

**INTERNATIONAL SMALL
BUSINESS CONGRESS**



**PROMOTING SMEs IN
DEVELOPING COUNTRIES:
BUILDING ON SUCCESS**

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Irwin Grayson Associates are consultants in enterprise and economic development. They undertake strategic reviews, programme design and assist with implementation on initiatives intended to provide support to new and growing businesses such as incubator workspace and finance. They undertake programme evaluations and provide policy advice to governments and private sector organisations including on regulatory reform and the enabling environment. Recent clients include DANIDA, DFID, Esmee Fairbairn Foundation, European Bank for Reconstruction & Development, Gatsby Charitable Foundation, National Council of Voluntary Organisations, OECD and World Bank

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1. INTRODUCTION

Small business development makes an important contribution to economic growth and poverty alleviation in developing countries. Some programmes are very successful but, it seems, that business support organisations and others struggle to scale up or scale out effectively.

This paper offers a personal perspective – based on working in small business development in the UK and developing countries – of (a) what is required for effective and successful small business development and (b) how the lessons of successful programmes can be identified and shared more widely.

In my experience, there are three pre-requisites for effective SME support:

- Public policy needs at least to be conducive to small business formation and growth;
- Society needs to recognise the contribution of small business to the economy; and
- Ideally, there needs to be business development support to equip people with the appropriate skills.

When programmes are successful, there is a tendency by practitioners not to shout about it – perhaps because they don't recognise the scale of their success, or perhaps because they don't believe that they are any different to other practitioners, or perhaps because they don't believe that others will be interested, or possibly because they want to keep quiet in the expectation that they can raise more sponsorship and expand their own activities.

The ideal outcome would be that practitioners evaluated their programmes not only to learn lessons and to understand the factors that lead to successful programmes but also so that they can share the lessons widely. This would enable other practitioners to replicate successful programmes and allow many more people to be supported.

2. CONDUCIVE PUBLIC POLICY

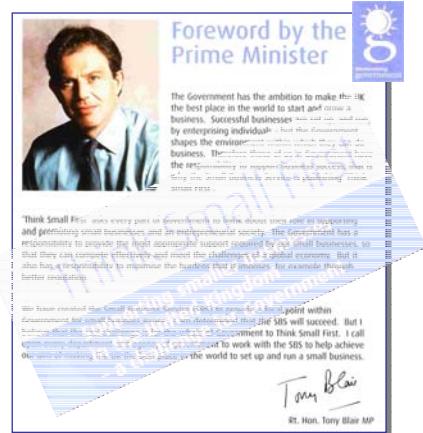
Economic growth is closely associated with reductions in poverty (World Bank, 2004a, UNCTAD, 2008). In common with other international donors, the World Bank (2004b) asserts that an important driver of economic growth is a vibrant private sector. Balunywa (1998) asserts that "it is now generally agreed that small businesses are one of the key engines of growth in many developing countries by contributing to employment creation". The Commission for Africa (2005) stresses that growth will drive down poverty more rapidly if poor people are better able to participate in society and the economy. They suggest that poverty reduction through growth requires a focus on indigenous private businesses. The World Bank is a major funder of SME support programmes. According to their website, "this pro-SME policy is based on the argument that, relative to larger firms, SMEs enhance competition, entrepreneurship, job growth and spur economy-wide efficiency, innovation, growth and poverty alleviation". The World Bank also argues that countries can make important differences to their economic growth by improving the enabling environment and, in particular, removing regulatory constraints (World Bank, 2007). Indeed, the driving force behind the World Bank's Doing Business reports is a desire to stimulate countries to do more to improve their enabling environment. The UK ranks quite highly, at six (World Bank (2008), but even we feel that we are over-regulated.

