

**A working paper commissioned by the  
International Labour Organisation's InFocus Programme  
"Boosting Employment through SED"**

## **The hidden MSE service sector**

*Research into commercial BDS provision to Micro and  
Small Enterprises in Viet Nam and Thailand*

**February 2000**

**Presented at:**

**The Committee of Donor Agencies for Small Enterprise Development  
International Conference on Business Development Services  
3<sup>rd</sup> – 6<sup>th</sup> April 2000**

Prepared by:

**Gavin Anderson,**  
Manager, FIT Uganda Ltd.,  
PO Box 24060, Kampala, Uganda.  
E-mail : [fituga@imul.com](mailto:fituga@imul.com)

## **Acknowledgements**

This paper was prepared with the invaluable support and collaboration of a number of people. The survey was initiated with the backing of the ILO, and particularly with the support of Jim Tanburn of ILO Geneva, Gerry Finnegan of ILO Bangkok and David Lamotte of the ILO SIYB programme in Hanoi. Gerry Finnegan and David Lamotte helped considerably in overseeing the research activities and acting as contacts in both countries. Gratitude is also extended to the Vietnam Chamber of Commerce and Industry (VCCI) in Hanoi, and in particular to its Director Mr Huy, for having hosted me in Viet Nam during the initiation of the survey.

The fieldwork on which this paper is based was undertaken by two teams of researchers who worked extremely hard and within a tight time frame. I am particularly grateful to the two research team leaders, Suvinai Tosirisuk of NIDA, Thailand and Hoang Phung based with VCCI. The quality of the findings can be contributed to the professionalism and hard work of the fieldworkers and team leaders in both countries.

Finally, and most importantly, I would like to thank the MSEs and service providers in Thailand and Viet Nam who gave up their time to answer a long set of research questions. I hope that work stemming from this paper will merit their time and effort.

## *BDS markets concern buyers and providers, or do they?*

Formal service markets are a critical feature of the business environment for medium and large enterprises. Specialist skills, processes, access to new networks and advice must be strategically out-sourced to ensure that companies stay on the competitive edge of their business, while minimizing recurrent overheads. Out-sourcing has become increasingly common for many larger businesses over the last decade, and has usually resulted in more streamlined, flexible and competitive companies. The importance of purchased business development services for medium and large businesses is therefore unquestionable.

But what about the smallest businesses, how do they access external support, if at all? Is there a business development service sector for micro and small enterprises, and if so what does it look like? A number of donors and development projects have attempted to find and profile this 'hidden' service sector<sup>1</sup> for micro and small-scale enterprises (MSEs), but have often drawn a virtual blank with only a narrow range of traditional services such as accountancy, training and transport companies being uncovered. MSEs often appear unwilling to purchase BDS, and those that are on offer in the private sector are predominantly designed for larger and formal business and therefore too expensive for MSEs. But paradoxically some studies have shown that MSEs place the highest value on the support that they receive through business networks<sup>2</sup>. What is provided through these networks, can the supports offered be defined as BDS and if so, are there opportunities for interventions to enhance and develop service delivery through these channels?

In an attempt to answer these questions and to build a wider picture of service delivery to the smallest businesses, the International Labour Organisation (ILO) commissioned two studies in late 1999 to look at the business linkages and associated BDS provided to a number of the smallest MSEs in Viet Nam and Thailand. This paper details the findings and observations of this research and analyses the potential for enhancing and broadening the delivery of a broad range of commercial services for MSEs.

### **1. Background**

#### **1.1 The importance of understanding BDS markets for MSEs**

It is generally accepted that good practice in BDS requires that interventions should, wherever possible, develop and enhance existing commercial markets for services. Donor interventions should complement or build on private initiatives rather than compete with them. To effectively carry out this task, donors and development practitioners must understand the breadth, scope and operation of existing BDS provision. A greater understanding of the BDS environment, and of the existing and potential markets, is imperative as a preliminary step in the design of sustainable and effective interventions.

With the recent upsurge in interest in new paradigms for the development of sustainable BDS markets, it is timely for the SED profession to take a fresh and wide ranging look at the BDS mechanisms existing within the private sector. This analysis should be the catalyst for new and innovative approaches to enhance existing commercial BDS, and as such should take a new and objective view of all support provided in the private sector.

In particular, there is great need to creatively analyse the BDS markets involving the smallest and perhaps most marginalised section of the business community, namely MSEs. This is a sector of business where traditional concepts of service delivery and provision are least likely to be applicable.

---

<sup>1</sup> The GTZ ISTARN project being one project which undertook a detailed analysis of commercial BDS providers in Masvingo, Southern Zimbabwe.

<sup>2</sup> One example of research in this area is the Bangladesh based study by Peter van Bussel detailed in 'Business support and the importance of the business network', Small Enterprise Development Journal, Vol. 9 No.3.

It is also the sector in which donors have not had great success in stimulating sustainable and effective BDS delivery.

## 1.2 Defining BDS

For the purposes of the research reported in this paper, a wide definition of BDS was adopted. While there are a number of BDS definitions in use, it was recognised that a wide survey that was to analyse the service environment of MSEs from a new perspective must start with a 'blank sheet of paper', and avoid limiting its scope through a definition of service that was too narrow.

The research was therefore interested in all external non-financial supports to micro and small enterprises that increase operational capacity, access to markets, management skills, financial efficiency and access to networks and information.

Many MSEs operate purely on a limited, local basis. They predominantly sell to local consumers, market locally, source raw materials from neighboring suppliers and have limited local sources of business information. For example the survey highlighted that 75% of MSEs in Thailand, and 83% in Viet Nam, did not travel more than 100km from their business premises for commercial purposes. The wide scope of the survey would allow an analysis of all the business environmental factors that enable a number of MSEs to lift themselves out of this local isolation and access national or even international markets, know-how, networks, information, etc.

*BDS was defined as all external non-financial supports to micro and small enterprises that increase operational capacity, access to markets, management skills, financial efficiency and access to networks and information... The wide scope of the survey would allow an analysis of all the business environmental factors that enable a number of MSEs to access national or even international markets, know-how, networks, information, etc.*

In the context of markets, subcontracting was therefore included as a BDS due to the fact that this potentially plays a significant role in providing access to markets that MSEs would individually not be able to enter. It is therefore obvious that in the MSE context business to business commerce provides an important service to the smallest MSEs and the paper has therefore included these aspects within the scope of the study. While some may argue for a tighter definition of BDS, this approach, as will be detailed in this paper, has enabled the research to highlight the importance of commercial inter-business linkages to the development of the MSE sector.

## 1.3 Geographic context of the studies

Both Thailand and Viet Nam were recognised as countries that have dynamic MSE sectors. The two countries also provide an effective contrast, one being a fully liberalized market economy while the other a country where private business has only been legal for a decade.

