Case study: FAIDA SEP

1. Basic Data:

Name:	FAIDA SEP BDS support program
Location:	Arusha, Manyara, Kilimanjaro and Tanga regions
Period of execution:	September 2001-September 2002
Total budget:	70.000 Euro, excluding cost sharing providers
Financing:	FAIDA SEP project fund, and operational budgets BDS providers.
Clients:	Commercial providers, Grassroots promoters,
Contractor:	FAIDA SEP and 3 commercial providers.
Target group:	SME's

2. Brief description of the case.

FAIDA SEP is a small enterprise program in the North of Tanzania. It started in 1994 at the time when the economy was in transition from central planning to a free market system. At that time there were hardly any private business development services providers. Most were state owned providers, in process of heavy re-organization, which slowed down actual service delivery and quality of services was poor. Therefore, FAIDA SEP decided to design and deliver BDS services in house, although the aim remained to work with local organizations. In due course BDS service provision was separated into a commercial private BDS company. FAIDA SEP then focussed on deficit financing to a few private, commercially oriented BDS Providers in 2000-2001, including to its offspring FAIDA BDS co.

In 200, inspired by the new strategic focus of SNV and the emerging concept of Market Development Paradigm FAIDA SEP decided to focus on capacity building to local BDS providers, partly based on an expressed need by the providers, and on to BDS sector support. Support included organizational strengthening to BDS providers and product design. Main aim of the product design was to develop appropriate and affordable services for the entrepreneurs. The current case describes the capacity building and product development program with BDS providers of FAIDA SEP which was carried out from mid 2001to mid 2002.

Main focus of the case is on Capacity Building or intermediaries in the BDS sector, that includes

- Training of intermediaries
- Technical assistance
- Product innovation.

3. General Developments in Private Sector in Tanzania.

After liberalisation of the economy in the early 90ties, private sector initiatives begin emerging rapidly in Tanzania, the majority being micro and small enterprises (90%). The government of Tanzania has taken a variety of measures to encourage private sector investment since then. Economic stability and growth have been on the increase, measured by a steady growth in GDP and stabilisation of inflation rates contributing to an improved investment climate for the private sector, including foreign companies.

The Economic Reform Program recognises the leading role of the private sector in economic development of the country. Strategies and policies have since been put in place such as the Financial sector reform, Poverty Reduction Strategy, National Micro Finance Policy, Agricultural and Livestock Policy and the Small and Medium Enterprise policy, addressing the economic changes in the country.

The institutional environment for MSMEs is now improving. The Ministry of trade and industries has recently formulated a policy for MSMEs promotion focussing on the following main areas:

- Enabling legal regulatory and administrative environment.
- Improved access to physical infrastructure and work places.
- Strengthening entrepreneurial culture and markets for sustainable BDS.
- Improved access to financial services.
- Strengthening capacities to implement SME support interventions and the institutional framework in the sector.

At national level private sector representations bodies are becoming stronger such as TCCIA[1], the private sector foundation and the national business council as well as representation bodies of the NGO's and of Micro finance institutions. While these organisations are still in development their presence already earmarks a different era in Tanzanian political and economic systems.

Despite of many promising developments, the enabling environment for the private sector is still not very conducive, indicated by complicated policies, laws and taxes.

A large part of the private sector is composed of micro,- small and medium enterprises (MSME's), who are seen as the emerging engine behind private sector led growth. Particularly micro an small enterprises are relevant in poverty alleviation and employment creation strategies. It is estimated that a third of the GDP originates from the MSMEs. Micro-enterprises operating in the informal sector constituted of 1.7 million (1991) creating jobs for an estimated 3 million people. These figures have been growing ever since. However, there is still lack of current data on performance and dynamics of the sector and limited information on existing private sector associations and chambers of commerce. Lack of data is a serious constraint towards policy development in the sector.

3.1. SME's characteristics of the private sector.

SME's in Tanzania generally employ low capital intensive and high labour intensive business strategies often resulting in low production levels. Technology and skill requirements are generally low. SME face particular constraints in Tanzania such as complex bureaucratic and costly legal, regulatory and administrative environment, complicated tax systems and limited access to BDS, information systems, financial

[1] Tanzania Chamber of Commerce, Industries and Trade.

services and market outlets. Linkages between MSMEs and larger enterprises are very weak in Tanzania, and a negative appreciation of enterpreneurship is still prevailing. It has also been noticed that outside investors increasingly become competitors of an emerging medium size indigenous private sector entrepreneurs. Constraints for a balanced growth of the private sector are still many in Tanzania.

