Pro-Poor Market Development: Business Development Support Services for Micro/SMEs

In many developing countries, poor people work primarily in the informal sector, surviving through a patchwork of economic activities or employed by small and medium enterprises (SMEs). The informal sector is responsible for 83 percent of new jobs in Latin America and the Caribbean and 93 percent of new jobs in Africa.

Large numbers of poor people, particularly poor women, make a living through informal activities, although not everyone in the informal sector is poor. In India 90 percent of the nonagricultural workforce is in the informal sector with little access to financial services or social protection. In Peru, micro and small enterprises account for 95 percent of all firms in the country and provide 50 percent of national employment and 60 percent of employment in urban areas. In Bangladesh, microenterprises account for 90 percent of all firms in the manufacturing sector, and 40 percent of total employment. In Macedonia, small enterprises of less than 20 employees account for 39 percent of the GDP and 25 percent of employment. Despite these statistics, development of micro, small, and medium enterprises does not feature prominently in development plans of most developing countries.

The World Bank Group already makes substantial investments in microenterprises and SMEs, 7 percent of overall lending in 2001. As yet, however, there is virtually no economic and sector work on the investment climate, constraints, and innovations needed specifically to support the microentrepreneurial activity of poor people and SMEs. However, the recently issued private sector development strategy provides the basis for sector-specific strategies and further analytical work through firm surveys that include microenterprises.

Access to information and information technology

Micro, small, and medium enterprises face information asymmetries in two ways: in their own access to market- and business-related information, and as providers of services to poor people. Informational costs of isolation and low volume can be reduced through formation of groups, associations, business clusters, and franchising, discussed later in the context of investing in local organizational capacity. Innovative use of information technology and telecenters can cut down transaction costs, and enable microentrepreneurs and SMEs to connect to information about markets more effectively.

The experience of the "telephone ladies" of Grameen Bank demonstrates that it is possible to increase economic returns to poor people by changing nothing more than their access to information about market prices. Grameen Telecom (financed in part by IFC) provides commercial phone service in rural areas of Bangladesh through local entrepreneurs. Grameen members, mostly women, many of them illiterate, take loans to buy and operate cellular telephones, charging villagers by the minute for calls. Fifty percent of the calls are made by poor people, mainly for economic reasons; these include checking out the current price of goods before a meeting with a purchaser, finding prices in various markets before deciding where to go to sell goods, and consulting with doctors
and medicine providers. It is estimated that the phones generate real savings of between $2.70 and $10.00 for calls that substitute for travel between villages and Dhaka, the capital. The telephone women are able to repay loans in a year, and they call the telephones a more reliable investment than cows. As of March 2002, about 10,000 village phones were in operation. However, the model has worked in part because it is based on an already established revenue collection system through the networks of existing groups managed by Grameen Bank (see Tools and Practices 1).

Poor people’s associations and networks in many parts of the world are wiring up to connect to each other and to markets. In Mexico, the Information Network for Indigenous Organizations includes 19 organizations that use the Internet to exchange information, access market and technological information, and market products. In Guatemala, a MicroNet project that scaled up from an InfoDev project will establish by 2004 10 MicroNet centers that are technology-based, integrated information business development centers. The centers will assist 25,000 micro businesses run primarily by indigenous Mayan women and those associated with more formal organizations.

Micro producers and intermediaries have also turned to e-commerce, both retail and business-to-business, to improve sales and profits. In Kenya, the Naushad Trading Company, which sells local wood carvings, pottery, and baskets, went online two years ago and has seen its revenues grow from $10,000 to over $2 million. African Crafts Online receives between 5,000 and 25,000 hits per month. Novica.com, which has been rated by Media Metrix as one of 500 most visited sites in the world, charges no listing fees for artisans and experienced a fivefold increase in sales in 2000. It offers more than 8,500 craft items from 13 countries. Other innovations include Viatru.com and PeopLink.org.

SMEs can also benefit from information and communications technology applications. In the Philippines 99 percent of firms are microenterprises and SMEs, employing 55 percent of the country’s labor force. An IFC equity investment in E-Planters aims to create a joint venture company to offer web-hosting services for SMEs to grow their businesses via the Internet at an affordable cost. The company is being formed through a partnership of Planters Development Bank, the largest SME bank in the Philippines, with the Asian Institute of Management, the chamber of commerce, and VICOR, a California-based technology company.

