

CHAPTER VI

Business development services

SMEs not only need financial support but also BDS to stimulate growth. As reviewed briefly in the previous chapter, BDS are critical supplementary and complementary inputs to finance.

These capacity-building inputs are mainly targeted at enhancing the performance of an individual business, increasing access to markets, and improving their competitiveness and profitability (Committee of Donor Agencies for Small Enterprise Development, 2001). They include a wide range of non-financial support services concentrated in the following categories: market access, infrastructure, policy advocacy, bookkeeping/accounting, legal advice, consulting, input supply, training and technical assistance, technology and product development, and alternative financing mechanisms as well as business incubation (ILO, 2003b). In supporting the development and sustainability of SMEs, these services help to increase employment; generate higher incomes and provide economic security. Such interventions at the micro-level contribute to the alleviation of poverty and empower vulnerable groups by the means of economic development and growth (UNDP, 2004a). BDS interventions at the micro-level can lead to greater economic security and income generation, as SMEs create employment, innovation, value-added goods and services, and flexibility in response to dynamic markets (UNDP, 2004b).

While the objectives are similar, country experiences differ in the operational modalities of BDS. Various channels include governmental agencies, private sector BDS operators, independent consultants, chambers of commerce or federations of industries. In the Asia-Pacific region, BDS outcomes are mixed. Some countries have been successful in designing and implementing BDS programmes while others have faltered (APO, 2007).

This chapter begins with a discussion of the objectives and types of BDS. It then considers two distinct channels of BDS – traditional and market-oriented. Some BDS tools are then suggested for enhancing SME competitiveness (including business and technology incubators) as well as some advice for improving the BDS-SME interface.

A. Design and objectives

BDS is a comprehensive concept that covers the identification of business opportunities, delivery of updated and reliable information, support in the development of business plans, hand-holding during the process of setting up businesses by SMEs, and marketing of the products and services. R&D, innovations, and modernization are also critical components of effective BDS design. Since BDS designs and frameworks differ from country to country, no “one-size fits all” model can be recommended. Each country will have to customize their BDS depending on local conditions, requirements of the sector and other entrepreneurs.

The main objectives of BDS are:

- Provide non-financial services (e.g., accounting and legal advice) to SMEs at affordable costs, supplementing the role of financial services;
- Support SMEs in their promotion, development, and sustained growth; and
- Facilitate SMEs’ development of competitive advantages.

The scope of BDS is wide, encompassing operational, advisory and advocacy roles. Operational services address daily routines of the business, whereas advisory services focus on medium-term or long-term issues. Advocacy services work for improving business environment through policy enhancement (table VI.1).

Table VI.1. Three core segments of BDS

	Operational	Advisory	Advocacy
Services	Short-term support services and hand-holding such as accounting, legal and regulatory advice, accessing technical information, labour management and secretarial services	Long-term development services, such as training, strategic management, marketing assistance and knowledge transfer.	Services to improve business environment through policy advocacy and infrastructure development.
Target clients	Individual firms	Individual firms	Public sector, business associations

Source: Authors’ compilation.

Operational BDS typically include accounting, legal and regulatory advice, logistics and warehousing, labour-related requirements and ICT. Advisory BDS consist of services used to improve the competitiveness of the enterprise in the long term, including training, consultancy and advocacy roles, strategic management, marketing assistance, and transfer of knowledge and technical skills (ADB, 2006). Some countries have also offered innovative services such as environmental consulting and political risk consulting. Some BDS also target policy advocacy through the public sector or business associations as opposed to individual firms. Those advocacy initiatives include strengthening the financial sector, lowering or removing barriers to market entry, advising the government on procedural issues, intellectual property right issues, and promoting pro-business infrastructure development.

Table VI.2 Types of advisory and advocacy BDS

	Advisory	Advocacy
Market access and development	Marketing research, intelligence, and strategy development. Emerging opportunities and trade enquires, including niche markets and regional and global markets. Market/trade barriers, trends and competitors. Trade fairs, product exhibitions and B2B contacts. Development of samples and promotion tools and materials. Showrooms and packaging. Advertising. New product development.	Regulatory framework for subcontracting and outsourcing. Common brand and consortium approach. Trade missions and meetings. Forging TNC-SME linkages. Free trade and investment agreements. Non-tariff barriers. Trade and logistic facilitation.
Supporting infrastructure	Storage and warehousing. Transport and distribution. Business incubators. Telecommunications. Computer services.	Physical infrastructure (e.g., roads and ports, power supplies and utilities). Industrial estates. Easy money transfer. Internet access.
Supplies	Linking SMEs to input suppliers. Suppliers' capacity to provide quality inputs.	Establishment of bulk buying groups. Information on input supply sources.
Technical assistance and training	Mentoring, counselling and advisory services. Feasibility studies and business plan development. Technical training and capacity building in the fields of legal issues, finance and taxation, accountancy and bookkeeping, production and research and development.	Exchange visits and business tours. Regulatory framework for franchising/joint ventures. ⁹¹ E-commerce policy.
Technology and product development	Technology and innovation incubation. Linking SMEs and technology suppliers. Technology procurement. Technology sources and pricing. Technology transfer and commercialization. Cost and energy-efficient technologies. Productivity improvement. Equipment leasing and rental.	Quality assurance programmes. International standards and quality certifications. Design centres. Common tool facilities. National innovation incubation.

Source: Modified from ILO, 2003b.

