiences. The latter demonstrate very effectively that, especially in weaker markets, a minimalist market-oriented approach for private sector promotion is insufficient to tackle the complex requirements of the different stakeholders. The future challenge will be to not dilute the market development criteria but apply them according to the real local circumstances. This was the case with BDS, this will also be important in promoting market development as a whole. Being successful in this regard will continue to require reflection and learning process of donor organisations and partners.

Appendix

PSD projects of the GTZ with BDS elements between 2003 and 2005

- **Asia**
China, India, Indonesia, Thailand, Mongolia, Nepal, Philippines, Bangladesh, Vietnam, Cambodia, Sri Lanka, Laos
- **Africa**
Nigeria, South Africa, Ethiopia, Burkina Faso, Ghana, Congo, Yemen, Cameroon, Malawi, Mali, Sri Lanka, Rwanda, Senegal, Namibia
- **Middle East**
Algeria, Palestine, Morocco, Tunisia, Egypt
- **South Eastern Europe and Central Asia**
Afghanistan, Albania, Armenia, Bosnia and Herzegovina, Kazakhstan, Kyrgyzstan, Macedonia, Romania, Serbia and Montenegro
- **Latin America**
Guatemala, Honduras, Chile, El Salvador, Nicaragua , Peru

Interviewed persons

GTZ and Consulting experts

GTZ headquarter

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Klenk, Jürgen
Prey, Joachim
Spaeth, Brigitte

GTZ project/programme managers

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Cunningham, Shawn
Jahn, Detlev
Küsel, Corinna
Le Duy, Binh
Lehmann, Simone
Noack-Späth, Gabriele
Rana, Prashant
Richter, Peter
Rieken, Jörn
Roggekamp, Peter
Shah, Bhushan
Tomecko, Jim
Trah, Gabriele
Schmitt-Degenhardt (Questionnaire)
Vahlhaus, Martina
van den Berg, Michael
von Harrach, Christine
Weijers, Paul

International PSD and BDS experts

Altenburg, Tilman
Bauer, Susanne
Becker, Sabine
Gagel, Dieter
Gibson, Alan
Meyer-Stamer, Jörg
Tanburn, Jim

Interviewed PSD projects/programs of the GTZ with BDS components						
Country	Project name	Overall BDS objective	Duration	Main components	BDS support	Changes of the approach
Bangladesh	KATALYST	Development of a more effective Business Service Market (generic and sector specific services)	2002-2007	Promotion of service providers, embedded services, enabling environment, organisational strengthening	18 "markets" to work in (3 sub sectors, 5 clusters, 3 rural markets, 6 cross-sector services and 1 media business service)	From traditional stand alone towards more focussed BDS markets with more specific market assessments and interventions
Bangladesh	Promotion of private sector SMEs in the Post MFA-era (PROGRESS)	Improving demand orientation within BDS	2003-2007	Social standards, skill development, value chains in agro-industrial sectors, Enabling Environment, Technology and Design Centre, promotion, of NGO facilitation role (phased out)	Potentially 30 direct partners and 200-300 indirect partners (mainly private BDS providers)	From a stand-alone approach towards integrating elements of value chain approach and BDS skills development
Cambodscha	Trade Promotion Cambodscha	Strengthening BDS providers relevant to selected sub-sectors (silk,	2004-2007	Support to generate embedded services and awareness through associations and direct business and technical advise	Cooperation with 1 regional SME association, 3 sector associations, 1 regional producer associations and cashew nuts processors	
Laos	Human Resource Development-ME Project	Government and private sector jointly develop a strategy and an appropriate inst. framework for SME promotion and offer respective services	2005-2011	Improving the general Business Environment, improvement of the quantity and quality of vocational and training, improvement of the regulatory environment and BDS for SME's	Strategy development, strengthening of BDS providers including BMOs, ToT, capacity building and improvement of regulatory BDS framework	
Laos	Rural Development in Mountainous Areas	Improvement of the livelihood of the upland communities in 2 districts in Northern Laos	2004-2006	Contract farming, set up of network meetings of providers and local government to create awareness	Initiation of a round table to promote BDS awareness	It is a new rural project that tries to initiate BDS elements