### Thailand

The MSE sector in Thailand (defined for the business sector as employing between 1-19 people with a turnover of less than 20 million Thai baht - approximately US \$500,000) accounts for 90% of all private establishments in the country. The informal sector accounts for 52% of employees within manufacturing, trade, services, construction and transport.<sup>3</sup> While the MSE sector in Thailand is critical to the economy and has thrived over the last few decades, it is only recently (particularly following the Asian financial crisis) that Government and the private sector has recognised the importance of the sector and a clear definition of MSEs has been officially adopted<sup>4</sup>.

---

<sup>3</sup> 'Micro and Small Enterprises in Thailand - Definitions and contributions', Working Paper 6, by Maurice Allal, Micro and Small Enterprise Development and Poverty Alleviation in Thailand Project, ILO/UNDP.

<sup>4</sup> See the above ILO/UNDP paper for full definitions of the MSE sector in Thailand.

## Viet Nam

In contrast to Thailand, the private sector in Viet Nam is much younger. Since the beginning of the economic transition process, the private sector has grown dramatically. It was only at the end of 1987 that foreign business was allowed to develop in the country and at the end of 1990 when the government declared that 'Vietnamese citizens have the freedom to do business'. Since the reforms began, a vibrant MSE sector has developed which in terms of numbers dominates the private sector. The MSE sector is estimated to contribute 33% to GDP and accounts for 89% of private sector employment in Viet Nam<sup>5</sup>.

## **2. Survey Design and implementation**

### **2.1 Objectives of the survey**

The overall objective of the surveys was to identify and profile the existing range of BDS providers and mechanisms that enhance the business activities of MSEs. The survey aimed to identify the commercial linkages and supports that enhance the capacity, profitability and efficiency of MSEs. From these commercial linkages a range of service models would be highlighted that, while perhaps currently providing services to only a small number of MSEs, may have the potential for enhancement and replication. As such the survey was not primarily quantitative in nature, but involved investigative work to identify service based business to business linkages.

### **2.2 Survey methodology**

See annex 1 for a schematic of the survey methodology.

#### 2.2.1 Initiating the Survey

ILO contracted a business development professional with experience in commercial services for MSEs in Africa as a consultant to initiate the surveys. The consultant traveled to both countries for a short period and identified a team of local researchers to undertake the surveys in both Thailand and Viet Nam. Following a number of preliminary interviews with MSEs in each country, a pilot questionnaire was developed, tested and adapted to the needs of the survey and each country.

#### 2.2.2 Survey design

The questionnaire was developed to identify in particular the business to business linkages that assist MSEs in their commercial activities. A broad range of linkages were therefore analysed including links to suppliers (products, materials and services), commercial customers (wholesalers, subcontractors, sales intermediaries etc.), business partners and informal business associates and networks. The services provided through these relationships were then analysed in detail.

*The principle question for the research was 'which companies do you link to, to enable you to undertake your business activities?' rather than 'where do you purchase services from?'*

Rather than approaching the research with the question of 'where do you purchase services from?', the research endeavored to build a wider picture of service delivery provided through business to business relationships. An immediate focus on services, would have limited the findings and failed to provide a holistic picture of support structures in the MSE environment. The principle question for the research was therefore 'which companies do you link to, to enable you to undertake your business activities?'

The survey did not endeavor to identify any non business-to-business linkages, and public services were therefore excluded from the scope of the survey.

---

<sup>5</sup> 'The Private Sector in Vietnamese Industry from 1945 to present' by Dhang Phong, MPDF Private Sector Discussions, Number 8, June 12 1999.

### 2.2.3 The Survey Sample

The survey sample was 300 businesses (150 in each country) employing no more than 20 people, but with the focus on the smaller end of this segment. In Thailand 58% of businesses interviewed employed between 1 and 3 people, and 81% below 6 people. Similarly in Viet Nam, 57% of businesses interviewed employed between 1 and 4 people, and 86% below 7 people (see tables 1 and 2).

**Tables 1 and 2: Survey sample according to number of employees**

**Table 1: Thailand**

| Sector       | 1-3 people | 4-6 people | 7-10 people | 11-15     | 16-20     | Total       |
|--------------|------------|------------|-------------|-----------|-----------|-------------|
| Furniture    | 15         | 9          | 5           | 4         | 3         | 36          |
| Garment      | 24         | 5          | 2           | 0         | 3         | 34          |
| Food         | 30         | 8          | 1           | 0         | 1         | 40          |
| IT           | 18         | 13         | 8           | 1         | 0         | 40          |
| <b>Total</b> | <b>87</b>  | <b>35</b>  | <b>16</b>   | <b>5</b>  | <b>7</b>  | <b>150</b>  |
| <b>%</b>     | <b>58%</b> | <b>23%</b> | <b>11%</b>  | <b>3%</b> | <b>5%</b> | <b>100%</b> |

**Table 2: Viet Nam**

| Sector              | 1-4 people   | 5-7 people   | 8-11 people  | 12-15 people | Total       |
|---------------------|--------------|--------------|--------------|--------------|-------------|
| Wooden Furniture    | 20           | 8            | 7            | 2            | 37          |
| Textile & Garment   | 30           | 10           | 1            | 0            | 41          |
| Food                | 12           | 3            | 0            | 0            | 15          |
| Ceramic and pottery | 6            | 3            | 7            | 0            | 16          |
| Light engineering   | 18           | 20           | 2            | 1            | 41          |
| <b>Total</b>        | <b>86</b>    | <b>44</b>    | <b>17</b>    | <b>3</b>     | <b>150</b>  |
| <b>%</b>            | <b>57.3%</b> | <b>29.3%</b> | <b>11.3%</b> | <b>2%</b>    | <b>100%</b> |

MSEs from urban, peri-urban and rural locations were interviewed from a number of sectors in each country. Overall, 44% of MSEs interviewed were from urban locations, 23% from peri-urban locations and 33% from rural or village areas.

In Thailand the focus was on 4 sectors, namely Food, Furniture, Garment and IT, while in Viet Nam the focus was on 5 sectors: light engineering, food, ceramics and pottery, textiles and garments, and wooden furniture. The sectors were chosen as areas with a high concentration of MSEs. The IT sector in Thailand was particularly chosen for its unique characteristics of being a relatively new business area, highly knowledge based, and reliant on new technology.

The sample was taken randomly with no attempt to focus on businesses with specific linkages. The sample should therefore be representative of each sector in their respective countries.

### 2.2.4 Identifying and interviewing service providers

On completion of the survey, a list of service providers in each country was drawn up. 20 service providers in each country were then shortlisted, interviewed and profiled. These service providers were chosen to exemplify the various commercial channels through which BDS are currently being provided to MSEs, and a particular emphasis was placed on interviewing service providers who are providing new services or services in a non-traditional way.