In general, BDS operational services are more developed than BDS advisory and advocacy services due to regulatory requirements; thus, there is a sustained demand for them by SMEs (e.g., accounting services for tax purposes). In contrast, despite being the main focus of most donors, interventions in advisory and advocacy BDS have largely failed or been short-lived (UNDP, 2004a). Additionally, the market for operational BDS already exists, whereas an excess of third-party involvement in advisory and advocacy support has dulled the ability of SMEs to absorb what they need to learn and to apply it. In many cases a culture of dependency often develops. Some of the forms of advisory and advocacy BDS

that could help in improving the competitive strength of SMEs are briefly presented in table VI.2.

B. Channels for delivering BDS: Traditional versus market-oriented

The traditional channel for delivering BDS in developing countries is typically through government agencies, such as SME development agencies. The public agencies, including donor-driven programmes and NGOs, deliver various forms of BDS directly to the SME sector, usually gratis or at a significantly reduced cost (figure VI.1). Public interventions, in various forms, have made important contributions to SME growth in conditions of economic reconstruction, transition or development (Phare, 2000). In Indonesia, for example, an ADB survey found that while private BDS providers dominated, government agencies and research institutes provided 10-15 per cent of BDS, and were particularly active in technology-related training and advice (Niemann, 2002). Furthermore, private providers tended to primarily serve

⁹¹ BDS may also be provided to develop franchising and/or joint venture partnerships. Those services include: (a) the identification of franchising/joint-venture objectives and needs; (b) identification of potential franchising/joint-venture partners; (c) evaluation of the partner as well as the technology and know-how offered; (d) evaluation of other offers such as equity and marketing support; and (e) the legal aspects of the franchising and joint venture.

Figure VI.1. Traditional business development services approach



Source: Modified from DCED, 2001.

urban areas, whereas NGOs operated in rural and peripheral locations (Niemann, 2002).

Although the intent of lowering the cost of such services is admirable, the effect on SMEs is questionable. Evaluation studies in many countries have found a number of unintended negative consequences (UNDP, 2004a), leading to BDS programmes becoming unsustainable. These include:

- The government institution providing BDS can gain monopolistic power in the country, hindering commercial BDS providers from thriving;
- The provision of subsidized services adversely affects the quality of services rendered;
- All BDS activities become supply-driven rather than demand-driven, and there is insensitivity to market signals; and
- Subsidies create a culture of dependency at both firm and government levels. SMEs fail to learn independence and initiative, while national BDS

development programmes stop innovating and rely on international aid or grants.

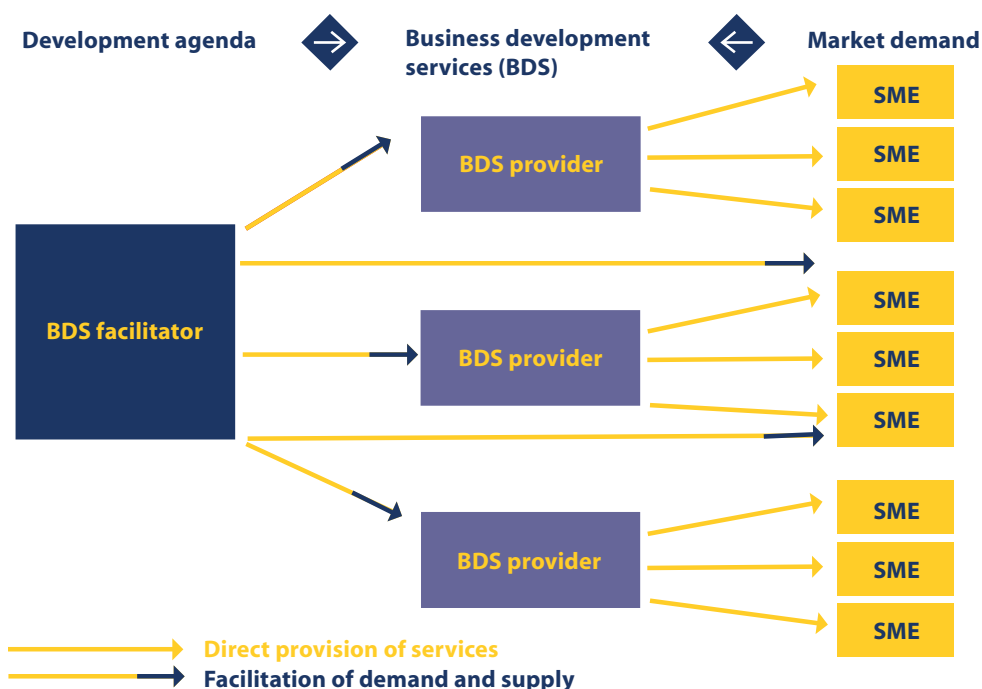
To remedy these deficiencies, a number of governments have turned to private suppliers to deliver BDS to the SME sector (UNCTAD, 2005a) (figure VI.2). Since these firms are in direct competition with one another, there is little chance that one of them can attain a monopolistic position without having government concessions. This market-development approach seeks to facilitate the sustainable increase in both supply and demand of services, while replacing subsidies with private payment for services. The ultimate result of this approach is that SMEs are able to select the BDS most applicable to their needs from a wide array of products offered by private sector suppliers (UNDP, 2004a).

This approach maximizes the number of providers and their competition. The profit motive gives the providers the incentive to offer BDS in a sustainable and high-quality manner in line with the development agenda of governments and donors. Within this context, donor emphasis has focused more on technical assistance to pre-delivery BDS activities, such as capacity-building, awareness raising, information dissemination, test marketing and service development as well as post-delivery BDS activities, such as client feedback and monitoring and evaluation (UNDP, 2004a).

