

EXECUTIVE SUMMARY

MAPPING OF BUSINESS DEVELOPMENT SERVICES IN INDONESIA

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2008

I. ABOUT THE RESEARCH

This research aims to identify the typology of Business Development Services (BDS) in Indonesia, including their strength and weaknesses and factors affecting the strength and weaknesses, from the perspective of BDS actors and their clients. This research focuses on the BDS that provide services to micro and small enterprises (MSEs), particularly to examine their financial and operational sustainability. Based on our literature review, although there are numerous studies on BDS, little attention has been given to the practice of BDS to serve the MSEs. This research aims to examine the potential of MSEs as BDS client, even in the market system where the clients are expected to pay for the services.

This research employs qualitative method. Literature review was conducted at the early phase of the research to gather information on the context of BDS development in Indonesia, including donors' preferences and government interventions. We also gathered the list of BDS providers in Indonesia as the basis for selecting cases of successful BDS. Interview with key informants (NGOs, practitioners, the Ministry of

Cooperative and Small and Medium Enterprises, BDS association) were conducted to gather information on sustained and successful BDS providers. In-depth interview were then conducted to the selected BDS providers. Special time allocation was dedicated to examine the practice of business development strategy conducted by the government of Sragen in Central Java. Interviews were also conducted to the clients of BDS-P and MSE actors that never received any services from BDS to gather their opinion on the BDS practice.

II. THE DEVELOPMENT OF BDS IN INDONESIA

Old and New Approach: From Substitution for the Market to the Facilitation Market Development

In Indonesia, efforts and programs to develop MSEs was first viewed as the government's responsibilities, often in the context of income generating projects for the poor families. Many departments have their own programs, including their own staffs (field facilitators or field workers) that helped poor families to start or to expand their own business. Such initiatives were funded with the government's fund, and therefore, did not require the MSEs to pay for the service'. This kind of approach was also practiced by NGOs assisting MSE.

A new approach that business development service should operate in the market mechanism was promoted by the Committee of Donor Agencies for Small Enterprises Development. In 2001, this committee produced a document contained guiding principles for donor intervention through BDS. The document proposed a new approach in donor and government intervention for MSMEs. The approach shifts the role of donor and government from acting as direct provider (including providing subsidy) toward the facilitation of a sustained increase in the demand and supply of services. This approach was then widely promoted and held both by donors and government in Indonesia, including international organisations not included in the committee. Donor and government provide funding for BDS facilitators, who then provide facilitation between supply and demand between BDS providers and the MSMEs. This approach includes discouraging subsidies in the intervention and requiring the clients to pay for the services.

Characteristic of BDS in Indonesia

According to data from SMECDA, there are at least 1000 BDS providers listed in the Ministry of Cooperative and SME in Indonesia, although not more than 35% are still active now. Characteristic of BDS can be seen as below:

- Initiator: In Indonesia, BDS are initiated by private sectors, universities, donor agencies, government, and NGOs. BDS initiated by private sectors tend to be more sustained.
- Legal status: most BDS have legal status, although how this status affects BDS performance is still unclear
- Products: business expansion strategy, consultancy, outsourcing, and training.
- Source of fund: donor, government, client fees, or personal investment. However most BDS obtained their initial fund from donor and government intervention. Most BDS do not rely on the client fee for their operation, except for BDS that provide service to market access
- Client's business scale: Most BDS serve small-and-medium scale business, and there is no BDS who exclusively serves micro-and-small scale business. Most service for MSE group are conducted by government, university, or NGO initiated BDS.
- BDS' scale: Most BDS are small enterprises themselves, with 5-12 staffs. The scale of BDS however does not guarantee the BDS performance and the clients' satisfaction. For instance, BDS Joko Tlنگkir in Sragen is operated by individual consultant, however, its service is appreciated by its client. PT Centrama in Surabaya might be small in terms of number of staffs, but their clients encompass medium and large enterprises.
- Client approach:
 - Individual client, especially for small and medium scale enterprises who can pay for the service fee
 - Group client, usually for micro enterprises who located in the same cluster or area