## 3. Survey findings

### 3.1 Services Identified

For the purposes of analysis, the services identified during the survey have been divided into 4 categories:

- **‘Purchased services’** are those that are provided by a BDS company and purchased directly for a fee by the MSE user.
- **‘Services on a commission basis’** are those which are not paid for directly by a set fee, but are paid for by commissions from the MSE (e.g. sales commissions) or mark-ups on a product (e.g. marketing intermediaries).
- **‘Services provided through business relationships’** are those that are provided by suppliers, buyers, subcontractors, franchisers etc. While some of these services are provided on a mark-up basis, or purchased at a fee (e.g. franchise) they generally involve a package of services offered for the commercial benefit of both the MSE user and provider.
- Finally, **‘services provided by the business environment’** are those that are channeled through informal networks, customer interaction or general media.

### 3.1.1 Purchased services

The survey struggled to find many services that were being provided to MSEs by ‘service companies’ particularly companies that were focussed on providing services primarily to the MSE sector. The survey showed that MSEs currently purchase little but the essential production inputs such as raw materials, equipment and components, and emergency services such as equipment repair.

In Thailand 26% of the respondents purchased accountancy services, 3% product design services, 6% private training services, 6% equipment hire and leasing services, 6% external communication services, 18.7% purchase exhibition services and none purchased formal consultancy services. In Viet Nam there appeared to be even fewer purchased services with 3% utilising internet advertising and design services (all of these within the textile sector), 5% exhibition services (in the ceramic and textile sectors only) and 7% office and communication services (primarily telephone services for rural food processing businesses).

The lack of purchased services reflects the findings of other surveys analysing the formal service industry for MSEs that have been undertaken by donors and SED projects. Traditionally, small enterprise development has endeavored to develop this buyer-seller market, but the survey appears to indicate that this is currently not a common channel for services to MSEs. Few out-of-the-ordinary services were identified and those that were have either been developed out of necessity, for example the telephone service in rural Viet Nam (see case study 1), or are provided by businesses who predominantly target larger enterprises and have a very small number of MSE clients e.g. web page designers.

#### **Case Study 1: Communication services to rural food processors in Viet Nam**

*Cu Da village in Vietnam specialises in mien (Vietnamese noodles) production. There are 50 businesses employing around 200 people, who supply various markets in northern Viet Nam. Many of these businesses do not have access to telephones, and a number of individuals in the village operate telephones on a for-profit basis for the mien businesses. These individuals charge for taking telephone orders and for the use of the telephones. This service has developed out of necessity, due to the poor rural communication infrastructure. While this service is probably cost effective, it is likely to disappear as rural communication improves and as such is a temporary, necessity-based BDS.*

The exception to this was accountancy services to MSEs (see case study 2) where a number of companies were fully focussed on providing services to MSEs and saw a market niche in the MSE sector. Accountancy services probably differ to other services because of tax and legal requirements for small businesses, and the ability of an accountant to understand tax requirements and effectively reduce taxation for the MSE.

**Case Study 2: Accounting Services for MSEs in Thailand**

*Three accountancy companies who offer services to MSEs in Thailand were interviewed. All of the companies were concentrated on the MSE sector and had no medium or larger clients. One company was an individual working alone, while the other two employed 3 and 5 full-time professionals. These companies identified that their market niche lay in the MSE sector and that their types of services would not be utilised by larger companies who either employ larger, more recognised accountancy companies or have their own in-house accountancy department.*

*As such, accountancy was one of the few service areas in which the survey found BDS providers who were offering tailored services specifically for The MSE sector. Additionally these companies offered free financial consultancy services to their MSE clients to maintain a close customer relationship. In one case this even included basic marketing consultancy.*

The study has focussed on the smallest businesses in both countries and has indicated that these businesses do not currently purchase BDS. This factor may be partly due to the fact that most services on offer to business have been developed for the formal business market and there were few services identified that were specifically targeting MSEs. There is also an indication that there is a lack of demand for some BDS, for example 50% of the respondents were aware of training relevant to their business but 64% of these were not interested in using the service.

Specialisation is a critical factor in the success of small business and those MSEs that attempt to undertake all the business functions internally are placing serious obstacles on their potential growth. Purchased services are a potentially important source of BDS, but the survey highlights that the purchased BDS market is currently failing for the smallest MSEs in both countries and there are few signs of market driven development in this area. Work is therefore required to develop BDS supply tailored to the needs of MSEs and to stimulate demand among potential MSE purchasers. This area is important as commercial purchased BDS are demand driven and easily sourced as and when required by the businessperson. They therefore play a critical role in solving specific business problems and shortcomings that are recognised by the MSE themselves.

While purchased services have an important role in BDS provision, the survey has highlighted that it is not the only BDS channel for MSEs.

### 3.1.2 Services provided on a commission basis

Services provided on a commission basis are particularly attractive to MSEs who are unwilling to gamble money on the success or failure of a purchased BDS. Commission based services are tied to results and to the financial return realised from the service.

The survey identified a number of services that were being provided to MSEs on a commission basis in both countries. In Thailand, the services identified by the survey included independent entrepreneurs undertaking sales on a commission basis (utilised by 7.3% of the MSEs), display in showrooms (utilised by 16% overall and 39% of furniture businesses), and procurement (utilised by only 1% of businesses).

In Viet Nam the commission based services were only identified in sales. 61% of MSEs utilised sales services on a commission basis, often involving individuals who were not in formal business but who received a commission for bringing customers to the businesses. 73% of food processing businesses operated by selling to travelling salespeople, and 27% of furniture businesses sold to showrooms or exporters.



### **Case Study 3**

#### **Furniture showrooms and wholesalers in Bangkok**

*Bangseu, a suburb of Bangkok, is the principal furniture wholesaling and retail area in the city. The area contains numerous furniture workshops, furniture showrooms, wooden component retailers, timber yards and furniture wholesalers. Hakeeh Furniture is typical of the 6 wholesalers interviewed in the survey, and who are common in the Bangseu area. The company highlights the services provided through wholesaling businesses in Bangkok.*

*Hakeeh Furniture is a small family operated business that links to 4 MSE furniture-manufacturing workshops and an MSE upholsterer. The company operates a showroom with samples from the MSE manufacturers but holds no furniture stocks. 90% of the company's customers are retailers who visit the showroom and place orders with the company, and Hakeeh has established a network of 500 furniture retailers across Thailand to whom they supply. On receiving orders the company subcontracts to the furniture manufacturers. The manufacturer delivers unvarnished furniture which, following quality control is varnished and finished by Hakeeh and if necessary sent for upholstering to the MSE upholsterer. This finishing procedure is undertaken to ensure standardization of the products. The products are then branded and transported to the retailers.*