Table VI.3 details the differences between the traditional and market-oriented approaches.

While market-oriented channels are preferable to traditional public sector driven channels, policymakers should recognize that the former may only be an option once a certain stage of economic development has been reached. Some developing nations simply lack the human resources necessary to support a thriving sector of private BDS

Figure VI.2. Market-oriented business development services approach



Source: Modified from McVay and Miehlsbradt, 2001.

Table VI.3. Distinctive features of traditional and market-oriented channels

Core area	Traditional approach	Market-oriented approach
Management	Government-managed.	Private-sector managed, but facilitated by the government.
Objective	To provide supply-driven BDS.	To provide market-based, demand-driven BDS.
Resources	Subsidy and/or donor funded.	BDS paid for by the users.
Sustainability	Not sustainable in the long term as the subsidies are withdrawn.	Sustainable in the long term, even without subsidies.
Effectiveness	Supply driven BDS are not relevant at times – with the agency gaining a monopoly.	Numbers of BDS providers from private sector make the programme relevant and competitive – the scheme is diversified.
SMEs payment capacity	SMEs can get support without payment but not for long.	SMEs in the developing economies, and smaller-sized firms, may initially find it difficult to pay for the services.

Source: UNDP, 2004a.

providers and support from government and donor agencies may be the only feasible option. Start-up BDS providers in developing countries need support during their infancy stage as they find it hard to even raise the initial financial resources needed to set up their enterprises.

When the BDS market is underdeveloped and BDS are not commercially affordable for SMEs, some cases of market failure are observed. SMEs cannot afford expensive BDS; however, low-cost BDS may mean low-quality services. To address this issue, the support of BDS providers should be considered within the national policy framework (UNDP, 2004a). Governments, in collaboration with donor and development agencies, could support commercial BDS providers initially through subsidies to provide low-cost services to SMEs. Once SMEs become more profitable, they should be weaned from government/donor subsidized services and moved to a market-based BDS system. Governments have an important role to play in mitigating any dependency issues that may arise during this transition process (ESCAP, 2001a).

C. BDS actors and their roles

BDS actors have varied roles, depending on their different perspectives, mandates and capabilities. DCED (2001)⁹² offers an overview of the different actors and their roles:

- SMEs – demand-side, potential clients of BDS providers;
- BDS providers – national or subnational government agencies, business and industry associations, enterprises, individuals and NGOs who provide services directly to SMEs;
- BDS facilitators – NGOs, industry and employers' associations, government agencies (e.g., SME development agencies) and donors who support BDS providers through product development,

capacity-building, promoting good practices, external evaluation and quality assurance;

- Donors – individuals, organizations or government agencies that provide funding for BDS projects and programmes; and
- Governments – play the principal role in creating enabling policy, legal and regulatory frameworks so that SMEs and BDS providers can function effectively together. They provide basic public services, such as infrastructure, education and information services.

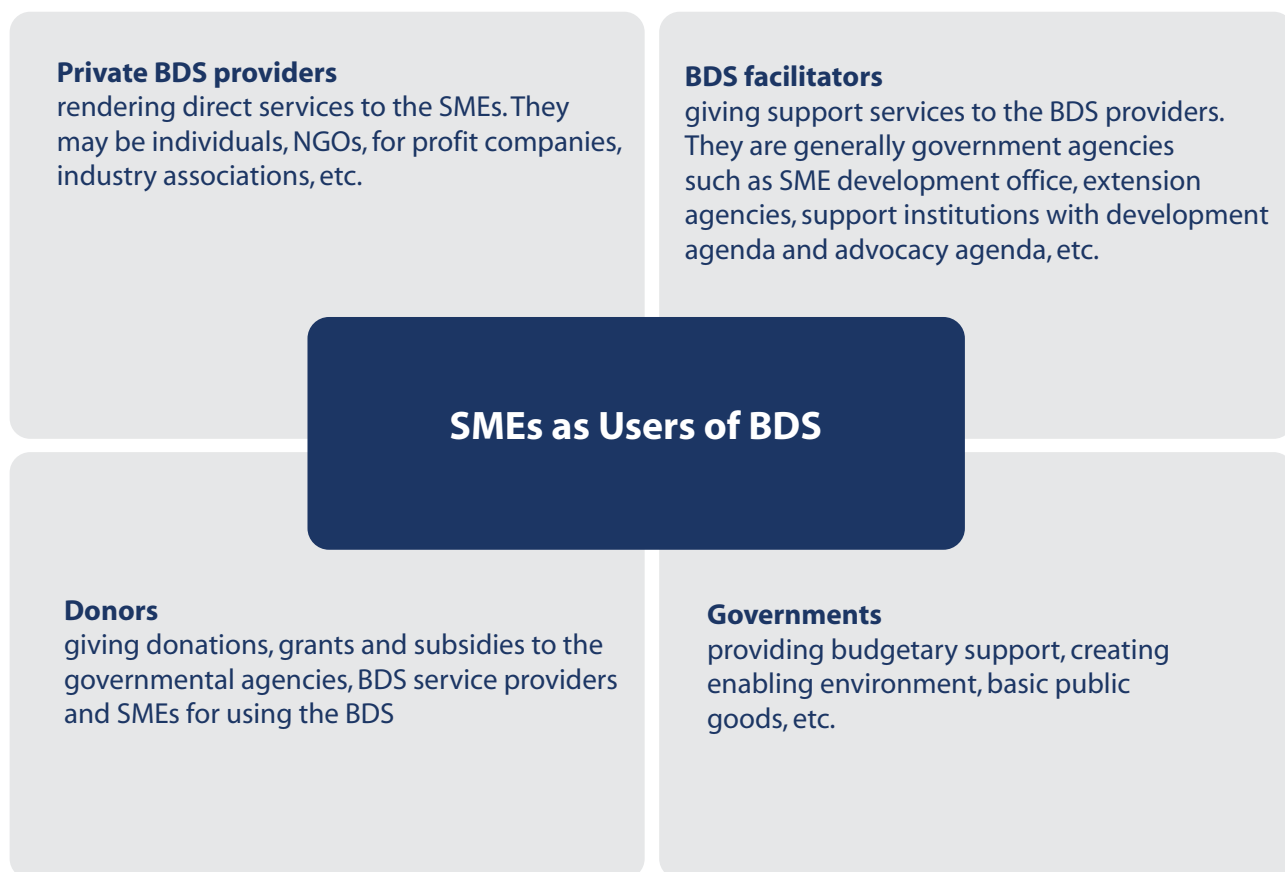
Figure VI.3 offers a synopsis of BDS players and their interface with SMEs.

