

# Enterprise Development Services - adding value to microfinance

## InForm

**Enterprise development services work alongside microfinance to break down the barriers that prevent microbusinesses from becoming more profitable. While microfinance involves the provision of financial services, enterprise development is the provision of complementary non-financial services for the entrepreneurial poor.**

The term 'enterprise development services' refers to the many and varied services that can be used by the entrepreneurial poor to grow their businesses, with the broader purpose of contributing to poverty alleviation through economic growth and employment generation.

The field of enterprise development services originally concentrated on providing training, consulting and other services that addressed the lack of education and technical capacity among microentrepreneurs. More recently, it has expanded to include marketing, information services and a large variety of specific solutions to address barriers that particular microenterprises may face.<sup>1</sup>

### Types of enterprise development services

The services that are being offered to businesses are so diverse that it is difficult to compile a definitive list. Opportunity International Australia group enterprise development services into four broad categories:

**1. Product improvement** includes the provision of analysis, know-how and technology in order to cut costs and increase productivity. Creating quality products is critical to the success of any business. Opportunity International is assisting the

poor to improve their products. In some cases, it is as simple as improving packaging and hygiene quality.

An example of this is in the Filipino village of Quia-Nan, where over 40% of the population live below the poverty line. Professional packaging (including attractive design and industry standard nutritional information) and more efficient, hygienic production has resulted in increased employment opportunities and hope for the villagers as they proudly take their peanut candy product to wider markets.

**2. Market access** programs link clients with other service providers (buyers and sellers) in their industry, providing a larger market for their products and promoting quality improvement.

Opportunity International has begun programs that help clients band together (either by industry or geographical region), enabling them to gain the advantage of economies of scale. One example of this is Opportunity's seaweed project on the remote island of Rote in West Timor (east Indonesia). The community now grow and sell seaweed in quantities large enough to be commercially viable. This income has brought new capital, allowing for rapid development within the region.

**3. Risk mitigation** involves the protection of client livelihoods through product improvement and the provision of business protection strategies.

An example of this can be found in India, where one of India's leading microfinance institutions, BASIX, has assisted over 22,000 dairy farmers by providing vaccinations and

bi-monthly health check-ups. These services are designed to complement the farmers' loans, ensuring that farmers can purchase and maintain good quality cows and buffalo.

**4. Skill and capability services** include the provision of training to enhance businesses, such as financial literacy and business management training. Training fulfils one of the most important facets of Opportunity International's commitment to walk alongside each of its clients. Financial capital needs to be accompanied by knowledge about how to use it effectively. Training is tailored to the specific needs of the region, and often even to the specific client involved.

Another aspect of skill and capability services is equipping clients with skills applicable beyond their businesses. For example, ASKI, one of Opportunity's Filipino partners, trained local community organisations in advocacy skills; empowering them to confidently negotiate for themselves in a variety of contexts. Subsequently, trained locals have been able to lobby the government to improve infrastructure in their local community. One community group's action plan resulted in the construction of an irrigation system enabling farmers to produce two crop cycles per year; while another built a bridge that is vital for trade.

### Reaching the poorest of poor people

The need for enterprise development services is best understood within the context of the poverty pyramid.



Source: Remenyi, J. 1994.

Historically, microfinance has been extremely effective in improving the lives of the entrepreneurial poor and the self-employed poor. These groups are people who provide daily services such as tailoring, street vending and food sales.

However, the biggest need for those people at the *bottom* of the pyramid is employment. Many of these people are not in a position where they can merely receive a microfinance loan and become self-employed. They would greatly prefer stable employment rather than the insecurity of their own microenterprise.<sup>2</sup>

There are a number of different models of enterprise development services that aim to provide employment for people on the lower levels of the poverty pyramid, all of which are currently being piloted and tested for effectiveness around the world.

The *community based model* of enterprise development services is the most direct method, as it looks at the skills, resources, and potential of a local community, and determines what sustainable enterprises the community could be involved in. Enterprise development managers then help the community get started and grow, by assisting in areas such as product improvement and market access.

The *industry based model* is similar to the community model in some ways, however it targets existing enterprises within the same industry sector across a broad geographic area.

Another effective strategy to create jobs at the bottom of the pyramid is to assist the truly entrepreneurial people at the top of the poverty pyramid. Various forms of assistance, such as individual client mentoring, can help these entrepreneurs break through from being a microbusiness to a small-medium sized enterprise with numerous employees. Many people in poor areas are driven to make that transition because they know that the success of their business will enable them to create jobs within their own community.