Female entrepreneurs face extra constraints such as limited access to and control over productive resources, educational backlog, and even less access to information, training and markets. The combination of productive, reproductive and social roles severely constraints their time and propensity to take high risks or travel far, which in itself can already be a limiting factor for business expansion. Depending on the area specific gender constraints prevail such as negative attitudes towards women running a business and holding money is common.

3.2. Emerging BDS providers.

As said, constraints for SME’s are still many, however the increasingly conducive environment for the private sector, stimulates emergence of private sector associations and BDS providers at regional and district level which in turn has a stimulating effect on SME’s. The BDS market in Northern Tanzania for example, has emerged from a market that had a number of non-for-profit BDS providers with heavy government subsidies to one with a number of young, dynamic private, for profit BDS providers.

The market is still characterised by weak demand and supply side conditions. Micro and small entrepreneurs recognise that they face business challenges, such as lack of investment capital, access to market information, technology and business services, hence opportunities for expansion and quality improvement remain limited. As a result profit margins for such enterprises remain small. Their purchasing power for BDS services is still low. In addition, most micro and small enterpreneurs are unaware of the value of BDS services and have limited idea how it could improve their business performance. This provides a major constraint for BDS providers to establish a market niche in the MSME sector. Further more, market distortion in the sector is still relatively high in Northern Tanzania where some donors and subsidised providers, render free, but often low quality BDS services. Despite all this the number of for profit providers is growing.

4. Objectives of the Capacity Building and Product development intervention.

FAIDA SEP believes that a vibrant and sustainable BDS sector will enhance growth of small and medium enterprises. The overall objective guiding the capacity building and production development strategy for the BDS providers is to stimulate growth of the BDS sector through supply and demand side interventions for a specific period.

In an attempt to address market constraints in the BDS sector FAIDA-SEP has subscribed to the market development paradigm concept, which argues that sustainability of BDS services can only be realised if the demand of services is "real effective demand" implying that real market conditions are allowed to prevail and prices of services are paid by the clients at a competitive and sustainable rates. The concept argues that the private sector entities are best placed to render sustainable services to micro and small enterprises. Supply, donor driven interventions can never hope to realise sustainability in the long-term. Instead donor should focus more on market development of the sector and capacity building of the providers. The intervention was designed after discussions with the BDS providers who where involved in the deficit financing program of FAIDA SEP (2000-2001) and who expressed a need for capacity building and for assistance in development of competitive products in the market.

Specific objectives with regard to the BDS services for the year 2001-2002 were:
- To gradually move away of (deficit) financing the cost at provider/ client interface by offering relevant and new BDS products and work towards cost recovery through affordable services by grassroots BDS providers.
- To provide technical assistance and incentives for improved (competitive) performance of new and existing BDS Providers.
- To assist BDS Providers with product development and repackaging of existing support packages to become more competitive in the market.
- To assist BDS providers to diversify their resource base and attain higher levels of financial sustainability.
- To understand (better) the existing opportunities and constraints in BDS markets in Tanzania.

5. Description of the main activities.

Main activities of the intervention where designed in collaboration with the BDS providers, who had been asking for this type of assistance. Also the activities where aligned to the new SNV capacity building strategies and the market development paradigm.

Main support activities within the context of the objectives of the interventions contained of:

1. Participatory organizational assessments of BDS providers. These assessment revealed a need for internal capacity building. All providers indicated specific areas for which they wanted to receive organizational strengthening support including development of management and financial systems, sustainability analysis, market research and funding solicitation. Clearly long-term sustainability of the respective providers was the guiding principle behind the capacity building proposals. All providers designed specific proposals and agreements on cost sharing around the capacity building interventions were finalized.