*While Hakeeh could be viewed as purely a market player rather than a BDS provider, the benefits of this arrangement to the MSE manufacturers should be highlighted. Hakeeh is managing to overcome three inherent problems faced by many MSE manufacturers; the problem of economy of scale by subcontracting large orders to a number of manufacturers, lack of standardization by undertaking the finishing of products, and access to non-local markets through the network of retailers. Hakeeh also undertakes product design and works with the manufacturers to produce new design samples. As such Hakeeh provides a number of BDS to the manufacturers that are paid for by the mark-ups placed on the furniture.*

### **Case Study 4**

#### **Sales and design services provided through family networks in Viet Nam**

*Hien Nhat, Trung Hieu and Thanh Phuong are typical of many furniture showrooms that exist in Hanoi, Viet Nam. Most furniture in Viet Nam is produced in rural areas some distance from the important urban markets. To overcome the problem of distance from markets many family furniture businesses have encouraged a family member to move to the city to establish a showroom. In the case of the three showrooms interviewed large orders that the single family business could not fulfil had forced the showrooms to purchase from the other businesses in the home area. It is therefore common to find showrooms catering for one geographic location and displaying and selling the furniture of manufacturers from only one village or area.*

*While this urban marketing service is critical for the survival of rural furniture manufacturers, the showrooms also play an important secondary role of providing market information and product designs to the rural manufacturers. The showrooms that are selling modern furniture (as distinct from traditional carved and inlaid furniture) play a particularly important role in sending design ideas to the rural areas. One furniture showroom owner in particular was involved in innovating new modern furniture, preparing design drawings and ordering samples from her family workshop. Without this product development and market information link, the rural manufacturer would find it difficult to stay in touch with the changing urban market trends.*

*These showrooms, while operating as part of a family network, function as separate profitable enterprises charging commissions and mark-ups on the sales and orders. They provide critical services that allow rural furniture manufacturers to overcome the inherent disadvantages of their isolation from market centres.*

As would be anticipated, in both countries commission based services were identified predominantly in sales where the financial benefit of the service can be easily calculated. The degree of sophistication of these sales based services varied greatly from informal salespeople to formal furniture wholesaling. For example, a number of formal wholesalers were identified in Bangkok (see case study 3) that purchase from a number of MSE manufacturers, finish the furniture, brand the furniture and distribute to a network of showrooms.

Many commission based sales services were identified, with a number that provided services in a unique or interesting way including:

- A large furniture manufacturer who provides cross border transport, display and sales services to MSE furniture manufacturers in Viet Nam. This large company was able to utilise its export license and Chinese showrooms to provide cross border market opportunities to MSEs, and displays and sells MSE products that complement and expand its product range.
- MSE furniture showrooms in urban Viet Nam that are marketing furniture for rural MSE manufacturers through family networks (see case study 4).
- Freelance salespeople in both Thailand and Vietnam who provide formal and informal marketing services to food processing, furniture and metalwork MSEs.
- Procurement agents who purchase materials and components for IT and furniture MSEs in Bangkok.
- Cargo companies that provide MSEs with links and introductions to international buyers (see case study 5).

#### **Case Study 5**

##### ***International Market linkages provided to MSEs through Cargo Companies in Bangkok***

*Mercantile Consolidator Co. Ltd, and Trans Air Cargo Ltd. are two freight companies who provide important international market linking services for MSEs involved in the manufacture and wholesale of garments in Bangkok. Both companies operate a freight forwarding service with a significant proportion of cargo being derived from MSEs. In the case of the former 20-30% of all freight is derived from MSEs, and the latter company has opened a branch beside the busy Boeabae textile wholesale market and therefore relies predominantly on freight from the market.*

*While the transportation services offered to MSEs is not unique, the two companies have developed a brokering role between international buyers and the MSE manufacturers and wholesalers. Both companies will provide information on the prices of MSE products to international buyers and will undertake procurement and purchasing and handle payments on behalf of international buyers. This allows international buyers to purchase from many MSEs without visiting Bangkok, transaction costs are reduced since only one international money transfer is required and buyers need only build a trust-relationship with the cargo company rather than with a number of relatively small and informal MSEs. This brokering role has also developed to the stage where the cargo companies undertake customer introduction and buyers can utilise the cargo companies to introduce them to reliable and quality manufacturers.*

*This brokering role provides a number of strong benefits to both the cargo company and the MSE manufacturers and wholesalers. MSEs are able to access markets that they would otherwise be unable to penetrate and the cargo company receives increased freight business and commissions on sales.*

Subcontracting is prevalent among MSEs in Southeast Asia compared with other areas of the world, such as Africa. 35% of MSEs in Thailand regularly undertook orders for subcontractors and 18% of the MSEs themselves regularly subcontract to other MSEs. In Viet Nam this was even higher with 65% of MSEs receiving regular subcontracts and 25% subcontracting to others. Subcontracting is a mark-up based relationship, and while it is debatable that it can be viewed as a BDS, the survey highlighted that a number of BDS are provided to MSEs through these subcontracting relationships.

The services offered on a commission basis were therefore seen to be more prevalent and varied than those that are purchased. Commission based services are suited to the low cashflow of most MSEs and while MSEs do indirectly pay through the mark-up or commission charged, affordability was not a major issue. MSEs mentioned the cost saving nature of utilising services such as procurement and sales on a commission basis. The commissions or mark ups charged by services such as subcontracting, market links through cargo companies and showrooms, are not charged directly to MSEs. In these cases the sole concern of the MSE is generally the price they receive for their product rather than the percentage mark-up. In the case of commissions, it is relatively easy for the MSE to relate the service to increased income and calculate what is, and is not affordable.

Are some subcontracting relationships inherently exploitative to MSEs? The issue of larger companies 'exploiting' smaller companies through subcontracting and paying low fees or taking advantage of low safety standards has often been raised by development professionals, but was not borne out by the survey. MSEs were generally happy with receiving orders from subcontractors and they in turn are involved in subcontracting to other companies (18% of MSEs in Thailand, and 25% of MSEs in Viet Nam, utilise subcontractors on a regular basis).

### 3.1.3 Services Provided through business relationships

The widest variety of services identified in the survey were neither purchased, nor provided on a commission basis but were provided as part of a business relationship or partnership. A large number of services such as training, on the job quality control, product development, market information, equipment hire/leasing, management advice and marketing, are provided by partners as part of a commercial business linkage.

These services are fully commercial and are offered by the service provider for strategic business objectives. These objectives include :

- As a method of retaining valued suppliers, retailers or customers by building a strong mutually beneficial relationship.
- As a method of assuring quality, standardisation and reliability from suppliers and subcontractors.
- As a direct method of building markets for the service provider (e.g. an internet service provider supporting the development of MSE internet based businesses).