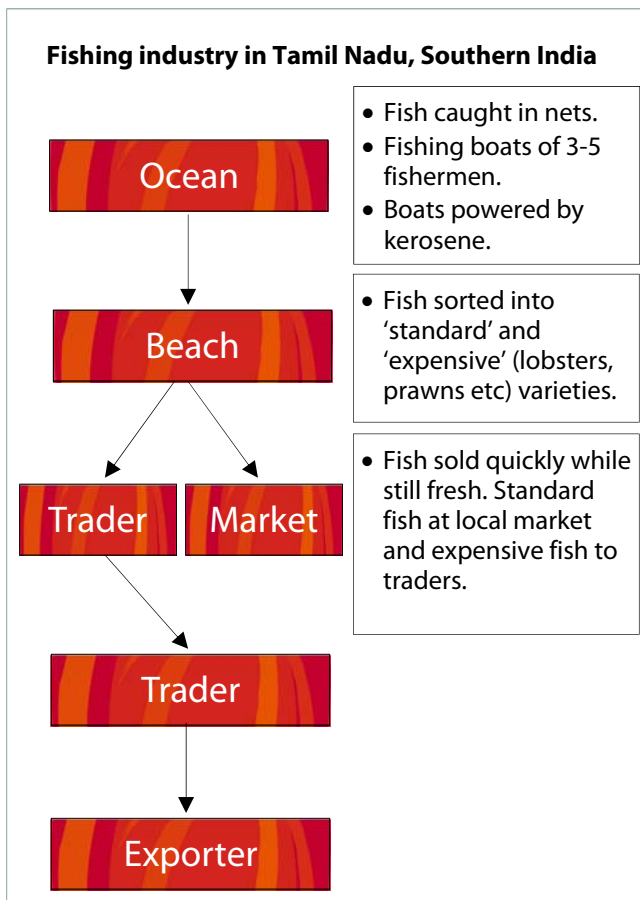
## Value chain analysis

To begin designing an appropriate enterprise development services intervention, it is important to understand the *value chain* of the industry that an enterprise operates within. The value chain describes the full range of production activities to bring a product or service from conception, through all the different phases of production, delivery to final consumers, and final disposal after use.<sup>3</sup>

Value chain analysis allows conceptualisation of enterprises, not as discreet entities, but rather as part of a network or system.<sup>4</sup> This enables consideration of alternative strategies for poverty reduction. Often it is beneficial to address multiple stages of a particular value chain simultaneously.

## Example of a value chain and intervention

The following example maps the fishing industry in Tamil Nadu, southern India.



In 2007, Opportunity International Australia, with their partner, the South Indian Federation of Fisherman Societies (SIFFS), implemented a livelihood project, to reduce the vulnerability of poor fishermen. The diagram (below left) maps the industry value chain before their intervention.



*Fishermen preparing fish for sale on the beach*

As part of the 'Fisherman's livelihood project' SIFFS targeted three particular points on the value chain where they could make valuable improvements:

1. SIFFS provided *infrastructure and working capital to improve the fuel supply*. Fuel (kerosene) forms about 25-35% of the costs of a fishing unit (consisting of three to five fishermen), and the fishermen were being exploited by fuel traders, and provided with poor quality fuel. Working capital enabled the bulk purchase of good quality kerosene and its distribution to members through village societies at a reduced cost.

2. Once the fishermen returned to the beach, they were forced to sell their harvest quickly while it was still fresh. This prevented the fishermen from being able to find the best price offered for their fish, and they would often have to sell at very low prices before their fish become unsaleable. To overcome this problem, SIFFS *improved storage and handling facilities*, including ice boxes, crates and fish tanks. This has enabled the

fishermen to keep their perishable harvest fresh for much longer while they seek to trade their fish at the best possible price.

3. The market channels that link expensive varieties of fish to export agencies are complex and involve a lot of middlemen. As a result, the fishermen were earning a very small percentage of the final value of their catch. Providing *access to financial services* and drawing local fishermen together has achieved greater economies of scale. Fishermen can now sell their catch to a local organisation. The organisation, with the help of loans through the program (because goods need to be sold on credit terms), are sold in bulk - direct to export agencies. One of the main advantages of this program is that it integrates financial and non-financial services to assist poor fishing communities. This reinforces the idea that microfinance is most effective when coupled with enterprise development services.

### The future of enterprise development services

To date, many enterprise development services have been provided to businesses for free, or at low cost. The main challenge going forward, is to find ways to provide enterprise development services for a growing market, in a sustainable and scaleable way.

One possible method, effective mainly in urban contexts, is what is known as the *market development approach*. Here, the goal is for a large proportion of local businesses to *purchase* the enterprise development services of their choice from a wide selection offered by indigenous private sector suppliers in a competitive and evolving market.<sup>5</sup>

Another important aspect of the future of enterprise development services will be the collection of ideas and facilitation of shared

information regarding the success of various interventions. There are limitless possibilities for enterprise development services that could be offered, and over time develop industry best practices.

However, to some extent, a community's needs always remain unique. Organisations such as Opportunity International will continue to use the community development model. Beginning with the question "what does this community really need?", Opportunity will aim to determine high-impact, relevant enterprise development services programs.

While it is hard to conceive exactly what the field of enterprise development services will look like in years to come, it is certain that these services will play a valuable part in unlocking the potential of people who live in developing communities.

### References

1. International Labour Organisation, *Business Development Services for SMEs*, 1997
- 2, 4. Linda Mayoux, *Trickle-down, Trickle-up or Puddle?*, 2003
3. R Kaplinsky and M Morris, *A Handbook for Value Chain Research*, IDRC, 2000
5. Alexandra O Miehlsbradt and Mary McVay, *Developing Commercial Markets for Business Development Services*, Small Enterprise Development program of the International Labour Organisation, 2003

Opportunity International is a global leader and pioneer with over 35 years experience in providing microfinance and enterprise development to the working poor in developing countries. Microfinance includes the provision of collateral-free loans, savings, insurance and money transfers. Enterprise development incorporates a variety of training and support services for establishing and growing small businesses. Our desire is to see clients, their families and their communities transformed with dignity, empowerment and hope. Opportunity is inspired by Jesus Christ's call to serve the poor without regard to ethnicity, gender or religious affiliation. We are guided by four core values: respect, commitment to the poor, integrity and stewardship.