Many governments in Africa stress that the private sector is, or should be, the engine of growth – but simply saying that SMEs are important is not enough. They need to back up their fine words with appropriate actions. There are a number of things that they can do, but the most important are:

- Governments should adopt a policy which recognises the importance of small business and sets out key principles to guide public action. In June 2008, the EU launched "Think Small First: a small business act for Europe". The UK government did this in 2001 with the adoption of "Think small first", which committed the government to three principles:
 - promoting a culture that stimulates enterprise, encourages innovation and rewards success;
 - introducing new regulations as a last resort and seeking to minimise the burden imposed on small business; and
 - providing world-class business support to new and growing businesses.
- Politicians should drive culture change through the public sector – it is relatively easy for politicians to adopt new policies, but they will need to work hard to instil a 'think small first' or, better still, a 'think business first' culture in government, encouraging officials to make things easier for business rather than making things harder (including, for example, seeing regulation as a last resort rather than a first resort and making it easier for SMEs to tender for public contracts); and
- Governments should work hard to improve the enabling environment, though some areas such as infrastructure may take time, but they can make a big difference by reducing the regulatory burden, by engaging in public private dialogue and by acting to address the legitimate concerns of the private sector.

3. SOCIETAL SUPPORT

Societies ultimately depend on the taxes that are raised from private businesses (or from taxing extractive industries) to cover all their public expenditure. And, for the reasons outlined above, governments are keen to encourage more people to start in business. Yet, curiously, many societies appear not to value people who start their own business but rather to treat them with suspicion, perhaps seeing them as little better than crooks. In 2002, Jeff Randall, then Economics Editor for the BBC observed that 45 per cent of fictional murders on British television were committed by entrepreneurs – which hardly conveys a positive impression.



Abuja Enterprise Agency is a business support agency whose objective is to support new and emerging businesses.



Students for the Advancement of Global Entrepreneurship is a high school programme which fosters entrepreneurship amongst school students. One of the clubs supported by AEA won the national heat; they went to Ukraine in July 2007 and won first prize!

The success of AEA's first Nigerian Youth Service Corps entrepreneurship development programme resulted in AEA expanding to another state for the second programme (and a measure of their success is that NYSC now offers everyone an entrepreneurship module).

Countries that are serious about encouraging people to start their own business need therefore to ensure that they meet two conditions:

- In my experience working in Africa there are many people who lack even a basic education. Yet, everyone deserves a basic education, with a focus on literacy and numeracy. Ideally, everyone will have been encouraged to think for themselves and to use their initiative: essential for people who want to start a business but increasingly important for people who expect to be working for private sector employers as well.
- Secondly, societies that encourage individual initiative and recognise the value of individual endeavour will be more likely to encourage people to be entrepreneurial. At the very least, it is important that societies do not actively discourage people from starting in business. Governments and others can do more to encourage people to think about business.

Ideally, governments will also deliver on a third condition which, whilst not essential, can nevertheless make a big difference. The provision of business support and access to finance not only provides tangible support to businesses but also demonstrates that the government really is supportive of business.

4. BUSINESS DEVELOPMENT SUPPORT

This section looks briefly at the business services that have been most successful in supporting prospective businesses, in supporting early growth and in supporting continued growth

4.1 START UP & INCUBATION

There are three essential elements of support required to assist people who would like to start in business, though it is possible to provide further support beyond this if resources permit.

The first requirement is to provide basic information and basic skills: basic skills is best provided by offering training courses which introduce participants to concepts of market research (so that they can determine whether there is a market for their proposed product or service and at what price) and simple financial forecasting including costing. Ideally training will go further, helping participants to decide if starting a business is appropriate for them, possibly helping them to think about possible business opportunities, and providing a checklist for all the things that they will need to do before actually starting their business.

Livewire Rio commissioned the preparation of a business game to help young people consider whether self-employment is right for them. Working in teams, they imagine that they are a bank manager with limited funds to invest – and then have to decide which business propositions are worthy of their support.

In its first two years, **Abuja Enterprise Agency** had some 3,000 people participate in training programmes and lent N80m (\$625,000) to some 225 businesses.

The second requirement is business planning: most people will want to raise finance and so will have to prepare a business plan, almost certainly requiring assistance. Helping clients to think through their business idea, how they are going to make it happen, and then to write that down in a compelling way is essential if they are to stand any chance of raising the money that they need.

The third requirement is access to finance: for understandable reasons, banks in most developing countries are reluctant to lend to aspiring entrepreneurs, so most people starting in business will need to rely on micro-finance institutions (MFI). Business support organisations may have their own funds; otherwise they will have to develop good relations with MFIs so that their

clients stand a reasonable chance of finding the money that they need. The best MFIs now lend millions of dollars every year, with exceptionally good repayment rates, and some mainstream banks are beginning to enter this market as well.