Country	Project name	Overall BDS objective	Duration	Main components	BDS support	Changes of the approach
Nepal	Private Sector Promotion Project (PSP)	BDS providers are more capable to deliver demand-led services to SMEs in selected sectors	1998-2007	BDS, LRED, sub-sector support, trade promotion, conflict transformation,	26 private providers, 25 BMOs, 5 trade agencies	From stand alone BDS market research and BDS product concept and testing in weaker markets towards integrating BDS into LRED, value chains and BMOs
Nigeria	Employment oriented Private Sector Development (EoPSD)	Development and establishment of a Business Service Unit in the Lagos Chamber of Commerce and Industry	2004-2008	Organisational development of BMOs, LRED, and Local Enabling Environment	capacity building of young professionals in consultancy areas like agro-business, public management, CEFE (cooperation with 20 to 40 private and public BDS providers)	From organisational development of BMOs towards a more integrated approach with BDS elements
Palestine	Promotion of SMEs with special consideration of micro enterprises	Creation of employment and income	1 st phase 2002-2010, 8,5 years	Trade and product service promotion, linking supply and demand of services, introducing quality criteria, creation of a Service Provider Centre as facilitator	(see left)	Project worked as facilitator and provider at the same time temporarily with a clearly defined exit strategy
Philippines	Small and Medium Enterprise Development for a Sustainable Employment Programme	Facilitation of the development of the BDS market	8 years, pilot phase	Improvement of the conducive enabling environment for businesses at national and local level, improvement of appropriate BDS, improvement of technical and vocational skills training, improvement of the financial sector system	Market research, product and market development activities, subsector-approach in tourism and IT	Project has just started
South Africa	GTZ BDS-LED Programme	Introduction of the BDS Market Development Approach in the wider context of LED to South Africa	2002-2006	Integrating BDS Market Development into Local Economic Development approach, influencing the national Small Enterprise Development Agency to change from direct SMME service provider to BDS market facilitator and LED agent. Tool development.	Co-operation with Eastern Cape Small Enterprise Development Agency, 4 chambers of commerce, provincial and local governments, sector associations, private service providers	BDS became an important tool in LRED whereas before the 2 approaches were more separated BDS can not be separated from the wider economic context and the institutional landscape.

Country	Project name	Overall BDS objective	Duration	Main components	BDS support	Changes of the approach
Sri Lanka	Enterprise Strategy Support Programme (ESSP)	Promotion of MSMEs, BMOs and providers of BDS to improve their support services	2000-2007	Promotion of MSMEs, strategy development for regional economic and local promotion, transfer of results and experiences and instruments to the national level	NUCLEUS approach: organisational development, counselling of business groups, LRED Around 50 Nuclei in 6 chambers with 800 entrepreneurs	From BDS stand alone approach (supplier analysis, BDS directory, BDS provider support) towards a demand- and awareness-oriented approach
Sri Lanka	Value Chain Promotion component of the CBCQE Program	Integration of SMEs into competitive value chains	2004-2007			
Thailand	Thai-German Enterprise Competitiveness Programme	Enterprise competitiveness in a few selected agro-sectors	2004-2007	Value chain and sub-sector approach, with the objective of designing interventions that improve the competitiveness of SMEs and the Service Market in 4 selected agro-enterprise sectors.	(see left)	New programme with main focus on a value-chain approach and integration of public and private providers according to their public and private service roles
Thailand	Business Development and Networks (BDSN)	Improvement of access of SMEs to BDS	integrated into WIRAM programme in 2005	Development of new services, PPP, counselling approaches with sector specific groups	Cooperation with 5 partners and 5 providers	Stand alone approach of the project has been integrated into a value chain approach programme (see Thailand programme above)
Tunisia	Support of SMEs	Diversification of BDS supply	2004-2010	Improvement of consultancy and business management services, introduction of consultancy standards, training of BDS providers	Cooperation with 3 technical centres, 70 public and 30 private providers	
Vietnam	Promotion of Small and Medium Enterprises	BDS market development contributes to the competitiveness of SME	1994-2005	Creation of an enabling environment for BDS market development (legal framework, awareness creation); strengthening of advanced specialized BDS; outreach to the provincial level	A wide range of public and private BDS providers, policy stakeholders, and the general public (through the media)	From direct service provision, over strengthening selected providers, to a market development approach

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