



SDC Workshop 2002 – January 10/11

Current Trends in Pro-Poor Small and Micro Enterprise Development

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Abbreviations:

BDS	Business Development Services
DFID	British Dept. for International Development
E + I	Employment + Income (Division of SDC)
MSE	Micro and Small Enterprises
SDC	Swiss Agency for Development and Cooperation
SE	Small Enterprises
SED	Small Enterprise Development
SME	Small and Medium Enterprises
USAID	US Agency for International Development

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Annexes:

- 1. Workshop program**
- 2. Powerpoint presentations of speakers**

1 Introduction

The 'E+I' Division of SDC regularly convenes a national workshop to present and exchange on current topics of SED on strategic and tools level.

This year's workshop was planned in the context of a major strategic change in SDC's organisation with the grouping of the sectorial services into thematic divisions. Small Enterprise Development is thus part of the E+I division. Moreover poverty reduction has been re-emphasised as the overarching goal of Swiss Development Cooperation and E+I has to contribute to this goal.

What was the objective?

Thus, this year's workshop objective with the title "Current trends in pro-poor small and micro-enterprise development" was two-fold:

- To present an overview on existing approaches to pro-poor oriented small enterprise development
- To contribute to the elaboration of SDC's future E+I thematic concept and mid-term strategy

The workshop's program consisted of a blend of thematic presentations made by the key speakers, plenary discussions, a panel and working groups. The presentations made by the six key speakers are accessible for download or available as hard copy. The detailed program is presented in annex 1. This report will not document the workshop proceedings in detail but synthesizes and comments key issues, highlights major results of the working groups and points out some topics specially related to micro- and small enterprise development in the perspective of poverty alleviation. The list of participants is available at <mailto:sed.bsm@intercoop.ch>.

2 Summary of proceedings

2.1 The introductory point: MSE development and poverty alleviation?

Two strategies are on the market

The opening speaker pointed out that until now the 'mainstream' approach is focusing on growth and strengthening of the competitiveness of SMEs and looks at income and employment generation as a secondary effect. As such this approach – followed by most Donors up to now – has not a direct focus on poverty alleviation, but recognizes the SME sector as the major force for creating employment for the poor. Notwithstanding the SME sector currently does not fully exploit its potential and does

not necessarily lead to competitive, effective economic structures for the poor.

Broad scale poverty reduction would have to follow a different strategy, putting the emphasis on empowerment of the poor. This strategy would look at poverty as a lack of and access to (economic) resources. A 'pro-poor' strategy would then put the broad based empowerment of the MSEs' personnel (owners and staff) in the centre of its strategy in order to strengthen their entrepreneurial and their negotiation capacities. This strategy would be supported by actions at meso- and macro-level. It can only be successful if the regulatory framework is favourable and market distortions are weak. Subsidies, in such a strategy, would be necessary for awareness creation, for business development of the enterprises and for market development for BDS, but not for production and operational costs.

It is crucial for a coherent intervention strategy to make a strategic choice between these two approaches.

2.2 What strategy for micro-enterprises?

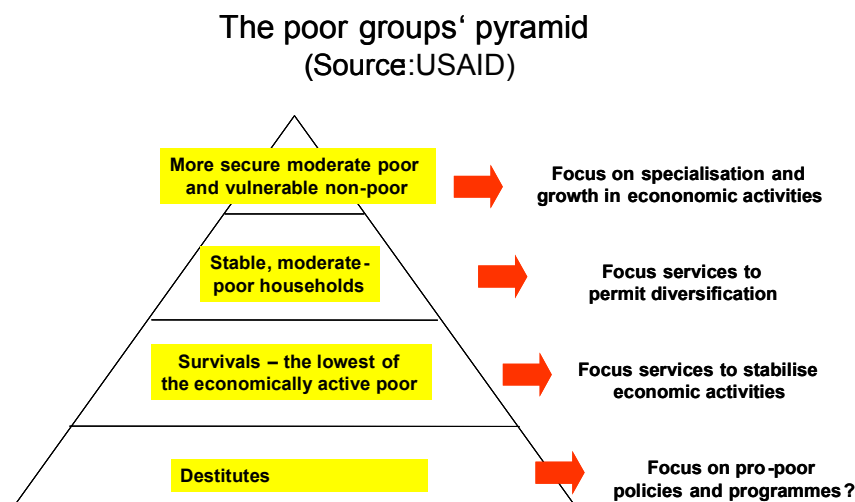
Adjust the strategy to different groups of poor