BDS donors have become increasingly diversified and sophisticated over the past few decades. The importance of BDS to the performance and competitiveness of SMEs has been increasingly recognized, which has increased the variety of key players. Furthermore, attempts have been made to raise the cost-effectiveness and sustainability of such services. An example is the DCED BDS Bluebook.

Business start-ups, especially in developing economies, often do not have enough resources to buy BDS from private providers, so governments are required to provide BDS or funding, at least in the start-up phase of SMEs (UNDP, 2004a). Public agencies should therefore collaborate with local private institutions to provide efficient and sustainable services for SMEs (UNCTAD, 2005a). Governments should not limit or fix the number, size or fee of BDS providers. In particular, governments should maximize the competition among BDS providers, wherever possible, while encouraging qualified providers to enter into the BDS market (UNDP, 2004a). This is the best way of ensuring low prices and high quality. Officials should avoid imposing market-entry constraints on new organizations in this sector and avoid tying professionals to certain organizations.

Another key issue is the involvement of subnational governments in the BDS framework. As they can work closely with the local BDS providers and the client SMEs and they understand local conditions, the subnational bodies are in a better position than national governments to facilitate BDS

⁹² Also known as the BDS Bluebook, which was developed by DCED for donor interventions aimed at improving the effectiveness, outreach and sustainability of BDS interventions. See DECD's activities at <http://www.enterprise-development.org/>.

Figure VI.3. Business development services actors and their roles

Source: Modified from AAMO, 2007.

at the local level. However, subnational officials generally lack the capacities and skills to foster BDS efficiently. Technical assistance by the national government or donors to subnational governments would therefore be useful.

SME-oriented NGOs, including businesses and industry associations, could also be an effective instrument to provide

the required service to the SME sector as they work closely with SMEs and understand their needs well. These NGOs should receive support and encouragement from policymakers. Irrespective of the type of BDS providers (government, private, NGO or international), they must help the SMEs build their own competencies and avoid a culture of dependency.

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Box VI.1. Role of SME development agencies in business development services facilitation

SME development agencies are responsible for the coordination of policy formulation and implementation for SME development. They offer SMEs multidisciplinary assistance enabling them to address several issues in one place. This approach differentiates the SME development agencies from other governmental organizations. They can also provide BDS for SMEs that lack the wherewithal to pay or where such services are otherwise not available.

Although the focus of SME development agencies may differ according to their national development context, the areas of their services to SMEs generally include six main categories: (a) information collection and dissemination (e.g., national/subnational SME databases, market intelligence, SME portal etc.);

(b) capacity-building training; (c) consulting and business advisory services; (d) assistance in hands-on management; (e) financial support and incentives (including direct, indirect and risk sharing with banks); and (f) development of infrastructure (e.g., SME parks).

As BDS facilitators, SME development agencies can work on the demand side by educating SMEs about the potential benefits of services or by providing incentives for them to try BDS. Other facilitating roles include the external evaluation of the impact of BDS, quality assurance of BDS and advocacy for a better policy environment for the local BDS market.

Source: EURADA, undated.

Box VI.2. Highlights of SME development agencies in Asia and the Pacific

A. Office of Small and Medium-sized Enterprises Promotion, Thailand

In order to promote the IT sector in Thailand, the Office of SME Promotion runs a programme called WebsiteSpark in cooperation with Microsoft. This is a good example of how SME agencies can work with TNCs in specific fields. Available at www.sme.go.th/pages/home.aspx.

B. Small and Medium Enterprise Corporation of Malaysia

The National Mark of Malaysia Brand and the Enterprise 50 Award both aim to encourage Malaysian SMEs to improve the quality, reliability and reputation of their products and services, and foster competition between each other. Capacity-building programmes and financial assistance encourage competition among local SMEs to become suppliers of international companies. The SME Competitiveness Rating for Enhancement (SCORE) diagnostic tool was also introduced to enhance the competitiveness of SMEs. Visit the website at www.smecorp.gov.my/.

C. Bureau of SME Development, Department of Trade and Industry, Philippines

As a central office for SME development, the Bureau of SME Development provides full-scale information about BDS conducted by all other offices and bureaus under the Department of Trade and Industry. Available at www.dti.gov.ph/dti/index.php?p=79.