A fourth area of support, whilst not essential, can make an enormous difference to early survival and growth – and that is incubator workspace. Providing aspiring entrepreneurs with easy-in, easy-out workspace, which does not need to be subsidised, though many operators do, provides a supportive environment and takes away all the hassle of dealing with multiple suppliers allowing the entrepreneur to get on with building the business.

The Swaziland Economic Development Company provides industrial units on small business estates throughout Swaziland intended to support new and early growth businesses.



4.2 EARLY GROWTH

Once people have started in business, it is important that they continue to seek advice and support.

The first area that can make a difference is networking. Kiggundu (2002) notes the importance of business networks, but observes that African entrepreneurs find it difficult to establish and maintain effective networks. He suggests that a consequence is that they manage risk and uncertainty by using an organisation structure he describes as an octopus where, instead of growing a single firm in a clearly defined line of business, the entrepreneur engages simultaneously in several unrelated (and generally therefore unsuccessful) businesses. Naudé and Krugell (2002) believe that poor networking is due to high levels of cultural fragmentation which, they argue, undermines firm level growth, unlike SMEs in east Asia and Latin America whose success is often ascribed to extensive networking and cultural homogeneity.

For many years, the **Uganda Gatsby Trust** has encouraged networking by establishing "Gatsby Clubs" – independent membership clubs – in 21 centres around Uganda. UGT promotes participation by delivering its business development support and micro-loans through the clubs; many of them also manage a local retail outlet.

Training continues to be important and needs to focus on the areas needed to consolidate a business. Typically, this will include marketing, financial control and employing people.

Many businesses, however, as they start to grow will need one to one advice and support, so access to mentoring becomes more important.

4.3 ADVANCED GROWTH

Once businesses have gained a little experience, and have begun to understand the basics of what they are doing, they will want to start growing. If nothing else, they will want to find more customers to spread risk.

It is likely that entrepreneurs will continue to need good mentoring support, preferably from people with wide experience of business.

However, they will also benefit from more advanced marketing support, which might include exporting, or selling to domestic markets which utilise international standards. Support agencies can help not only by providing advice but also through business linkage programmes. This may require

extensive reviews of supply chains to identify the constraints and look for ways of addressing them (see box).

As businesses start to employ people, entrepreneurs with little or no experience of management will benefit from support – training as well as one to one advice – on how to motivate, manage and develop their staff.

5. LESSONS FROM PROGRAMMES THAT WORK

There are many, many programmes all round the world that aim to deliver support to new and growing businesses. Sharing and learning from one another appears to suffer from a degree of ‘not invented here’. Shell LiveWIRE, for example, has now spread to some 24 countries around the world. Positively, individual programmes have been determinedly customised to ensure they do not look like a UK export and to reflect local culture and needs.

However, LiveWIRE suggests that there is not much learning across programmes, with most preferring to use their own

creativity (whether they have any or not) and develop bespoke solutions. It seems that they are encouraged in this by many funding agencies who frequently provide money for development of new programmes or materials etc and do not actively encourage research into what works elsewhere and could be transferred. I was lucky enough, in 1988, to be selected as a Fellow for a German Marshall Fund programme that provided a bursary to enable me to spend six weeks in the US specifically to look for projects that ‘worked’ and to transfer the lessons to the UK. It was immensely valuable and gave us a number of innovative ideas.

5.1 VALUE OF EVALUATION

Evaluation is important and should ideally serve two purposes: control and learning. Effective evaluation requires, firstly, clear objectives and targets (and clarity of thinking about the logic model, so that the assumptions are also clearly understood) and, secondly, good monitoring (of outputs, outcomes and impacts) as projects and programmes progress.

Clear conceptualisation allows evaluators to distinguish between two different forms of programme weakness:

- Failures in logic: where programmes fail to reach their objectives – often despite commitment and effort – because the assumptions on which they are based are not correct;
- Failures in implementation: where programmes fail to reach their objectives because of under-funding, lack of commitment from the implementing organisation, resistance from the target audience, or incomplete action.