The Office of Microenterprise Development of USAID has developed a specific strategy to support microenterprises. This strategy focuses on entrepreneurs who want to get out of poverty and grow. USAID is supporting microenterprise development through financial services, BDS and building up an enabling environment. To be effective, USAID is shaping its interventions according to the different segments of the target group of micro-enterprises (see chart below) – aiming either at specialization and growth, or diversification or stabilization of economic activities.

The 'clients' at micro-enterprise level (many of them just emerging from the subsistence level) are not the ones with a clearly focused 'business' strategy, but have to be considered as clients with a range of different needs for household and business.

Looking closer at BDS for microenterprises, the following services are considered to be of particular relevance:

- Market access services
- Sub-sector focused services
- Production technologies
- BDS linked with micro-finance



Delivery should happen through a 'group' approach (client groups, clusters, networks and associations) and facilitating the market development for several providers.

Key principles of the USAID approach are to start with the identification of target groups, most relevant sub-sectors, market analysis, and, on the basis of such an assessment, to design BDS interventions in a given region.

In this innovative strategy the speaker identified the following major challenges and issues:

- What kind of sustainability do we want to achieve: the one of service markets or of enterprises?
- Be clear about subsidies: develop a transparent strategy and do not influence the price for services on the market
- Support reforms for an enabling environment in order to create an equal playing field level for MSEs

2.3 'Mainstream' Strategy with innovative elements

Core elements of mainstream strategies

Two key speakers presented the mainstream 'growth' strategy for SMEs. Whereas the French strategy puts its priority on the 'professional structuring' of the sector - the development of business associations, BDS and financial services – examples were given for developing market information and developing service provider capacities.

Whereas, according to the French experience, services can not yet be delivered in a sustainable way, the following type of service provision can be successful, due to a high degree of adaptation to the demand:

- Proximity of the service to the demand and location of

micro-enterprises

- Building-up confidence with the entrepreneurs
- Service providers should serve various markets, not only MSEs
- Service providers should propose operational/technical services with quick impact
- Payment conditions (e.g. instalments) should be adapted to the payment capacities of the clients
- Subsidies should be gradually scaled-down

The British Dept. for International Development (DFID) looks at poverty alleviation as the overarching goal of development cooperation and tries to achieve it – in the frame conditions of globalisation – by

- Making markets work for the poor
- Assuming economic growth as essential condition
- Looking at small businesses as creator of income & employment

DFID's target groups are clearly the growth oriented small and medium enterprises. DFID also implements a multilevel strategy including (local) policy environment, financial services and BDS. DFID's experience also shows that a successful support depends on 'business cycles' of SMEs – lifetime and success of products and enterprises. According to DFID the focus for MSE support goes beyond economics, while for SMEs the focus is on enterprise development. One also has to take into consideration that part of the income of the poor comes from remittances. Subsidies should only be used to develop, not to destroy private markets.

2.4 SED promotion and poverty reduction – a view from Latin America

Adjust the strategy to the characteristics of the markets

Relating to the recently organized '4th Latin American Meeting on BDS (December 2001)', the speaker pointed out the following facts:

- Regarding employment in Latin America roughly 50 % of the total non-agricultural employment is based in the informal and small enterprise sector
- The big majority of MSEs consists of 'survivalists' and only to some extent of SEs with potential (roughly 30%); whereas SE with modern, highly productive assets are still a small minority
- This economic structure results in low level of competitiveness and export capacity

What type of enterprises should, under these circumstances, be supported by international cooperation?