D. General Department of Industry, Cambodia

The General Department of Industry offers a joint financing scheme with HwangDBS Commercial Bank to provide SMEs with different loan options. Available at www.gdi.mime.gov.kh/.

E. SPRING, Singapore

SPRING runs many scholarships and programmes to support the training and development of future business leaders and executives. Financing schemes offered by SPRING are a combination of different schemes for the different needs of individual SMEs, such as loans for working capital, trade financing, and purchases of equipment and assets. SPRING provides a platform that helps to match the financial needs of entrepreneurs and existing funding sources. Available at www.spring.gov.sg/Pages/Homepage.aspx.

F. International Enterprise, Singapore

While SPRING is the agency working for the capacity-building of Singaporean companies, International Enterprise aims to help SMEs to compete on the international stage. International Enterprise offers programmes and services to encourage Singaporean SMEs to export and to cooperate with foreign companies. Available at www.iesingapore.gov.sg/wps/portal.

G. Agency for Enterprise Development, Ministry of Planning and Investment, Viet Nam

The Agency for Enterprise Development provides detailed and comprehensive information and step-by-step instruction on how to run an SME in Viet Nam. Both the national trade promotion programme and the national trademarks development programme are intended to help the development of strong national brands and trademarks in Viet Nam. Available at www.business.gov.vn/index.aspx?LangType=1033.

H. SMEs Department, Ministry of Industry and Information Technology, China

Rather than being an office conducting programmes for SMEs' development, the SMEs Department acts more as an interactive platform encouraging communication among SMEs, either buyers or sellers, to exchange information online. For financial support, it announces financial and investment incentive schemes in China, providing online applications systems. It also has an online forum for recruiters and job hunters to make these processes more efficient. Available at www.sme.gov.cn.

I. Small and Medium Enterprise Agency, Ministry of Economy, Trade, and Industry, Japan

The Agency of Japan is the only agency mentioned here that runs SME financing schemes to alleviate the impacts of the global economy crisis in 2008, such as emergency guarantee programmes. More details are available at www.chusho.meti.go.jp/sme_english/index.html.

J. Small and Medium Business Administration, Republic of Korea

The Small and Medium Business Administration (SMBA) is the government body for SME development in the Republic of Korea. It was established in 1996, and has developed and implemented a SME promotion system that combines financing, marketing, technology and support for start-ups and micro-enterprises (SMBA, 2009). In 2006, SMBA launched the SPi-1357 system to deliver policy information online, and offline to improve dissemination of SME policy knowledge and innovation (APEC, 2006). The system consists of an online policy information component and an offline counselling service (APEC, 2006). More information available at <http://eng.smba.go.kr/main.jsp>

K. National Small Industries Corporation, Ministry of Micro, Small and Medium Enterprises, India

The National Small Industries Corporation (NSIC) promotes SME participation in trade fairs, exhibitions, and buyer-seller meetings at the national and international levels. NSIC also promotes the upgrading of technologies and technical training of personnel. NSIC's national networks identify business opportunities and offer technical assistance to rural SMEs through their sites. For details refer to www.nsic.co.in.

D. Levels of BDS interventions

There are numerous levels for BDS interventions in any market, including those in Asia and the Pacific. Within this context a solid interchange is needed among the micro-, meso- and macro-levels of an economy for successful BDS to support SMEs. Each stakeholder, such as government, donor, business association or NGO in the BDS sector, needs to be aware of this interconnected environment in order to implement its services efficiently and to attain the development of the SME sector. The Committee of Donor Agencies for SME Development (1998) report on BDS provides a detailed outline of the key interventions at each level, which are briefly summarized below.

1. Micro-level

(a) Training

Training, the most common form of BDS intervention, covers a range of teaching activities for facilitators, trainers and groups of trainees. The aim is to develop SMEs' knowledge and skills in operational areas (e.g., marketing, accounting, finance, production and product development), in dealing with problems (e.g., attracting new pools of customers and lowering operating costs), and in finding useful partners (e.g., customers, suppliers and collaborators).

(b) Extension, consultancy and counselling⁹³

This form of BDS intervention provides customized actions for individual SMEs. Each of the three forms has varying advantages and disadvantages, and are usually structured to cover the diverse SME field. Of the three, consultancy is the traditional instrument of SME promotion and is typically tied to pre-investment activities and loan schemes.

(c) Technology development and transfer

There are two general views – corporate and indigenous – that determine the type of BDS that is provided for technology development and transfer. The former view emphasizes the importance of professional technical expertise in technology development and transfer in a demand-driven process with strong marketing systems, to ensure the greatest effect. In the latter view, SMEs develop their own technologies through their own capacities or adopt new technologies through SME-led inter-enterprise learning. This topic is covered extensively in chapter VII.

(d) Access to market information

SMEs typically lack access to pertinent information on ever-changing markets. To combat this, a number of donor-supported activities have attempted to improve the information environment of SMEs. These activities include interventions to improve information flows from business associations, funding for attendance at trade fairs and exhibitions, and dissemination of information for SMEs. With

greater market information, SMEs can respond more readily to market changes, pursue new market opportunities, and ultimately become more competitive.