NGO- and university-initiated BDS tend to provide service based on traditional approach (i.e. do not charge their clients for service fee). However, some of them have tried to charge clients through several mechanisms, including sharing the clients' product or collaborating with microfinance institution. The downside of this approach is that BDS' service is BDS' dependency to external funding and their limitation to expand the type of service. However, this type of BDS can reach wider audience and is more acceptable for the MSE group. Private sector initiated BDS' tend to operate in market mechanism. This approach enables multiparties involvement and can promote new BDS, with specific service as needed by their client. The downside of this type of BDS is that they tend to serve medium and large scale enterprises.

BDS Facilitators

The needs for BDS facilitator arise when the donor shifts the intervention paradigm from direct provision to developing access to market. The goal for promoting facilitation is to develop BDS market in Indonesia and to reduce market distortion. In Indonesia, the role of facilitator is played by government (including Ministry of Cooperative and SME), donor representatives, BDS association, and private sector such as PEAC Bromo and P3UKM.

III. BUSINESS DEVELOPMENT SERVICES FOR MICRO –AND SMALL ENTERPRISES

As mentioned above, this research aims to examine the practice of BDS for micro and small enterprises (MSEs) in Indonesia. This research looks at how BDS' view MSEs as potential target and how they develop strategy to serve this group.

Principles of service providing for MSEs.

This research found several key factors that affect the success of BDS' practice for MSEs:

- a. Group-client instead of individual client. This principle is similar to the one practice by microfinance institution. By providing service to a group of clients instead of individual, the cost of delivery can be minimized.
- b. Payment mechanism is included in the main product. For instance, BDS can play a role as buyer, thus providing access to market while at the same time MSE do not have to pay for the 'marketing service fee'.
- c. Focusing service to what MSE need most. BDS need to recognize the specific needs of MSE, and different type of MSE can have different need/
- d. BDS subsidize MSE at the first stage as part of investment, and when MSE grow, BDS can charge the service fee later. This strategy needs BDS commitment to work with MSEs consistently.

MSE's specific needs for BDS:

- a. MSE needs service that meet their immediate needs
- b. Most MSE are unaware about BDS service, they are more familiar with financial service especially from co-operative
- c. Many MSEs still consider that business service is part of government's responsibility
- d. Many MSEs still rely on their own network (family and friends, or other actors in their production linkage) as their source of information

Market Distortion in Service to MSE.

Direct provision from government and donor intervention is believed to create market distortion. However, many MSE still consider that it is government responsibility to help MSE to develop, and they rely on the government program. One weaknesses of government intervention is that the program tends to be accessed by the same group most of the time.

Strengthening BDS Institutional Capacity.

One major weaknesses of BDS is their lack of qualified human resources. Consultants in BDS do not have business background, and that affect their effectiveness in providing advice for MSE and in developing the market of BDS.

BDS Development Program

Donor, government, NGO, BDS association, and private sectors provide support for developing BDS. Their support come into the form of financial support, market development support, information and technology support, or training. International donor including Swisscontact, ILO, GTZ, or USAID, provide financial and technical support. The Bank of Indonesia also provide support through empowering financial consultants/facilitators and developing a Center for MSES Development which provide certification for organizations that provide assistance to MSMEs. An association of BDS has been established to meet the needs of BDS and to strengthen the network of BDS in Indonesia.

Gap between Support Needs and Available Support

Support needed by BDS also depends on the scale and sector they serve. Characteristic of MSE problem is different among sector and scale. Support for BDS tend to be general in characteristic. This is perhaps caused by the lack of identification of BDS specification based on the sector and scale of enterprises they serve.

Public-private Partnership in MSEs development

The Ministry of Cooperative and SME has applied public-private partnership approach in developing MSES. Instead of providing direct provision to MSEs, the Ministry provide financial and technical assistance to BDS. At the implementation level, challenges of this program are coordination between the Ministry and the BDS, BDS lack of capacity, and determining clients.