Assuming that market development for the poor (as producers

and consumers) is guiding a support strategy, the interventions should be adjusted to different markets (see chart chapter 2.5) and be designed according to the following principles:

- Define intervention strategy and measures precisely
- Measure effects of market development
- Be aware that market development does not encompass all the poor
- Be aware that employment creation is not an objective per se of SMEs, but depends of the business cycle
- Position your intervention strategies right compared to the demand of the target groups
- Be also aware that currently many Donor financed programs do not intend to achieve market development (but supply services themselves)

As an innovative approach, the support to the lower end of microenterprises has to integrate the characteristics of family businesses, where a sole 'business perspective' would not be appropriate, because:

- Business activities are not separate from family needs
- Business activities are one of several survival strategies of poor families
- Strengthening the business of the poor cannot go without subsidized services, at least for the poorer strata of the poor

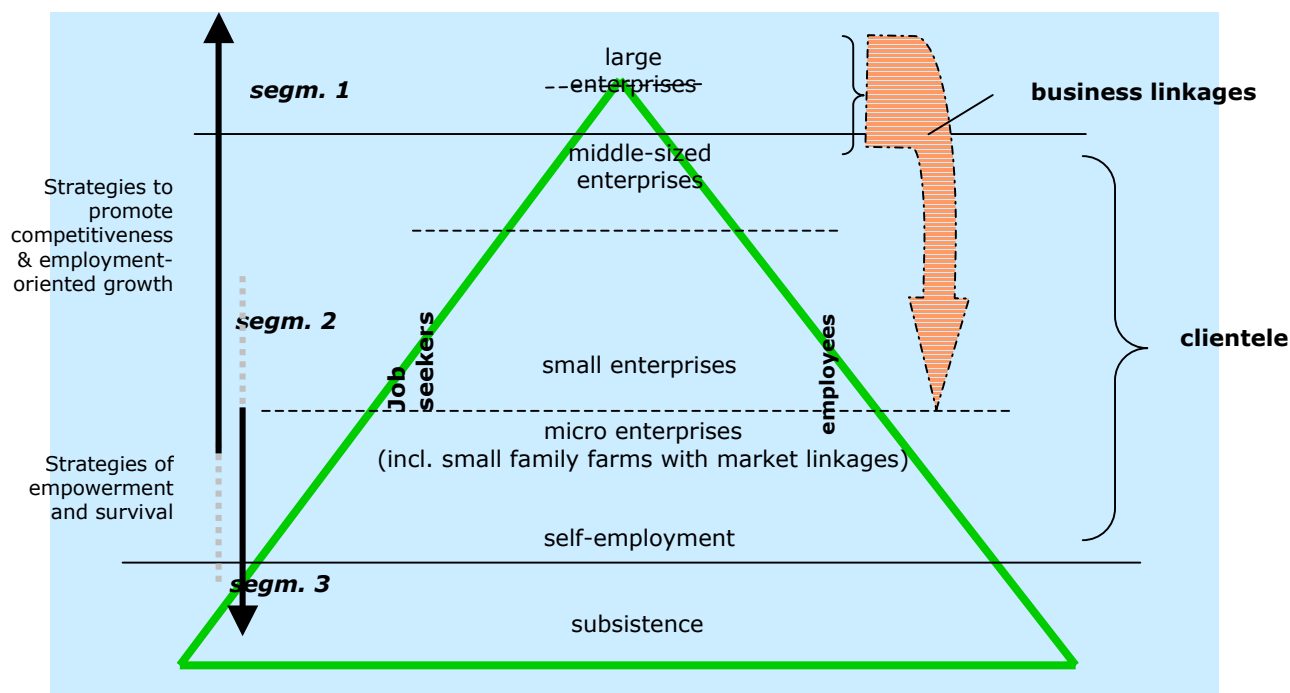
2.5 SDC's emerging concept for employment and income creation

Develop interventions according to the business needs of the clients

SDC presented its draft of a new concept for employment and income preservation, improvement and creation. With this concept, SDC considers the multi-dimensions of poverty – inequity, vulnerability and exclusion – and the difficult access, for micro and small entrepreneurs, to the production factors.