(e) Business linkages

BDS interventions to improve commercial linkages between SMEs and large enterprises are focused on three main types: subcontracting, franchising and business clusters. These approaches are aimed at linking or incorporating SMEs into the operations of large enterprises. Subcontracting involves a large enterprise contracting work to smaller suppliers, upon which those suppliers can subcontract work to other small firms. As such, a number of BDS organizations, especially UNIDO, have promoted subcontracting in aiding SMEs. The second type, franchising, refers to when one enterprise sells the right to produce or sell a commodity under certain standards and procedures to another enterprise. The third type, business clusters, involves production and supply arrangements in specific sectors and/or geographic areas that involve a wide range of firms and organizations, such as business associations, research and development networks, and specialist service providers.

2. Meso-level

The majority of funding from donors is no longer delivered directly to enterprises but is directed to local and national BDS providers; as seen in figure VI.2. Accordingly, there is growing consensus on developing the capacity of BDS providers to deliver support services to SMEs. The objective of meso-level interventions is to improve the capacity of BDS providers to develop better services, add new products, expand their target groups, strengthen their organizations or develop networks of providers. These meso-level organizations can be divided into two categories: membership organizations and service delivery organizations. Membership organizations are created or owned by SMEs to represent their interests and provide services for the members, which include business associations, chambers of commerce, and cooperatives. Service delivery organizations are owned and operated by agents and provide specific services to SMEs. These include government organizations, NPOs or NGOs, and private enterprises, such as consulting firms and training institutions.

These types of meso-level interventions have both strengths and weaknesses. While membership organizations, such as business associations, are closest to SMEs and have proven potential to represent the interests of SMEs, their capacity can be underdeveloped. They can also be captive to large enterprises, ignoring the needs of their smaller members even though the latter constitute the membership majority. Among service delivery organizations, governmental organizations are less effective as BDS providers as they can be subject to political and bureaucratic interference. On the other hand, NPOs and NGOs have proven their effectiveness as BDS providers in the market; however, their charity orientation may conflict with their business-oriented decisions. As such, commercial organizations, with their business-approach and independence from political and bureaucratic interference, have the potential to be the most successful providers of BDS to SMEs. However there is a risk that profit-oriented BDS providers will focus on specific

⁹³ Extension is the delivery of advice or material assistance outside a classroom, typically at a client's place of business. Consultancy is expert advice on specialized technical and managerial issues. Counselling is the guided process of self-discovery or self-teaching (DCED, 2001).

Box VI.3. Roles of business associations

The roles of business associations, which comprise private enterprises in one industry or sector or from various industries or sectors, can be grouped under one of four types depending on their primary focus: market enhancing activities; market complementing activities; associational activities; and others. Each of these are briefly summarized below (Brimble, 2000; and Doner and Schneider, 1998).

A. Market enhancing activities

This involves indirect support for the functioning of the market. Activities include:

- (a) Advising the public sector on the formulation of policies and strategies;
- (b) Lobbying for the improvement of property rights and regulation;
- (c) Pressuring the public sector for addressing critical infrastructure; and
- (d) Playing a civil society role through working more closely with domestic policymakers, i.e., pressuring government for transparency and accountability.

B. Market complementing activities

These activities will strengthen the capacities of business association members to deal with market challenges by providing BDS. Activities include:

- (a) Sharing best practices in management and specific technologies;
- (b) Ensuring that members adhere to a quality standard;
- (c) Providing market information and related promotional activities;
- (d) Conducting training and meetings for skill and capacity development;
- (e) Providing guidance for funding access; and
- (f) Establishing recognized and accredited qualifications.

C. Associational activities

This relates to social networks, which may lead to members' engagement and more trusting attitudes towards suppliers, BDS providers, investors, TNCs, financial institutions, government offices and NGOs. The activities include:

- (a) Providing a mechanism for dialogue with policymakers at the domestic and regional levels;
- (b) Managing technology transfer through inter-firm cooperation;
- (c) Organizing seminars, exhibitions and trade fairs, and missions;

- (d) Serving as the communications channel for the private sector, including TNCs and foreign investors, around the globe; and
- (e) Reducing unintended negative impacts of members' operations on local communities such as unwanted cultural changes or unsustainable competition among local firms.

D. Others

This type includes:

- (a) Conducting CSR activities, such as community services;
- (b) Promoting good corporate governance among members;
- (c) Sharing the best practices of labour relations; and
- (d) Promoting the image and reputation of business associations.

Three approaches are available for further enhancing the roles of business associations: (a) strengthening business associations; (b) developing activities and services; and (c) influencing policies and regulations.

(a) Strengthening business associations

One way is to provide sufficient resources to business associations to enable them to offer a higher level of services to their members and related parties. The inputs should include staff strengthening and training, facilitating development support such as ICT, advisory support on strategic development (i.e., how to best manage the organization and activities), and membership development assistance. A comprehensive needs assessment should be conducted to receive accurate inputs from business associations and their SME members.

(b) Developing activities and services

The development of activities and services should reflect the usefulness of the business associations to stakeholders. Members should value their membership and view it as a valuable asset for their future development. The services should include the provision of information such as a business guide, international business information and training, including short courses in specific topics and new technology.

(c) Influencing policies and regulations

Business associations will gain greater credibility when they become more involved in providing relevant information and participate in government development processes on regulation or trade policies that affect business.

Source: UNCTAD, 2005a.

service areas and ignore others that SMEs need. This will depend upon the level of development in different countries or within a country, e.g., urban and rural areas.