2. Secondly, together with the providers, market surveys were undertaken. Market research made the providers more aware of potential niche markets and new products. Usefulness of the BDS services to a large proportion of the MSME clientele and the willingness of clients, especially repeat clients to pay for BDS services was confirmed during the surveys. The survey also revealed the existence of non-fee purchased BDS services accesses by MSME in business relationships. Examples of this are BDS services related to purchase or sales of goods or to more technical types of services together with business advisory services. The surveys

revealed opportunities for several new products on demand by MSE's including "tangible" BDS services with potentially more impact on MSE in the short-term. The results of the surveys stimulated creative thinking about potential new product for the market.

3. Product development assisted the BDS providers to develop innovative cost effective products on the market. Specified products were identified after the market surveys including gender sensitive training packages for BDS, special packages for associations of entrepreneurs, and business to business clinics which bring entrepreneurs together for a specific problem. A side effect of such clinics could be business links in a specific production line. Development of a grass root providers system was selected by two providers in order to promote BDS services and to provide a range of basic BDS service at a more affordable price for SME's specially in Rural areas. The model could develop into a chief provider handling bigger SME clients and do product development and training for the promoters who provide low cost services, adapted to micro enterpreneurs needs. The establishment of a net work of grass root/ private sector promoters serves in fact two major objectives:
   - To have low cost appropriate BDS services delivered at the grass root level.
   - To create awareness and market BDS services in general and link MSE's who need higher level more costly services to more expensive providers.

   The model was of great interest for FAIDA SEP since it could reduce cost of service delivery to affordable levels to micro enterpreneurs.

4. Apart from support at BDS providers level some activities meant to support the BDS sector in general. Examples are the continued institutional mapping exercises undertaken and regular workshops to share experiences with Government, BDS support agencies and donors. The need to sensitise the donor community and other local promoters on the market development paradigm was underlined by the market surveys undertaken. Market distortion, starting with the provision of "free services" hinders success and progress of BDS providers to charge fees at sustainable levels. Sensitisation can only be effectively addressed in broader forums, involving Tanzanian Government, donors and other stakeholders.

Long term sustainability was attempted by gradually reducing subsidies in the sector and develop services through a network of providers at affordable levels. Subsidies were provided for capacity building interventions for BDS, pilot testing of some products and training's of grass root promoters. The idea was that grass root promoters would be able to provide training's at cost price to the SME's however only one provider managed to do so, through its network of 6 grass root promoters. The others still subsidised some of the training's on a reducing balance, while clients contributions were increasing.

The following actors were identified in the intervention.

<u>FAIDA SEP:</u> During the period under consideration FAIDA Sep as a project assumed the role of a facilitator and subsidiser. This role included involvement in the organisational assessment and guidance to the market surveys. Feedback on the proposals provided by the providers. Contract agreements for Capacity Building and product development interventions and advisory support on capacity building,

product design and funding proposals of the providers. FAIDA also commissioned and guided the evaluation exercise mid 2002.

The BDS providers were playing de facto several roles in the intervention. They were clients to the capacity building interventions, leading partners in the surveys and product development interventions and they were themselves providers of training and capacity building services to the promoters and the SME clients. All identified providers are private companies striving to live from BDS service delivery but also have Government and donors as their clientele.

The Grass root promoters are clients of the services provided by the BDS providers who equipped them with basic training and planning skills. The grass root promoters themselves provide basic training and advisory skills to the micro and small entrepreneurs in their areas of operations. It appears that out of the 21 active promoters, 8 where (retired) teachers, about 4 have private sector experience and others are related to Government services.

The client of the trainings are the micro and small entrepreneurs. Their main role is to demand and pay for the training, participate actively in it and after this use the lessons learned in the training. As already said some promoters were business people who became trainers to their fellow entrepreneurs. Also during training's and business clinics, entrepreneurs became advisors to their fellow entrepreneurs.

In appendix 1 the diagram of the different actors is attached.

6. Achievements/ results

An evaluation of the program implementation was undertaken a year after signing the contracts with the BDS providers. The evaluation was carried out jointly with a sister program which focuses on support to local chambers of commerce. This program also includes a component of promotion and outreach of affordable BDS through a network of private sector promoters, similar to the nature of the grass root promoters, but affiliated to the Chamber. Some deficit financing was still provided to the promoters working with the program but also here the attempt was to achieve sustainable service delivery in the end.

At provider level the evaluation assessed the benefits of the capacity building efforts, the increased understanding of the market and the diversified funding base.