Finally, governments are simplifying registration procedures through use of information technology in many countries. In Andhra Pradesh, India, land registration offices throughout the state now help citizens register land within one hour; it used to take days, accompanied by bribes. Within six months of the change, 80 percent of all land transactions were being electronically processed. This has increased government revenue, decreased corruption and uncertainty, and increased public demand for similar improvement in other government services.

**Changing regulation for inclusion and participation**

Regulations, corruption, and complicated business licensing and property registration procedures limit and add costs to poor people’s entrepreneurial activity. Poor women and men with limited information, contacts, and cash are the least able to pursue property or business registration, or buy protection. They therefore remain excluded or vulnerable to high levels of exploitation and
harassment. Stories about how many steps it takes to register property or obtain a license, and about locked up "dead capital," have been made legendary by Peruvian economist Hernando de Soto's work. In Peru, 70 percent of urban properties are unregistered, with 14 different agencies involved in conferring each title. In Lima, it takes six hours a day for 289 days to register a small garment workshop operated by one worker; the cost is $1,231, or 31 times the monthly minimum wage. In Egypt a person who wants to register a lot on state-owned desert land must complete 77 bureaucratic procedures at 31 public and private agencies, a process that takes between five and 14 years.

In Indonesia, red tape is a particular deterrent to small businesses, which are subject to innumerable inspections, levies, and high licensing fees. While official license fees are approximately $400—very high for a small entrepreneur faced with other start-up costs—the actual costs are often three times as much, as papers are pushed from one office to another. In Zimbabwe, registration of companies takes over a year; the average official cost of registering a tourist company after obtaining various certificates and paying various guarantees is $14,000, which makes it difficult for community groups to initiate community-based cultural and wildlife tourism.

Urban vendors probably face more restrictive municipal laws and police harassment than any other entrepreneurs. In Durban, South Africa, 60 percent of the estimated 20,000 street vendors are women. There are an estimated 200,000 street vendors in Mumbai, India. Street vendors' associations have successfully worked with municipal officials to create marketplaces, lower license fees, and set expectations of new behavior from policemen.

"One-stop shops" for business licenses and permits introduced by the regent of Gianyar in Bali, Indonesia, show how more efficient licensing procedures not only support small entrepreneurs but can also increase tax revenues—by 75 percent in this case. In Durban, South Africa, citywide development planning strategies have included consultations with street vendors' associations and programs of support to address their needs. In India, the government of Gujarat has removed regulations that required gum collectors, almost all of them poor women, to sell at low prices only to a handful of government-licensed gum buyers.

The Peru Urban Property Rights Project, based on thorough research conducted by a Peruvian research institute, supported regulatory reform and procedural streamlining that helped almost 7 million Peruvians secure land titles collectively worth more than $4 billion by August 2000. The technical and institutional procedures are based on learning from pilots and detailed diagnostic studies that illuminated how processes work in reality. Pilot projects established that the value of 300,000 new titles doubled within four years and led to the emergence of private mortgage and consumer credit markets.

**Accountability**

Simple and transparent business and licensing procedures increase the accountability of service providers. Use of information technology rather than judgments made by officials or buyers increases transparency of information and hence accountability to users. The National Dairy Development Cooperative in India collects milk daily from 75,000 villages through 60,000 milk collection societies involving 10 million members. Dairy farmers deliver their milk to the cooperative's collection centers every morning and evening. Building on the existing organization, the Indian Institute of Management introduced a
computerized system with integrated electronic weights, electronic fat-testing machines, and plastic readers at 3,000 collection centers. This has led to greater transparency, faster processing, shorter queues, and immediate payment to farmers. A dairy information portal is currently being piloted in two cooperative villages in the Kheda District of Gujarat, enabling farmers to access business-related information (see Tools and Practices 1).

Market-based approaches instill accountability by imposing market discipline and hard budget constraints. All business enterprise development should comply with national environmental and labor standards. Deregulation and privatization of utilities, water, electricity, and telecommunications raise important policy issues about achieving efficiency with equity. This work is just beginning. Innovative solutions are being sought through analyses and stakeholder discussions that involve providers, regulators, and users, particularly trade associations and poor people.

Finally, enforcement depends on the extent to which a country’s judicial and court system functions effectively. What is important for poor people is access to legal aid and conflict resolution mechanisms that are within their reach.