3. Macro-level

All stakeholders in an economy agree on the importance of macro-level policy and regulation in the development of SMEs. The macroeconomic environment that is conducive for BDS is based on four main pillars: (a) a stable macro-economy; (b) a competitive micro-economy; (c) global linkages; and (d) investment in people (DCED, 1998). Within this framework, a number of BDS instruments have been used to build the capacity of SMEs, including but not limited to:

- (a) Setting up national SME agencies;
- (b) Strengthening the capacity of business associations;
- (c) Developing an environment conducive to SME development; and
- (d) Supporting microfinance institutions.

E. Business and technology incubation

One of the best BDS for promoting growth-oriented SMEs is through the concept of “incubators”. Business and technology incubation has been adopted worldwide as an effective means of promoting and supporting SMEs in becoming innovative entrepreneurs in transforming technological results into new products and services. Business and technology incubation is a relatively recent system. It is derived from the conventional BDS to SMEs, such as consultancy, counselling and training, but has other distinctive characteristics. A business and technology incubator is defined as an organization that develops, provides and maintains controlled conditions to assist in the cultivation of new growth-oriented or innovation-driven enterprises.⁹⁴ The National Business Incubation Association (NBIA) (2012) has estimated that there are approximately 7,000 business and technology incubators worldwide.

A business and technology incubator can be either a profit or a non-profit organization managed by public, private or academic institutions, or through a public-private partnership. Although incubators can target a variety of business lines, many of them are moving to technology-led businesses and tailored service offerings, e.g., ICT, bio and life sciences, energy, advance materials and agri-business (NBIA, 2009; and Zablocki, 2007). This is understandable, as many sponsors of incubation programmes aim to accelerate industry growth and job creation through innovation and technology commercialization. Some incubators also target minority groups, women or young entrepreneurs.

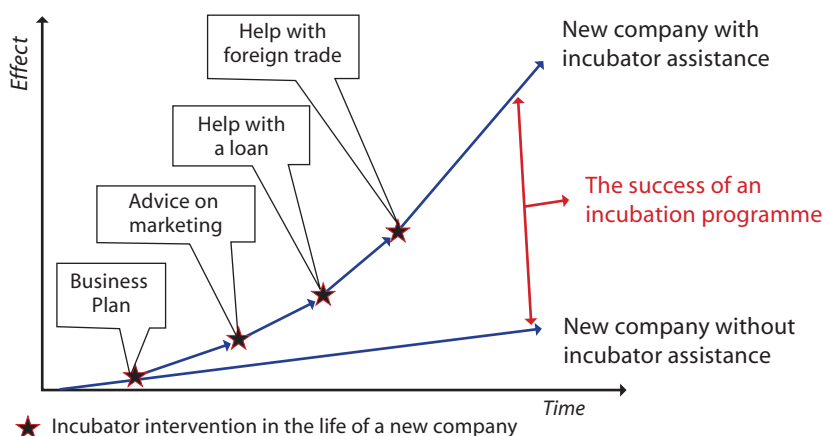
An incubator provides the following services (ESCAP, 2004; and NBIA, 2009):

- (a) Office spaces and business equipment;
- (b) Business plan development;
- (c) Technical support;
- (d) Marketing assistance;
- (e) Financial management;
- (f) Access to capital;
- (g) Linkage with university/corporate partners/inputs providers;
- (h) Business training;
- (i) Mentoring and coaching; and
- (j) Export operations.

The incubators facilitate business creation and assist entrepreneurs until their “graduation,” when they have the capacity to “survive” in the external competitive environment (ESCAP, 2004). Incubators provide local, on-the-spot diagnosis and treatment of business problems in addition to facilitating access to capital, thus dramatically lowering the early stage failure rate and enhance their performance (NBIA, 2009). Figure VI.4 illustrates the objectives and framework of incubation programmes.

Access to basic infrastructure such as office space and equipment at lower than market rental rates is essential, especially for start-ups and technologically-driven SMEs.

Figure VI.4. Objectives of incubators⁹⁵



Source: NBIA, 2009.

⁹⁴ Proposed by the authors, based on Smilor and Gill, 1986.

⁹⁵ Refer to annex IX.1 on monitoring and evaluation, particularly the

standard for results measurement that was proposed by the Donor Committee for Enterprise Development.

Box VI.4. Tianjin women's business incubator

China has worked extensively in the area of business and technology incubation. An example of a successful project is the Tianjin women's business incubator (TWBI) based in China's third-largest city. TWBI is a non-profit organization focused on assisting female entrepreneurs and fostering growth in the employment of women. Established in 2000 with financial assistance from the Tianjin Municipal Government, the Tianjin Women's Federation and other local government authorities, TWBI was China's first female-focused business incubator. Entrepreneurs received low-rent facilities, technical assistance, consultancies and training, including business plan development. TWBI also facilitates an on-site, micro-credit programme, which receives seed funding from UNDP and the Tianjin authorities. Incubator managers of TWBI have travelled abroad extensively to learn from other advanced incubators,

and draw extensively on the National Business Incubator Association website for information.⁹⁶

TWBI currently has a building area of 5,000 m² with 54 on-site and 16 off-site tenants. By the end of 2011, TWBI had graduated 29 companies. Directly and indirectly, TWBI has been responsible for providing employment opportunities for an estimated 2,000 people, which may be more than the opportunities generated by comparable incubators in developed countries. Operating at full capacity, TWBI has almost developed financial self-sufficiency by charging for office rent, business services and external training courses for participating entrepreneurs.

Source: Tianjin Women's Business Incubator, undated.

