

Business Development Services: The approach, trends and suggestions for interventions in Central America

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The Approach

This document briefly points out the current issues in the development field of BDS and draws some lines for BDS interventions in Central America. Business Development Services, BDS, refer to those services that enable micro entrepreneurs to start, maintain and improve their activities. Hence, it practically embraces all services that a microentrepreneur might need, less micro-credit. Over the past five years it has rapidly developed into an established development field of which its trends and issues are discussed during the Annual BDS Seminars¹. This Seminar has played an imperative role in the maturation of the intervention approach: the BDS Market Development approach. The bottom line of the BDS approach is that public money should contribute to the development of complete markets, instead of serving a selected pool of enterprises, and facilitate market players to serve the marginalized enterprises. Founded in a conviction that markets *can* work for the poor, donors should intervene temporarily and indirectly in existing market mechanisms with the purpose to make commercial supply of services meet the needs of microenterprises. Some of its basic principles are the following:

- Facilitate market development rather than providing services
- Start with market assessments in order to know what is already existing
- Work toward a clear picture of a sustainable market and have an exit strategy
- Promote competition and efficiency and make programs flexible and responsive to the market
- Use subsidies primarily for pre- and post-service delivery activities
- Separate the roles of provider and facilitator and coordinate donor efforts

The BDS Seminar Readers² give a detailed explanation of the approach. Up to the third Annual BDS Seminar in 2002, a great deal of the debate concerned the crystallisation of the approach, discussing the principles, definitions, and tools to change service markets. However, during the fourth Seminar in 2003 a certain level of maturation became apparent and a specific BDS website³ was launched to foster exchange and learning on Market Development. Presently, the approach seems ready to spread its wings into other development fields.

The Trends

The fifth Annual BDS Seminar in 2004 evolved around the concern of contributing to systemic change: bringing about long-term, sustainable change in markets, institutions, and social structures. There were three major recurring themes: value chain development, reaching out to poorer people and places, and mainstreaming. One of the main themes in BDS is value chain development. The objective is to link microenterprises to value markets such as urban and foreign markets, through the identification of business opportunities in the value chains and through interventions in service markets. One should think of interventions that enhance the information exchange through forward and backward linkages, strengthening the flow of embedded and fee-based services within the chain. Perhaps as a consequence of a focus on whole production chains, BDS interventions are increasingly reaching into rural areas. Hence, another contemporary challenge concerns the development of weak, rural markets and reaching

¹ <http://learning.itcilo.it/bdsseminar/>

² The Reader consists of a “Primer” that explains the basic concepts and an “Update” that reflects the best practices, trends, discussions and challenges. Both are available at the Seminar website.

³ www.bdsknowledge.com

the poor. It is realised that value chain interventions can address poorer places, but not necessarily addresses poorer people. Therefore, interventions should build on social and cultural systems what actually is an advancement of one of the key principle of market development: to build on what is there. In order to really change markets and reach the poor, BDS practitioners need to be conscience of the existing power relations, the underlying motivations and the wide set of rationales within markets. Whereas “value chain development” and “reaching the poor” were carefully selected topics of the agenda, the third theme of “mainstreaming” was not, and really has been an outcome of the Seminar itself. It was repeatedly brought up that market development as such is a key concern in other fields too, such as in rural development. Apparently, market development has become one of the cornerstones of poverty alleviation. The extensive experience gained in BDS interventions concerning the development of markets, with upfront intention to change whole systems, has to mainstream with other fields. Mainstreaming here is really about getting out of the BDS box, diffusing knowledge and capitalising on tools and methods. Although BDS Market Development has not yet proved its widespread impact on poverty, many valuable lessons have been learned about market interventions that aim to include microenterprises.

BDS Interventions in Central America

In what follows, suggestions are made for the significance of these issues for BDS interventions in Central America. First, related to value chain development, the importance of identifying real market opportunities is stressed. If interventions are to be sustainable in the long run, they need to be interventions in sub-sectors with true potential for growth, building on local opportunities. Taken to the context of Central America, BDS interventions should not be conflicting with national competitiveness programmes and current trade negotiations, such as the Central American Free Trade Agreement (CAFTA). Although numerous BDS interventions are indeed starting to look at real opportunities, it is believed that more impact can be expected if this is done more explicitly. Interventions could link up with other programmes that aim to improve national competitiveness, convincing these programmes of the importance to include micro enterprises.

Sixty percent of Central America’s poor live in rural areas that makes reaching the poor indeed largely a rural concern. If thinking about developing service markets in rural areas, it is important to realise that many of the countries are still in a process of privatising governmental services. Since deprived areas are generally not commercially viable, rural areas are more likely to become increasingly excluded in stead of included. A vast challenge lies therefore in the development and adaptation of tools that make services available to remote enterprises, such as bundling services and innovative pricing mechanisms. Ways should be found to take advantage of the often important roles of middle men and cooperations.

To talk about mainstreaming BDS experience in Central America seems somewhat early. The region as a whole has entered a consolidation phase concerning microenterprise interventions. Although most countries inaugurated a national commission for microenterprise development, with the task to enhance BDS markets, the bulk of BDS interventions are still taking place in isolation. Before talking about mainstreaming into other fields, it is important to mainstream the many valuable BDS experiences in the region first and pick the fruits from the investments made. Although there are many roads to Rome, it is hoped that one agency will facilitate region specific BDS learning that can really have an impact on microenterprises, and indirectly on poverty as many poor are microentrepreneurs.