The type of evaluation that will assist practitioners does not focus primarily on answering the question, ‘did the programme work’, but rather asks ‘where did the programme work, in what form, for which people and in which contexts?’ Further questions might include ‘can the programme elements and

Kenya Gatsby Trust (KGT) worked with crafts people, looking for sustainable sources of good woods, and concluded that neem fitted the bill. However, neem trees take time to grow, and the farmers would have no real incentive to grow them as it would take too long to generate an income. KGT thought that collecting and processing the seeds could provide an income to the farmers until the trees reached maturity. This required that they find customers for the seeds – which they did by linking the farmers with BIOP, set up by scientists from the International Centre of Insect Physiology and Ecology (ICIPE) in 1999 to commercialise their research output. It uses the neem seeds to provide ingredients for a range of beauty creams. So there are wins all round.

contexts be framed to deliver value for money?' and 'how did the programme work and how can it be replicated?'

So, the twin aims of evaluation should be:

- to provide programme managers with continuous feedback about the conditions under which programmes succeed or fail to provide insights and practical learning; and
- to identify the lessons that can be shared with practitioners and policy makers.

It is worth dwelling for a moment on donors' desire for sustainability and the expectation that BDS programmes can ultimately be sustainable by charging fees to clients. The assumption is that a new BDS programme needs pump-priming and that after a start up period will be able to charge fees. There is often a further assumption that growth businesses can be charged higher fees and that the extra profit can be used to subsidise clients who cannot afford to pay. When a programme fails, it is often seen as a failure of implementation.

In my view, this is actually a failure in the logic. Quite simply, the assumptions are wrong. Start up clients, often, cannot afford to pay. Growth clients can be charged a commercial fee – but there is not enough profit to support poorer clients. Indeed, if there was so much money in providing business support, the private sector would already be doing it. In Hungary, where I worked with some emerging enterprise agencies put in this position, all that happened is they moved up market, and then privatised themselves. In the UK, I had a budget of £150m specifically to support Business Link deliver business support services because there is market failure. If entrepreneurs won't pay in the UK what hope if there in developing countries?

5.2 IDENTIFYING SUCCESSFUL PROGRAMMES

Some programmes make a considerable difference to the success of participants. In some cases, the support organisation may have been well networked and have succeeded in facilitating effective market linkages. In others, it may be a particular form of finance that was just right for the business. Isolating the specific factors may be difficult. Certainly they will differ from programme to programme. Successful entrepreneurs will be driven and tenacious. Some could almost certainly have been successful without support. But many would not succeed without access to support. Successful programmes are likely to be able to demonstrate:

- Provision of support that meets quality standards
- Demand for services, fuelled by successful clients
- Ability to demonstrate outcomes and impacts

5.3 SCALING OUT V. SCALING UP

A major challenge, when programmes in Africa show some success, is how to achieve enough scale so that many more people can benefit. In some cases, project managers attempt to scale up – expanding their original projects to reach more beneficiaries, though this requires more administrative capacity.

Some projects do scale up successfully. EMPRETEC in Brasil, for example, has

Maendeleo Agricultural Technology Fund (MATF) was originally an initiative of Gatsby Charitable Foundation and Rockefeller and is now funded by the Kilimo Trust to support the commercialisation of improved agricultural technologies and techniques, as well as building better market linkages, to improve farmers' livelihoods. The intention is that project descriptions and lessons should be disseminated widely to encourage widespread implementation. A recent evaluation of MATF suggests that this is beginning to happen but that there is much more that could be done.

been 'adopted' by SEBRAE and is now successfully delivered through local government. Tameer in Pakistan reaches significant numbers of people each year. Too often, though, projects which grow fail to ensure consistent quality; they fail to enshrine and live by clear values; and they become increasingly difficult to administer.

Another approach, sometimes called 'scaling out', is to promote the circumstances and lessons of successful projects so that others can take them up. This is the approach adopted, for example, by the Maendeleo Agricultural Technology Fund. This approach, however, also has challenges in that it is important to identify the fundamental success factors (which are not always immediately obvious); project descriptions and lessons have to be written in a way that they can easily be taken up by other practitioners; the messages have to be conveyed to other practitioners; and the practitioners have to be willing and able to run with project ideas developed by others.