Both researchers in Thailand and Viet Nam stated that services provided through business relationships were, in their view, the most important for MSEs. In Viet Nam the services offered through suppliers, subcontractors, business customers and other commercial partners were analysed and highlighted that a large number of MSEs were currently receiving services from their business partners (see table 3 below).

**Table 3: Services provided through business relationships in Viet Nam**

|                               | Wooden Furniture | Textile & Garment | Ceramic & Pottery | Food Processing | Light Engineering | Total      |
|-------------------------------|------------------|-------------------|-------------------|-----------------|-------------------|------------|
| Training                      | 19%              | 51%               | 63%               | 0%              | 12%               | <b>25%</b> |
| National Marketing            | 46%              | 51%               | 63%               | 73%             | 41%               | <b>43%</b> |
| International Marketing       | 27%              | 51%               | 63%               | 0%              | 0%                | <b>27%</b> |
| Design and product dev.       | 38%              | 66%               | 63%               | 73%             | 12%               | <b>37%</b> |
| Quality control & improvement | 38%              | 66%               | 63%               | 73%             | 12%               | <b>37%</b> |
| Regular market information    | 38%              | 66%               | 63%               | 73%             | 41%               | <b>45%</b> |
| Receiving subcontracts*       | 78%              | 85%               | 100%              | 73%             | 41%               | <b>65%</b> |
| Subcontracting to others*     | 41%              | 29%               | 38%               | 27%             | 12%               | <b>25%</b> |

\* Cited to indicate the prevalence of subcontracting rather than a service

The prevalence of these types of service relationships in both Viet Nam and Thailand is due to the high degree of subcontracting and inter-linkage within the business community in the two countries. In Thailand 35% of MSEs interviewed received bulk orders for finished or semi-finished products. Of the 18% of MSEs interviewed who subcontract to other companies on a regular basis, 31% of the furniture businesses provided some form of training to their subcontractors, while the figure in the garment industry was 20%. These figures show that the services offered through a business relationship are not just between larger and smaller enterprises, but also between MSEs.

**Case Studies 6 and 7: BDS to develop markets within and through the MSE sector.**

**BDS provided to MSE food vendors by food producers in Thailand.**

*The food industry in Thailand is relatively well developed and there is a large and varied market for pre-processed foods in the country. The competition for different varieties of foods is stiff and food processing businesses have developed a number of methods of penetrating the market. Branding of food products has become common and certain brands have gained particular popularity. The survey investigated this food market and identified a number of food processing businesses that were linking to MSEs to promote and market their food brands. The survey interviewed and profiled 5 companies that offered specific services to their MSE customers in the form of mini-franchises and licenses. 3 of the companies were MSEs themselves while 2 were large businesses.*

*The food processors interviewed were involved in producing Japanese Crepes, noodles, pork balls, fish pastes and fish balls, and as a strategy to develop their sales and brands were franchising to and licensing small business food processors and retailers. Typically the relationship with MSEs involved providing formal training in both production and how to run a food business, quality monitoring and top-up training, group advertising and promotion and the provision of production equipment. Look Shin-Yaw Sen, a small business producer of fish pastes and fishballs has even gone to the extent of manufacturing and renting branded noodle stall pushcarts as part of their franchise package. Look Shin has established 40 franchises and the sales derived from these accounts for 40% of their turnover.*

*Linking to MSE food processors is an effective way for a manufacturer to extend their brand and increase their sales. The package of services provided to the MSEs ensures that quality is maintained and that the licensed and franchised MSEs survive and develop. The relationship benefits both parties and together the 5 manufacturers provide important BDS to over 500 MSEs across the country.*

**BDS provided to MSE businesses by Internet Service Providers**

*The MSE sector is an enormous potential market for internet service providers, but is also a market that often lacks technical know-how. The survey highlighted two methods in which large internet service providers (ISPs) are penetrating the MSE market and at the same time providing a number of BDS to MSE retailers and internet users.*

*A-Net Company Ltd., a large ISP, relies heavily on MSE, as well as larger company, retailers to sell lease-line internet services and packaged products (internet and hardware). The company realises that the retailers require up-to-date skills in utilising the internet and therefore undertakes training on both using the internet and management of an internet retail business. A-Net maintains a close link to its retailers and undertakes promotion activities on their behalf. The training provided to the retailers is in turn provided to the customers of the retailers many of who are small businesses, internet cafés and internet booth owners.*

*Internet East Co. Ltd. appear to have taken this principle one step further and operates as a sub internet service provider under license from one of the major ISPs in Thailand, Internet Thailand Co Ltd. The company is an intermediary between the ISP and the end user and earns revenue from installation and subscription fees for line connection. The company offers training and consultancy to MSEs, who comprise 60% of their business, in establishing and operating internet cafés and other internet based businesses as well as general use of the internet. By training MSEs in the use of the Internet the company is developing its own market and supporting new technology in the MSE sector.*

**Case studies 8 & 9: BDS to strengthen MSE suppliers.**

**BDS provided through international buyers to textile MSEs in Viet Nam**

Viet Nam is internationally renowned for its quality silk fabric and garment production and has an established international market. Much Vietnamese silk is produced and processed by MSEs and international buyers have to link to MSEs in order to purchase and develop products. Vietnamese silk therefore highlights some of the BDS inherent in market based business relationships. 3 silk garment manufacturers and exporters were interviewed to analyse the services provided through this business relationship.

Tien Dat is a small, family run silk manufacturing and exporting business employing 8 people. It is itself a weaving workshop but is also involved in export and maintains a close contact with a Swiss silk buyer. In order to fulfill the orders from the international buyer the company links to 22 other MSEs comprising 3 silk weavers, 15 tailoring enterprises and 4 embroidering businesses. Tien Dat is therefore a link point for the international buyer to a network of MSEs and a strong relationship of mutual trust appears to have been established between the buyer and Tien Dat. The Swiss buyer assisted the company to establish a bank account purchased a fax machine and provides capital to undertake orders. The Swiss buyer has also sent their designer to Viet Nam to work with Tien Dat and its suppliers and subcontractors to improve quality and develop new products. Two other similar companies who were interviewed also provided ongoing training to their subcontractors, as well as machinery (sewing machines) and equipment (embroidery needles).

Tien Dat exemplifies the services that are often provided to MSE exporters through international buyers and in turn from MSE exporters to their suppliers and subcontractors. The three manufacturer-exporters interviewed linked to buyers in Switzerland, USA, New Zealand, Australia, Japan and Sweden and all noted important services other than access to markets that were being provided by these buyers, particularly product development, training, quality improvement and market information.