Box VI.5. Supply chains, SMEs and business development services

SMEs can join regional or global supply chains as second- or third-tier suppliers. They are typically more closely tied to a small number of business buyers, who are often large enterprises, including TNCs. SMEs are able to gain access to new knowledge on design, processes and control mechanisms, together with market intelligence from large enterprises in these chains. BDS can assist SMEs in joining supply chains by specifically focusing on SMEs' role as providers of goods and services for large enterprises. These services should target SMEs (to assist their capacity upgrading directly) and large firms (incentives and promotional activities for SMEs) in order to create mutually

positive relationships. In particular, these would focus selectively on activities that can enhance the demand for SMEs' products and services by large enterprises, and can initiate interactions between these potential buyers and SMEs. These BDS could include contract negotiation, adaptation of production facilities and equipment, technical training and supplier networking (ADB, 2006). After successful linkage into supply chains has been established, additional BDS services can be provided commercially, including technical support and production supervision.

Shared services and experiences for business plan development, marketing, access to financing and international business also drive down the cost of starting and running a business, at both the initial and the growth stages.

Incubators typically operate with combined incomes of rents, service fees and public grants or subsidies (NBIA, 2009). The key success factors of a business and technology incubator includes:

- (a) Attracting an adequate number of capable clients (e.g., growth-oriented or innovation-led entrepreneurs) through screening processes;
- (b) Networking with input providers (e.g., research institutions, investors, consultants, accountants and local governments);
- (c) Providing comprehensive services with discount rates (public sector support is needed);
- (d) Providing clear policies and procedures for programme milestones and graduation;
- (e) Developing and implementing a specific and clear business plan for the incubator itself under professional management; and
- (f) Securing financial support from the public sector.

Although the concept of incubators is currently only operational in selected locations in the Asia-Pacific countries (e.g., East Asia and South-East Asia), its potential could be further realized by setting up additional incubators in

universities to nurture knowledge-based enterprises. As BDS is still weak in the developing countries in the Asia-Pacific region, incubator programmes have a larger role to play in developing complementary channels to provide necessary services to entrepreneurs (NBIA, 2009). Although situating incubators at universities is a common practice in developed nations through triangular cooperation among governments, business and academia, such cooperation is nascent in the developing countries of the region. Nurturing technological start-ups through incubation programmes also enhances global competitiveness of SMEs. International development agencies are playing an important role in providing vital inputs towards this purpose. In the Asia-Pacific region, ESCAP is facilitating the establishment of incubators in conjunction with national governments (ESCAP, 2007a).

Business and technology incubation programmes could be a more expensive option for the public sector than other SME development instruments. Despite the small coverage of potential clients, such programmes require the public sector's financial support in order to increase success rates. Some governments may find other policy options (e.g., market-oriented development of BDS providers, or a triangular alliance between government, industry and university) to be more cost-effective. A specific business model that ensures the long-term sustainability of the programme can make business and technology incubation more appealing.

⁹⁶ For additional information, visit the website of the National Business Incubator Association at www.nbia.org/.

F. Summary

This chapter began by describing the design and objectives of BDS: (a) the provision of non-financial services to SMEs; (b) support of SME promotion activities; and (c) facilitation of SMEs' acquisition of competitive advantages. The discussion differentiated between the operational, advisory and advocacy segments of BDS as well as between the traditional and market-oriented BDS approaches. The traditional approach features much more direct government intervention, while the latter relegates government to the role of facilitator and gives more scope to markets in allocating BDS.

Next, the principal BDS actors and the roles they play in supporting the SME sector were discussed. In addition to SMEs and BDS providers, there are also facilitators, donors and governments. Governments enable the legal and regulatory framework, provide physical and IT infrastructure, and link the other actors in myriad ways. BDS policy should focus upon improving these linkages. Boxes VI.1 and VI.2 explained the roles of SME development agencies, and provided specific examples in various countries of the region.

BDS occurs at the micro-, meso- and macro-levels. At the micro-level, the focus is on improvements within SMEs. Training, consultancy, technology development, access to markets and business linkages are the most common areas of BDS intervention. The meso-level builds the capacity of BDS providers to deliver their services more effectively and efficiently. Box VI.3 highlights how one type of BDS provider, business associations, can enrich their activities. The macro-level involves national and supranational agencies' efforts to upgrade SME skills. A key element of this effort, beyond the institutional factors discussed in the prior chapters, is the provision of business and technology incubation. The Tianjin Women's Business Incubator is an outstanding example of this policy (box VI.4.)

Key policy recommendations

Three recommendations for development support by policymakers to BDS providers are summarized below.

1. Develop public-private partnerships

In addressing the problems that SMEs are facing in developing the required capacities, governments, private institutions and NGOs should conduct benchmarking for the real effectiveness of BDS to assess impact through their PPPs. This would help in devising appropriate mechanisms for maximizing services rendered to SMEs to ensure that they continue to grow, develop and contribute to the national economic and social goals.

2. Create a suitable enabling environment for BDS and raise awareness

Taking into account the present situation of SMEs, service providers should first create awareness among SMEs about the problems they face, with particular focus on professionalism, and product and market diversification. Furthermore, existing institutional infrastructures should be strengthened and new ones created as needed. Necessary resources, such as technical infrastructure, access to information and management training, should also be provided to SMEs. SME-related NGOs, such as chambers of commerce, have a key role to play in resource development.

3. Allow private sector service providers to give a kick-start to BDS

BDS providers should initiate new services, programmes and training sessions as widely as possible in order to provide diversified and comprehensive development services to SMEs. These initiatives should focus on supporting start-ups and facilitate the growth of already running businesses as well as help to avoid prolonged dependency on government subsidies.