Local organizational capacity

The key challenge in providing market-oriented business support services to micro and small entrepreneurs is helping them to overcome the disadvantages of being small, scattered, and unorganized. Various linking strategies have emerged to provide services to support microenterprises and SMEs, including formation of networks and associations; business clusters; franchising, leasing, and subcontracting; and business incubators. For illustrative purposes two of these strategies are discussed here: formation of networks/associations and business clusters. Both demonstrate how carefully structured public subsidies can overcome market failures in collective action to benefit the poor.

Formation of networks and associations Just as community facilitators bolster local organizational capacity for management of local public services, formation of networks and producers’ associations is a key strategy to overcome the drawbacks of being small and powerless in the enterprise world. Networks are groups of firms that cooperate on joint development projects to solve common problems. In Honduras, the United Nations Industrial Development Organization (UNIDO) piloted the idea of “network brokers” to work with small businesses that have similar characteristics and growth constraints by bringing them together. Network brokers provide some analysis of common problems and encourage members to take collective action to solve their problems. This could mean, for example, pooling their resources to purchase raw materials in bulk, applying for a loan together, sharing equipment, and eventually diversifying production and seeking new markets. The only subsidy to the network is the services of the network broker; these are initially free and over a period of time move to fee for service.

A metalworkers’ network in Tegucigalpa, Honduras started with 11 enterprises of four workers each. Within five years, the network had purchased large equipment and established a separate independent enterprise to manage the new equipment and provide services to network members. Sales have increased by 200 percent, employment by 15 percent, and fixed assets by 98 percent. An independent training foundation of network brokers financed by public and private sources has emerged to support the development of new networks.
Similarly, in Nicaragua, 11 hammock producers who compete in the local market have formed a horizontal network and collectively broken into the export market in Europe. Pooling their resources, they have been able to incorporate environmentally friendly features and improve the quality and standardization of their hammocks. As a result, by 1999 they were exporting 3,000 hammocks per month. As a consequence of the involvement of Nicaraguan government officials in this UNIDO-financed project, networking promotion has become a keystone of the government's policy in private sector development.

In Cambodia, a capacity-building grant from the IFC-managed Mekong Project Development Facility is helping to revive one of the country's key industries, rice production, by supporting the emergence of rice millers' associations in eight provinces. Three-quarters of Cambodia's population work in agriculture, with the majority producing rice. Rice millers' associations include hundreds of small producers and a couple of large firms. The initial task was to overcome lack of information, communication, and technology, and a history of social distrust. The eight networks, which have been successful in improving productivity and access to markets, have now created a national Federation of Rice Millers Associations so as to negotiate better prices for their members, handle higher-volume orders, dialogue with government, and learn about global markets. The group is currently piloting an Internet-based RICENET, managed by a student-run firm, to connect all members to each other and to regional and global suppliers and buyers.

Key Steps to Overcome Barriers of Small Size and Isolation of Micro Producers

- Clarify property rights
- Strengthen membership-based groups, organizations, and networks of poor people
- Educate and link groups with formal financial systems and service providers
- Support the creation of business clusters
- Use information technology to connect people to each other and to markets
- Support changes in regulatory framework to encourage the private sector to provide services to the poor
- Create incentives for the private sector to develop new products and organizations to "downscale" services; upgrade semiformal institutions and create new microfinance institutions; franchise services and innovate to reach large producer organizations

Formation of business clusters. When a large concentration of small businesses all compete with each other, unable to break into new markets or improve product design, competition drives down prices and can lead to self-exploitation strategies. In this environment, a cluster approach to development of business services can be a viable option to achieve collective efficiency. The best-known examples of these small business clusters are found in northern Italy.

In Jaipur, India, famous for its ethnic hand-block print fabric, a UNIDO-supported intervention helped 500 small firms employing 10,000 workers to increase their
profitability, improve their product quality, and access new export markets by pursuing a cluster strategy. The first steps were to increase communication, build trust, analyze problems, and develop a common vision of problems and needed collective action. Over time, this led to revitalization of a dormant artisan association, the Calico Printers Co-operative Society; this in turn led to the creation of a common showrooms and an independent Consortium of Textile Exporters. Private service providers such as the National Institute of Fashion Technology have stepped in to provide fashion design advice, a credit scheme has been extended through the Small Industries Development Bank of India, and a market is gradually developing for consulting on export strategies, Internet technology, bulk purchasing, and product marketing for small enterprises.

Other successful examples of small businesses clusters penetrating national and global markets include shoe exporters in Brazil's Sinos Valley and stainless steel surgical instrument manufacturers in Sialkot, Pakistan.