**BDS provided to MSEs through an interior design company in Viet Nam**

Viet Mai Ltd. is a relatively large interior design and decoration company with 25 full time employees. The company is involved in the interior design and decoration of buildings and links to 12 MSEs to undertake this work (4 wood workshops, 3 rattan and bamboo furniture manufacturers, 2 metal workshops, 2 textile suppliers, and 1 MSE involved in inlay and lacquer work). This link to a variety of skilled MSEs is essential for the diversity of work required in interior design, but rather than linking on an ad hoc basis, the company has endeavored to develop a close working relationship with its MSE subcontractors to ensure quality and reliability of production and supply.

Viet Mai employs 4 designers who regularly work with the MSE subcontractors to develop new products. The company provides display space for the MSEs in its showroom and undertakes on-the-job quality control and production advice in the MSEs workshop. The importance of the company's MSEs subcontractors is apparent in the fact that 40% of Viet Mai's revenue is from subcontracts to MSEs and 15% is from commissions on the sale of the MSE's products.

While professional, externally purchased design services utilised by MSEs are rare, Viet Mai highlights ways in which professional design and product development services are being provided to a number of MSEs through a subcontracting relationship.

The survey highlighted and investigated a number of examples of business relationship based services including:

- Training, equipment hire, advertising and management support provided by a small business franchiser to MSE food processors in Thailand (see case study 6).
- Training, consultancy and advertising services provided by a large internet provider to small internet businesses in Thailand (see case study 7)

- A Thai internet service business which works on behalf of a large internet provider to support MSE internet based businesses to establish and operate (see case study 7)
- Textile subcontracting companies in Thailand that provide markets, training, design and product development services to micro business weavers and small tailoring businesses.
- International textile buyers who are providing design and product improvement training to small business weavers and their suppliers in Viet Nam (see case study 8)
- An interior decorating company in Viet Nam that works with 12 MSEs and provides links to markets, display, design, product development, and on the job quality control services (see case study 9)

The affordability of these relationship-based services is not generally an issue for MSEs. Many of the services are either free or the cost is hidden in a commission or mark up. In the case of suppliers, e.g. the internet service providers, the services are purchased but the cost is part of a wider and more tangible product or service cost. In relationship based services, the service provider must decide on the viability of providing these supports. As such MSEs are generally happy to receive support in this way.

Unfortunately the survey was unable to ascertain exactly how valued these services are by MSEs, but there is a strong indication that MSEs rely particularly heavily on the market links provided through these relationships. 85% of respondents in Thailand, and 89% in Viet Nam stated that links to markets and customers were of most importance to their business.

While the prevalence of subcontracting, franchising and other inter-business relationships in South East Asia is not a new insight, the analysis of the role of these relationships in the context of the provision of BDS to MSEs has perhaps been neglected.

#### 3.1.4 Services provided by the business environment

Commercial BDS are provided not only by companies and individuals through commercial transactions (purchased or on a commission basis) or through a formal business relationships, but also through informal channels, media, business networks and other players in the general business environment of MSEs. Links to customers, other businesspeople on an informal basis, and access to general media proved to be the most important source of information for many of the MSEs interviewed.

The survey indicated that the link to customers plays a critical role in providing business information, and product design ideas particularly in the manufacturing sectors (see tables 4 and 5). 53% of furniture businesses in Thailand, and 51% in Viet Nam place customers as their most important source of business and product design information. The IT sector, that relies on high technology, was not seen to rely on customers for design, but 45% of IT MSEs stated that customers played a critical role in providing market information.

**Table 4 and 5: Services provided through the business environment**

Indicates the channels that MSEs stated as being the most important for information and advisory services.

#### **Viet Nam**

| Service                        | Channel            | Wooden Furniture | Textile & Garment | Ceramic & Pottery | Food Processing | Light Engineering | Total      |
|--------------------------------|--------------------|------------------|-------------------|-------------------|-----------------|-------------------|------------|
| Information on design          | Customers          | 51%              | 76%               | 63%               | 27%             | 73%               | <b>63%</b> |
| Information on design          | Print media        | 43%              | 41%               | 25%               | 0%              | 0%                | <b>25%</b> |
| Advisory services for business | Family and friends | 81%              | 59%               | 88%               | 73%             | 68%               | <b>71%</b> |
| General business information   | Mass media         | 73%              | 73%               | 63%               | 20%             | 66%               | <b>65%</b> |

## Thailand

| Service  | Channel            | Furniture | Garment | Food | IT Sector | Total |
|--|--------------------|-----------|---------|------|-----------|-------|
| Information on design                                  | Customers          | 53%       | 21%     | 25%  | 0%        | 24%   |
| Information on markets                                 | Customers          | 58%       | 56%     | 23%  | 45%       | 45%   |
| Information on markets                                 | Family and friends | 42%       | 26%     | 72%  | 42%       | 47%   |
| Advisory services for business                         | Business friends   | 39%       | 24%     | 10%  | 62%       | 34%   |
| Advisory services for business                         | Family             | 56%       | 50%     | 55%  | 18%       | 55%   |
| Awareness of useful & relevant media for MSE business. |                    | 33%       | 71%     | 80%  | 82%       | 67%   |

Family and business friends proved to be the most important source of general business management advice. Surprisingly accountants and other professionals were seldom approached for advisory services and no food or IT businesses utilised this channel. 62% of IT businesses rate business friends as being their most important source of information, while 55% of Food businesses link to family members. Family and friends play a strong role in providing advisory services and market information, particularly in Viet Nam. This is hardly surprising in Viet Nam where family business networks were seen to be of high importance.

The importance of general media to MSEs is reflected across the sectors with 67% of respondents in Thailand stating that they were aware of media programmes or publications that are useful to their businesses. In the case of furniture MSEs, furniture magazines, home and garden magazines, TV programmes on homes and architecture were cited. For tailoring MSEs, fashion magazines and TV programmes on fashion and dress were of most interest. Food processing MSEs predominantly utilised cookbooks and watched TV cook shows, while the IT MSE sector was well served through links to the internet and IT magazines. Similarly in Viet Nam 65% of businesses overall stated that mass media was important for business information, but the relevance of media for design ideas was only noted in the furniture and textile and to a limited degree in the ceramic sector.

### **Case study 10: Print media services to MSEs in Thailand**

*The survey indicated that the mass media play an important role in providing information to the MSE sector. Three magazine publishers were interviewed (two IT and one food and general business magazine) to find out whether these businesses are endeavoring to serve the MSE market and if so, what they offer to MSEs.*

*All the publishers viewed MSEs as being a substantial client group, both as readers and advertisers. Computer Today Magazine estimates that 20% of its advertisers are MSEs, while Samnakpim Chivit Tong Sue, a general business magazine, estimates the figure at 40%. While these two publications are general information publications, the Shopping Computer Magazine is a computer advertising paper and as such is predominantly targeting MSE advertisers who account for 80% of their clients.*

*All the companies were aware that their publications provide important information to MSEs, but the Computer Today Magazine appeared to focus more strongly on the larger business sector. The other two publications were looking at ways to expand both their MSE readership and advertising base, as one advertising executive noted 'the MSE business in Thailand is booming at present and more opportunities are opening up to support them through magazine advertising'. While the magazines are primarily interested in advertising and sales revenues, they are aware that there is a market niche in the small business sector and there is evidence that these magazines are adapting their content and advertising services to attract MSE readers and advertisers.*

### **3.3. General analysis of the findings**

Analysis and discussion on the market development of BDS in past SED forums has appeared to visualise the market as being comprised of SME purchasers and service-company providers. The survey of MSEs in Thailand and Viet Nam highlights that while this purchaser – provider relationship exists to some limited degree, there are a wide number of services being provided on a commission basis, through business relationships, and through the general business environment of MSEs.