Capacity building.
Capacity building support to the BDS providers was well received. The organisational self assessments increase awareness of BDS providers on their strength and weaknesses. The improvements in own organisation where implemented to some extend, however since all BDS providers are still small firms themselves, extensive accounting or management information systems where not appropriate for them. BDS providers were also assisted to write funding proposals mostly for enhancing the promoters networks and in-house capacity to eventually attain sustainability. One provider managed to secure some funding for this already at the time of evaluation.
Market awareness.

The market surveys assisted the BDS providers to improve understanding of their markets and was used as an input for product development. It was realised that some product were more suitable for rural areas while other would be better in the town centres. Improved products and increased outreach through a network of grassroots promoters was well appreciated by the BDS providers, since this also increased their own market position. Prospective BDS products linked to marketing services or technical training could still be developed.

The grass root promoters were specifically assessed with regard to contribution towards sustainable outreach of the BDS market and increased cost- effectiveness of service delivery.

Outreach.
A total of 25 grass root providers was trained and assisted to make a mini business plan for their own service delivery to clients. Finally 21 grass root promoter became active in service delivery an trained a total number of 1215 clients in the short period (6 months). This is a remarkable achievement as compared to earlier programs with regard to the costs per clients trained, and also with regard to the time involved. The program in the south started earlier and therefore more SME's were trained in this area (750) The outreach of services has definitely increased through the interventions. Mostly clients were coming from remote areas so outreach into rural areas has effectively improved. Grass root promoters were encouraged to write their own business plans which increased their sense of ownership. Also extensive means of promotion were used. Some promoter, particularly those with and entrepreneurial background already, saw BDS provision as a good business opportunity.

Sustainability and cost effectiveness.
Since their were still subsidies at providers and promoters level, the financial sustainability was still low. However, as compared to previous years the subsidy per client was much lower, as is shown in the table below. Efforts to increase sustainability will need continue, but the idea that BDS services can be useful and should be paid for is more and more accepted by both SME's, even at the lowest levels and amongst providers. The demand for BDS services started to grow and willingness of MSE's to pay for the cost of services was established. Average payment was 3,5 US$ per client per training. Providers introduced increasing payments over time and especially repeat clients were willing to pay more for the services. One provider opted to provide trainings to small and medium enterprises and therefor was able to charge fees of US 15 $ per training of two days. It was noticed by some providers that payment for services increased attendance rates of the trainings.

Especially in Tanga Grass root promoters were working without any deficit financing. They received a small amount of initial investment and worked according to the goals spelt out in their respective business plans.

The BDS provider who opted for aiming at a broader category of clients including medium enterprises but also Government clients and donor programs increased prospects for long term sustainability because of this. All providers also were involved in consultancy services and research activities to increase incomes.

The relationship between the private sector promoters and the Chamber of Commerce in Songea was appreciate by the Chamber since their advocacy role was supported better by a trained SME community.

Cost effectiveness and outreach of BDS in FAIDA SEP over the years.

Year:	**1999**	**2000**	**2001**	**2002**
1. Total clients served	417	1320	759	1215
2. Total costs in US $	74.000	117.000	60.000	41.000
3. Costs per client in US $	177,5	89	80	33,5
Remarks:	Deficit financing to two providers	Competitive bidding for deficit financing	Continued from 2001	Grass root promoters , including support to the network of 21 promoters.

Due to delays in the genders study gender sensitive training packages development was not yet finished at the time of the evaluation. The association packaging went on well and enabled provision of cost effective BDS to association members at the time of service.

All in all the results of the Capacity Building and product development intervention were satisfying, especially in comparison to the amount of money spent on the intervention. Apart from training clients there were also results with regard to capacity development and support to creation of a network of grass root BDS providers. Other effects included general increased awareness at regional and national level on the value of BDS and national level intensive discussions on the validity of the Market Development Paradigm for Tanzania.

7. Follow up to the intervention.

During the evaluation the providers also indicated future support requirements which included:

- Support to and expansion of the network of grass root promoters. At grass root promoters level there is little ability to increase volume and quality of services by themselves. Promoters will need support geared towards cost management, promotion of services and increasing outreach, and improving quality of services.

- Further support to development of gender sensitive training packages, also addressing some issues around HIV/AIDS was particularly identified as a need in rural areas by several promoters.