Guided by the overall objective of SDC to reduce poverty, the 'E+I' section will

- Develop intervention strategies according to the different needs of the clients, based on a segmentation of the 'client base'
- Promote different program strategies to put into practice different intervention methods/tools and having different effects on the client group (individual/enterprise)
- Support strategies not only in order to create employment and income, but also to facilitate the access to and assure the preservation and improvement of employment and income



3 Results from the panel discussion

Main insights gained from presentations

A panel, consisting of a group of participants of the workshop, drew first conclusions and gave some orientation along the guiding question:

- For the strategic choice: Broad scale poverty reduction through SME development or SME development with effects on poverty reduction: What are main insights after the first presentations and discussions?

One understanding was that for effective poverty reduction policy issues and a pro-poor friendly environment should become more prominent than in sector-specific SED-programs. As such, pro poor MSE development has the following prerequisites that go beyond enterprise development:

- Change Government policies
- Support empowerment of the poor (social development and good governance)
- Subsidize targeted services to enterprises
- Identify and develop marketing opportunities for MSE in niche markets

Further preliminary remarks and considerations were:

- For a successful 'pro-poor' approach access to financial and business development services are needed; these services are different in scale and size of benefit: Micro Finance has more scale potential, BDS can probably achieve more

- impact on income gain.
- We should address more in-depth the dilemma of poor with potential and the question of subsidies for the poor –what is the rationale to ask for unsubsidised service provision (besides the argument that public finances are scarce?)
- Learn more from experience in Micro Finance – try to expand to rural markets.
- Take also in consideration that market development takes a lot of time.
- Be also clear how far down we can reach: make clear that even with a 'pro-poor' MSE approach, the poorest strata of the people will not be reached.

4 Feed-back from working-groups

Remaining issues and first conclusions

Different working groups were organised and asked to discuss certain issues of 'pro-poor' small and micro-enterprise development.

*Group 1
SED
Thematic
Concept*

The first group commented the first draft of SDC's 'E+I' Division new thematic concept, and gave the following recommendations:

- Be more precise with regard to 'systemic approach' of the concept
- Be more explicit about the logic between MSE development and 'Employment + Income' creation, about employment creation in MSEs and the effects of 'business cycles' and about the links between 'livelihood' and business development
- Be more precise about what can be influenced and what is external to MSE development

*Group 2
Strategies
for the very
poor*

The second group worked along the two questions:

- What are strategies that realistically are reaching the (very) poor?
- How do they reach the (very) poor?

The group stated that the very poor are those who don't have any resources except their own labour and concluded that for this target group a specific support strategy needs to be defined.

The group concluded further:

- MSE development will not work for the very poor;
- A precondition for MSE development for the very poor would be (successful) social measures to stabilize their economic level

Strategies/tools that achieve results with the (very) poor are:

- Use of Microsavings
 - Empowerment (awareness creation on their own resources and capabilities)
 - Training for employment (preferable for a fixed job)
 - Exposure to creativity to develop 'business' ideas
 - Target women as client base

Group 3
Subsidies

The third group discussed the question: Reaching the very poor without direct subsidies: is it possible? If yes, how? If no, what is the balance compared to sustainability?

The group stated that they would look at the question under the aspect of providing BDS to microenterprises via subsidizing either the consumer or the provider side.

- Some examples of 'simple' services (like travelling bookkeepers, carts with typewriters and copy machines) are quoted, but the group was rather sceptic with regard to more sophisticated services (e.g. formal training and consulting)
- When subsidies are given, conditions should become transparent in order to know the real cost of a service. Introductory, digressive subsidies should be a rule for implementation, but for some core services, long-term subsidies might be necessary.
- As a way to explore the sustainability of such services it is suggested that local service providers take them over; some services will then not be maintained.

Suggestions made for donors/program planners are:

- Overcome the bias towards subsidies and do try out non-subsidized service delivery
- While planning for providing services: take into account their impact on the market and have a gradual approach (e.g. subsidize the start-up of service provider only or only product development)

Group 4
Framework
conditions

Group four worked on the question: poverty alleviation through MSE promotion - what role should donors play at the level of framework conditions?