A limited number of purchased BDS have been identified, but these types of services are stifled by constraints of both supply and demand. MSEs appear unwilling to invest scarce capital into BDS, many do not appear to feel that they require BDS support, or do not understand the potential benefits of BDS. While there is a low demand, there are also a number of supply constraints. Most BDS providers who are selling services have developed and designed their services for the larger and more formal business sectors and view MSEs as a small and limited segment of their market. Many services currently on offer, such as web page design, product design or consultancy, are not tailored to the very different technical and cost requirements of MSEs.

Purchased services may have an important role in BDS provision but the survey highlights that this purchased BDS market is not developing independently in the private sector. Work is therefore required to test new methods of developing BDS supply tailored to the MSE market, as well as strategies to stimulate demand among MSEs by creating awareness to the potential commercial benefits of utilising such services..

Commission based services do not suffer from the same demand constraints because payment is based on either performance or a mark-up. There is therefore little risk for the MSEs who utilise these services, and performance related payments are well suited to the limited cashflows of most MSEs. It is therefore likely that if a wider range of commission based services were offered they would be readily utilised by MSEs. The constraint to a wider use of commission based services is therefore based more on supply, and market limitations.

Similarly, business relationship services would be readily utilised by MSEs if they were available and the constraints are primarily supply based. These services were seen to provide MSEs with access to wider markets, production networks and information, as well as skills improvement, product development, training, tools and equipment leasing and hire, and management support. But these services are supply led and it is difficult for an MSE to actively seek such services.

The services provided by the general business environment were seen to be particularly important in information and advisory support, but did not extend outside these service areas. Family networks were seen to be important in both countries, particularly in Viet Nam, and links to customers provided crucial market information. These customer and family links are a critical feature of MSE businesses everywhere but, in the case of MSEs who have only local customers and local family contacts, can contribute to the isolation of MSEs from new market and technological developments. The media on the other hand, appears to offer access to national and international information and is being utilised heavily in both countries.

The survey therefore highlights that efforts to stimulate commercial BDS markets need to focus on services provided through a variety of commercial channels including those based on commission, business partnership and the business environment.

## **4. Considerations for donor interventions to stimulate BDS markets**

### **4.1 The ‘affordability’ of market driven services**



Donor initiatives to support MSE development are particularly important in enhancing employment and improving the household incomes of some of the poorest people in developing economies. MSE development is therefore seen as a fundamental component for sustainable poverty alleviation. But there has been reluctance for many development policy makers and in particular for development practitioners in accepting market principles of BDS provision for the smallest enterprises.

While the potential benefits of the market development of services in terms of sustainable MSE growth and increased impact is generally accepted, many SED professionals view it as impractical. How can the poorest businesses pay for services when business is a method for survival and they are on the margins of profitability? Affordability of BDS by MSEs has therefore become something of a stumbling block to the full acceptance of the market development of services, and has stalled many initiatives in this area.

There are those among us who believe that services designed specifically for the MSE market and provided through appropriate commercial channels can be affordable to MSEs and that there is real potential in stimulating the purchase and sale of BDS in this sector. But this work is in its infancy and to-date little has been actually proven and valuable work remains to be done.

In the meantime though, we should not allow the affordability argument to discredit market based initiatives and stall work in this area. The survey detailed in this report indicates that the real commercial BDS market encompasses a wide range of services provided through a variety of channels. In most of the services highlighted, affordability is not a major issue for MSEs and services are linking to the smallest enterprises. There is therefore much work to do in supporting and stimulating these commercial service channels, while the appropriateness of the sale of BDS to MSEs is tested. But these services which are part of the every day activities of private business are somewhat outside the traditional territory of donors. Can and should donors try to intervene in this market, or is it an area in which donors have no place?

#### **4.2 Is there a role for donor intervention in the BDS marketplace?**

The survey detailed in this report has highlighted a wide range of BDS that are being provided to MSEs on a purely private and commercial basis, but has shown that these BDS are not found in the traditional buyer-seller market place but are wrapped up in the more complex, every-day business activities of MSEs. There is a plausible argument that this is a no-go area for donors, an area that is 'too private sector' and too 'personal' for publicly-funded initiatives to develop, more than it distorts. According to this school of thought, Small Enterprise Development should therefore leave this BDS market well alone and allow it to develop naturally.

On the other hand, there is the potential to have a wide and sustainable impact on micro and small enterprise development if methods can be found to positively stimulate these BDS markets; an impact and sustainability that has been elusive in more traditional approaches of publicly-funded business development.

*a wide range of BDS that are being provided to MSEs on a purely private and commercial basis, but these BDS are not found in the traditional buyer-seller market place but wrapped up in the more complex, every-day business activities of MSEs*

Rather than writing off this area of BDS provision as being outside the scope of donor intervention, donors should perhaps look at methods of positively developing these service delivery channels. This may require a fundamental shift in the focus and methodology of public funded initiatives and is likely to involve direct and indirect partnerships with private enterprise. These partnerships will increase the danger of negative donor distortion in the market and will therefore require increased monitoring and awareness of the positive and negative effects of interventions on the market place. This is a path that

is perhaps littered with pitfalls but one which could lead to effective and sustainable growth in the MSE sector.

#### **4.3 Challenges of avoiding distortion in the private market place.**

The survey has shown that there is existing commercial BDS provision within the private sector, and it has been argued that there is potential to build on and enhance this service provision. But there is a strong danger that interventions could effectively diminish, rather than enhance commercial BDS provision. This is particularly true in the case of financial supports to BDS providers, where the hard cash of the donor can result in private sector players adapting their services to the 'donor market' and away from MSEs.

When considering any intervention, avoiding negative distortion will be a major challenge for donors. Wherever possible donor interventions should avoid financial support to BDS provision and concentrate on non-financial interventions, and in many cases the provision of ideas, knowledge, expertise and facilitation is likely to be a more effective tool than large quantities of money. Where financial support is required, interventions should utilise private sector mechanisms that will form commercially based partnerships e.g. equity capital, or underwritten loans.

Whichever approach is adopted, donors will require to enter this market with great sensitivity and care and with the knowledge that their presence could be potentially damaging.