- Facilitate setting of BDS certification and quality standards, e.g. through the establishment of a network of BDS providers which will also assist to exchange experiences and to establish dialogue between BDS and government officials. Activities could include: Lobby and advocacy for BDS, set industry standards, intellectual property rights, sharing of expertise, link to international best practices and input to SME policy in Tanzania,

- More sensitization is needed for BDS market development. Market distortion is still prevailing and the need for sensitization of national level bodies and donors on the market development paradigm concept through workshops and sharing of experiences is still there.

- Marketing campaigns for BDS services to actually improve potential of sustainable BDS services in Tanzania. Awareness creation, sensitization on added value of BDS and social marketing with MTI[2], TCCIA and information service providers would increase the demand for BDS services in the long run.

- Continued capacity development support to BDS providers was also indicated, especially with regard to financial analysis and product development.

Concrete follow up activities under taken by FAIDA SEP, after this intervention were:

1. Sharing of evaluation findings and experiences with major stakeholders in workshop settings as was the likeliness of continuation of a facilitators role discussed . However it was not yet concluded who could be in the best position to undertake the facilitators role in Tanzania. Investigation and discussion with relevant organizations is still going on.

2. Design of a marketing campaign for BDS in collaboration with other stakeholders such as the ministry of trade, ILO and information service providers.

3. Further support and product development on demand of some BDS providers and potential facilitators.

8. Lessons learned on FAIDA SEP BDS support.

Throughout the years FAIDA SEP has learned some lessons on Best Practice in BDS support and BDS sector support which can be summarised as:

1. Donor project delivery of BDS services is distorting to the sustainable accessibility of MSME to BDS services as donor projects are temporary service provision mechanism. However, in case there are no local service providers such interventions could be temporary justified.

2. Deficit Financing can be another temporary intervention, justified to assist emerging BDS providers to kick of their business. It has a distorting impact on the

[2] Ministry of Trade and Industries

development of sustainable BDS services as it doesn't allow the consumer to have a complete understanding of real costs and reduces cost effectiveness of service provider.

3. Increased emergence of BDS services enhances not only sustainability of service providers but also improves competitiveness to develop such services. It is confirmed that private sector entities are best place to create sustainable access to BDS services.

4. Cost-effective BDS services are those which can provide BDS services to larger numbers of MSME at relatively affordable prices and at lower costs. A system of grass root promoters can assist to differentiate the services and price levels tailored to different types and requirements of clients.

5. Also strengthening of MSME associations enhances sustainability and cost effectiveness of BDS service delivery, and increase countervailing power of the private sector by group formation support in the sector.

6. Enabling environment, including Government regulatory policies, policy execution and policy implementation poses serious constraints to the competitiveness of MSME. Advocacy for MSME's is essential to the development of the sector in Tanzania.

7. The role of the facilitator, such as FAIDA SEP is playing currently, is essential as BDS service providers in developing and emerging markets are often weak and require capacity building. Such efforts will have more impact when both providers and promoters are challenged to take charge of the interventions through participatory organisational assessments and product development, as well as development business plans by the respective actors.

8.1. Conclusion for Tanzania.

In the current situation in Tanzania with a just emerging BDS sector and high levels of market distortion it is unlikely that a strict interpretation of the market development paradigm will enhance actual availability of BDS services at the MSME level. The market development paradigm has brought a very interesting perspective to BDS service provision, however at this point in time it will be difficult for most BDS providers and promoters to provide services at competitive and sustainable price levels. The number of client willing to pay for services is still low and market distortion also through involvement of other sectors is still high. Good prospects for sustainability are indicated by giving services to repeat clients, by diversifying price levels and type of services for the different client groups and, link BDS to other commission type services. BDS services linked to marketing support, input supplies or technical service are the most demanded BDS services by MSE as the initial investment costs are minimal and the rewards are often more tangible and immediate. Such services could be investigated further, and particular products designed around them.

While subsidies at client/ provider level could gradually phase out, support to grass root and BDS providers will still be required in terms of capacity building and product development. On top of this sector support should include economic research and institutional mapping of the sector, monitoring of sector changes, facilitation of networking and co-ordination in the sector, and support to general promotion and marketing of BDS. This could be taken up by facilitators in the sector, including government and donors agencies.