This learning and sharing requires good evaluation and excellent mechanisms for sharing information quickly and easily.

LiveWIRE supports programmes through cascading skills.

Tameer (Urdu for "to build"), in Pakistan, is delivered locally by a partnership including Shell Pakistan, the University of Karachi and the Small and Medium Enterprise Authority (SMEA). Since 2004, Train the Trainer support has been delivered to over 100 trainers in Pakistan and to 20 visiting partners in the UK. This has led to 44,000 young people attending workshops with 1,800 of those progressing on to a full Become a Successful Owner Manager course. In 2007 alone the Pakistan team of over 120 trainers delivered 56 seminars and conferences to 10,000 young people.

5.4 SUCCESS FACTORS

From my experience, there are a number of soft elements which, whilst difficult to measure, make a difference between success and failure. Over the last three or four years, I have worked with the African Gatsby Trusts. They have all looked carefully at the specific requirements of businesses and have attempted to provide services which can make a real difference (Irwin, forthcoming). They are successful because they exhibit a number of strengths:

- Understanding of, and responsive to, clients and their needs;
- Positive, reinforcing values;
- Professional and committed staff who are passionate about what they do;
- Widely networked and able to open doors for clients;
- Well regarded by all their stakeholders;
- Willing to form and to join partnerships and to participate in activities organised by others; and
- Proactive in adopting and adapting ideas developed by each other and implementing locally.

5.5 POWER OF NETWORKING

Effective business support organisations are likely not only to promote networking amongst their clients but also to lead by example. Jane Wei-Skillern and Sonia Marciano (2008) have written an interesting paper which looks at networking by non-profits. They observe that some of the world's most successful non-profits stay small, and share their load with like-minded, long-term partners – they achieve their mission more effectively and sustainably than they could have managed on their own by encouraging others to work alongside them. The authors argue that the success of such networked non-profits suggest that organisations "should focus less on growing themselves and more on cultivating their networks".

5.6 IMPORTANCE OF SHARING LESSONS

It is important to all practitioners that they should be able to learn from the success and failures of others. When I was at Project North East, we went regularly to look at what others were doing and we welcomed visitors interested in what we were doing. We engaged in what Tom Peters calls 'creative swiping': spotting programmes developed by others and adapting to our local circumstances; we used to say that we wanted people 'to make original mistakes'.

The impression that I have gained over the last few years is that there are no end of conferences and countless opportunities to deliver papers. Yet not much seeps back down to practitioners. During a recent review of MATF, I actively looked for websites sharing ideas, papers, lessons etc, and quizzed everyone that I interviewed about what was available. No-one could point to any website that was effective at sharing ideas and lessons drawn from practitioners.

There are a small number of websites with interesting material, but it seems that there are no major sources of papers and materials, nor are there any discussion fora where practitioners can share their successes and learn from one another. This is a major weakness and I would encourage the formation of a business development portal and a wiki, where people can share and develop materials, as I have done in the field of advocacy and dialogue (see wiki.businessadvocacy.net).

The **Development Gateway** (www.developmentgateway.org) has established a number of communities and provides web based materials and regular newsletters, though none cover business development services.

infoDev (www.infodev.org) has very good materials but focuses on maximising the impact of ICT for development.

The **ILO** has launched a website to promote co-operation in local economic development: www.ledknowledge.org.

The **World Bank** has launched a blog focusing on private sector development in Africa, but this has not yet progressed to the point where it can be used to share learning: www.AfricaCan.worldbank.org.

MATF undertakes good evaluations of all the projects it supports; it runs lesson sharing workshops each year; it has extensive information on its website – but all of this focuses only on its own projects.

WikipediaShip.eu is an interesting initiative intended to encourage mutual learning, but its focus is Europe.

6. CONCLUSION

Business support organisations round the world are excellent laboratories developing and testing new ways of supporting entrepreneurs. However, practitioners need collectively to become better at evaluating the reasons for success and considering how that success could be repeated – and then at sharing and learning. Everyone – sponsors and donors, practitioners and clients – will gain from this approach.

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