### **5. Opportunities for donor interventions**

If we are to accept that donors could have a place in enhancing the non-purchased commercial BDS market, then what strategies could be developed to enhance these types of services?

#### **5.1 Opportunities in enhancing commission based services**

How many services can be provided on a commission rather than a fee basis? This is a question that SED practitioners should try to answer. The survey indicates that MSEs will be more willing to utilise services offered on a commission rather than on a fee basis. It is therefore arguable that the service sector for MSEs is most likely to be successful if it is, as far as possible, commission based.

There is therefore need to look in a creative way at services that could be provided on a commission basis. For example, could product design services be provided to MSEs and a commission paid on the sales of the product, or could publicity services be offered on a commission basis for orders received?

There is probably scope to increase the number of services that are already being provided on a commission basis. While this potentially increases the risk for service providers it also offers a new market opportunity. Donors could also assist service providers in testing this approach and perhaps look at ways of reducing the cashflow implications of a delayed return on investment for the service provider.

Commission based services that already exist in the private sector could perhaps also be enhanced. For example, training could be provided to existing sales businesses, and non-financial support could be provided to establish sales based micro-enterprises.

#### **5.2 Opportunities to enhance business relationship based services**

The survey has shown that there are business opportunities in establishing companies that link to MSEs through a variety of business relationships, including supplier/buyer, subcontracting, franchise and licensing relationships. In fact the survey shows that the companies who strategically link to MSEs have the potential of gaining a real competitive edge over other players in the market.

Linking to MSEs also has a number of potential risks and problems that possibly limit the number of such initiatives. The MSE sector is an unknown area for many larger businesses and MSEs often

have the reputation of being unreliable and producing inferior quality products. Additionally, subcontracting and franchising are not nearly as prevalent in many parts of the world, such as Africa, as they are in Southeast Asia.

Donor interventions must therefore look at how to reduce the perceived and real risks of establishing businesses that rely on and link to MSEs. Donors should prove the opportunities inherent in linking to MSEs by establishing proven pilots that are established completely within the private sector. There are a number of ways in which this could be undertaken.

Partnerships between donors (or SED organisations) and private businesses could be established to test business opportunities in linking to MSEs. For example a partnership with an internet provider to set up a programme of stimulating and supporting MSE internet based companies, or partnerships to pilot test franchising through MSEs.

In areas where little subcontracting exists, financial support such as venture capital or access to loans may prove to be a viable method of establishing companies that link to MSEs. Non financial supports could also prove effective in stimulating new and improved linkages to MSEs. For example, advisory and consultancy services on how to develop retail through the MSE sector, how to access and cultivate MSE markets, or how to develop and improve supplies derived from the MSE sector.

International linkages between buyers and MSEs, such as the example of the Vietnamese silk producers, have a number of start-up constraints, not least business trust. This lack of trust is probably particularly lacking in volatile business environments and with survivalist MSEs, in other words in areas in which small enterprise development is most crucial. Some donor initiatives have endeavored to place intermediary organisations between the international buyers and MSEs to solve this problem, but have therefore placed a block between the potential BDS provider and the MSEs. These intermediaries, who are often locally based and non-commercial, are therefore relied on to provide the information, training and product development that could be provided directly, and probably more effectively, by the private sector. Donor initiatives should therefore look at ways to increase direct transactions between buyers and MSEs, and reduce the risk and trust constraints of these direct transactions. MSE introduction services and some kind of insurance against financial misuse could be two ways of achieving this.

### **5.3 Opportunities in enhancing services provided by the business environment**

While services provided by informal networks are probably the most difficult to enhance in many ways, there are possible opportunities for successful interventions. Some work has already been undertaken in enhancing business networks through business clubs, association meetings etc. Business networks are obviously an important factor for MSEs and initiatives in this area are important.

In addition, it has been seen that direct contacts between customers and MSEs are critical for product development and market awareness. While much information can be transferred during the day to day transactions with customers, it would be beneficial to look at ways of enhancing customer – MSE contacts. Larger and formal business has proven adept at this and customer feedback forms and questionnaires are accepted practices for good business. Ideally similar, although probably less formal, customer feedback mechanisms would be adopted by the MSE sector and would enhance the quality of information provided to MSEs by their existing and potential customers.

Information provided by service providers in the general marketplace, such as the media, could be enhanced by donor support. TV, radio and magazines were seen to provide an important service to MSEs who in most countries, and particularly in developing countries, form a large and important sector of the community. Many of these media companies may be unaware of this group and have not identified them as a large segment of their audience or readership. Support could therefore be provided to these companies to research and understand the interests and needs of this segment of

their clientele, as well as assistance in developing specific programmes or articles for MSEs. This approach has been adopted successfully in East Africa to stimulate private media companies to target MSEs<sup>6</sup>. Initiatives in supporting the general media to understand the business opportunities inherent in targeting the MSE sector have the potential of enhancing the quality of mass media information services to MSEs.

## 5. Conclusions

It is hoped that this paper will assist donors to re-analyse some of the underlying assumptions on which the debate and analysis of the market development of BDS has been based, to date. There is some argument about the benefits and impact, both positive and negative, of long-term donor supported BDS that have in the past been provided predominantly by public or non-governmental organisations. There appears to be less argument about the *ideal* of stimulating sustainable private sector services and the potential long-term benefits of a private BDS market. But while there is general acceptance of the ideal, there is equally great skepticism of the practicalities of the approach particularly when analysed in the context of poverty alleviation programmes involving the smallest and most under-capitalised businesses in developing countries.

This paper suggests that the applicability of market concepts of BDS to the smallest MSEs is valid; but that the model of a formal service sector selling BDS to MSEs, as exists for medium and larger companies, is unlikely to apply.

While there is much experimental work to be undertaken in testing the feasibility of selling BDS to MSEs, there is also considerable scope in looking at methodologies of enhancing self supporting interrelationships between MSEs, and between MSEs and larger businesses. There is also much work to be done in looking at strategies of enhancing a service sector whose revenues are based on profit share, mark-up and commissions rather than on the traditional ideas of service fees.

The BDS market is perhaps not as clearly defined or as easily categorized as we have assumed in the past, but there are a number of potential opportunities to stimulate an enhanced, sustainable and truly relevant BDS market for MSEs. The challenge for donors and the SED profession as a whole, is to grasp this challenge and to innovate and test new approaches of developing all of the commercial BDS channels that exist in the real marketplace.

---

<sup>6</sup> The Central Broadcasting Service of Uganda established a twice-weekly programme for MSEs after receiving non-financial consultancy support from FIT Uganda to analyse the MSE market and develop the programme format. A Ugandan national newspaper company has also indicated interest in establishing a joint venture to publish a weekly newspaper for MSEs.

## Annex 1: Survey methodology