- The group concluded that Donors should play a coordinated role:
 - in facilitating a policy-dialogue for analysing and working for an enabling environment at different levels (international, national and even regional level);
 - Donors should advocate for measures to strengthen a stable economic environment and for enforcement of laws and 'good' local governance

5 Lessons learnt from the workshop¹

Scope and main elements of the strategy have become clearer, interventions' objectives need to be precise; critical issues need to be clarified further

1. MSE promotion as a strategy for creating employment and income: Although MSE-owners are the main employers in an economy, effects are not directly related, because MSE-owners do not in priority look for the creation of more jobs, but for the effectiveness of the business; effects of MSE support may to a large extent depend also on business cycles.
2. The objective of an intervention has to be precise and might face dilemmas: broad based poverty alleviation may hinder effects on income and employment creation. The goal of a program should then state clearly what will have to be achieved in the long run.
3. The workshop participants were informed about the innovative strategy of 'pro- poor MSE development' through which SDC (and other Donors) promote as far down as possible in the enterprise size and as broad as possible in the enterprise scale the competitiveness of small businesses. Through empowerment, poor households should be enabled to exert productive activities, manage and increase their resources, and participate in markets.
4. The 'pro poor' strategy builds on a systemic approach, where different tools and levels of interventions are combined – according to the dynamics of the market including working towards an enabling environment for MSEs; combining the support to different services becomes more prominent, and working through groups proves to be effective at the lower end of the clients.
5. The strategy has to be adjusted to the demand of the target groups and the target group of micro, even family business becomes more prominent. At this level, economic support alone is not the right strategy; more socially oriented criteria have also to be taken into account.
6. Nevertheless it was stated that an MSE approach is not targeting the very poor; the poor with potential and some access to assets are the target group.
7. While planning, it has to be clearly stated what kind of sustainability should be reached – the one of a service market or the one of the enterprises. This decision might also influence the strategy – market development is still a new issue and Donors projects still play an implementing, not a facilitating role.

¹ For additional comments on the workshop results see: M. Reichmuth, Tulum SA, comments and reflection on SDC's 'E+I'-Seminar 2002, unpublished

8. Subsidies, restricted in time, paid indirectly and gradually decreasing, are seen as an instrument to promote MSE, but their use has to be made transparent.
9. Some unresolved issues were also mentioned:
 - More investigation has to be done on the issue of building interventions on market principles and promoting subsidized measures for poverty alleviation
 - Pro-poor SE development needs a clear analysis and strategy for transition countries

6 Future workshop

What are the insights gained and what thematic proposals for a future workshop?

6.1 Issues and expectations

Out of the expectations and issues collected at the beginning of the workshop six major clusters emerged as themes to be discussed during the workshop:

- Content of pro-poor strategies in MSE development
- How to develop strategies along the general orientation of market development of a market for BDS and poverty alleviation?
- What are enabling frame conditions for such strategies?
- What role do financial services play in such a strategy?
- Get information about practical experiences and best practices
- Clarify the expected role of donors

6.2 Feed-back after the workshop

Out of the feed-back received at the end of the workshop the major knowledge/insights gained are:

- Awareness that MSE development is a broad domain and various concepts and strategies have been created
- Linking MSE development to a 'pro poor approach' is innovative and new ideas and on-going experience were presented
- Participants got more clarity on current strategies of the major donors
- The potential and the limits of the BDS approach can be better assessed
- Major tools and proposed level of interventions were presented

What would be themes for a next workshop?

- Out of the proposals made by the participants a thematically more focused workshop is suggested and several themes are mentioned
- Best practice and experience from the field should be given

- more priority
- The topic of SME development in transition countries should get higher priority

6.3 Other matters

Due to the big audience and the dense program the workshop turned out to be more of a seminar type, thus not taking into consideration enough the experience of the participants and not giving enough room for exchange amongst the participants.

Should the success of this year's workshop be confirmed in the future by a steady demand, a new formula shall be developed in order to match expectations of the participants and results of the workshop more adequately.