Several BDS has attempt to focus on MSE group by playing a role as buyers for MSE product or as raw material provider. The key to success is to provide service that meets the need of clients (market, input, and capital). Other form of partnership between private sector and MSE is microfranchising. The license holder provides technical assistance and research on product development to the franchisers.

Financial and Non-financial Support

Previous studies has shown that BDS needs to improve their professionalism and skills, especially in marketing management, product design, financial management, and financial management. Our observation found that some BDS still lack of capacity in fund raising and market development. Therefore, BDS in general need training to develop their capacity in market development, while financial support is generally need at the early stage of BDS development. It is possible that financial support should be given by covering part of BDS service fee to MSEs.

IV. BDS PERFORMANCE AND SUSTAINABILITY

Measuring BDS Performance

Based on the assessment of BDS performance conducted by the Ministry of Cooperative and SME, many BDS are still underperformed and have not given significant contribution to SME development. The Ministry employs two indicators: output (in terms of the growth of SME and their productivity), and process (in terms of number and quality of services given to SME)

Our research focus on the factor affecting the sustainability of BDS which provide service to MSE. Our research found that although some BDS did provide service to MSE, this group is not their only client. Pure market-based principle – where BDS solely rely on fee to cover their service cost – is still difficult to be applied especially for BDS serving MSEs. Therefore these BDS still rely on external sources (such as donor program) or combining MSE and SME as their client.

Sustainability of BDS

Factors affecting the sustainability of BDS include financial independency, market-driven service, ability to replicate the service, and cost and profit ratio for MSE. Financially, many BDS still rely on the external funding such as donor and government. Our research show that BDS operating in the market system and those that combine business development service and microfinance service (in the same institution or developing collaboration with microfinance institution) tend to sustain.

Recommendation for BDS Sustainability and Performance

- 1) By definition, business development service actually does not include financial service. However, our assessment indicates that business development service combined with microfinance service tend to be more sustained. Therefore, there should be a combination between those two services, although management of them should be separated
- 2) BDS should invest in their human resources
- 3) Service to MSE from BDS needs a holistic approach that involve other parties (government, donor, BDS providers, BDS facilitators, association).
- 4) An alternative to provide service for MSEs is by developing a pool of individual consultants. The cost of service can be reduced.
- 5) There is a need to develop an incubator program for BDS. Donor, government, and private sector can provide support to develop this program by providing financial and non-financial support.

HIVOS Preference and BDS in Indonesia

BDS practice and HIVOS mission in Indonesia share several goals. BDS provide services for MSEs which aim to improve MSEs productivity and profit. Market-based principle endorsed by donor is also

in line with Hivos' preference, especially the preference that MSE should pay, although not fully, services given to them. Hivos support for BDS should be seen in the context of market mechanism.

Our assessment shows that BDS in Indonesia tend to serve clients from small and medium scale enterprises. Only a little number of BDS serve micro and small enterprises exclusively. Hivos can play an important role in promoting business development service for MSE, by providing financial support and training for BDS in recognizing the specific needs for MSEs and developing strategies to provide service for this group.

V. CONCLUSION AND RECOMMENDATION

Conclusion

- Presently there are more than 1000 BDS operating in Indonesia, but only 35% are still sustained. Sustainable BDS are those who create demand-oriented market.
- Most BDS target small and medium scale enterprise as their client group. Perhaps only 25% of BDS in Indonesia serve micro- and small-scale enterprises group
- Business development service for MSE group can be delivered based on the market principle, where clients (MSE) are expected to pay for the service. However, some modification and adjustment to serve this group is needed.
- Our assessment indicates that service to MSE tend to work when combined with microfinance services, focused on improving market access of MSEs, and delivered on the cluster or group of MSE.
- Private-sector initiated BDS tend to be more sustained, however, the quality of human resources is the key factor of BDS sustainability
- Most BDS are located in the urban area, therefore, MSE in rural area tend to have limited access for development service
- There is still a gap between needs for BDS development and support available.

Support for BDS: Recommendation for HIVOS

HIVOS support for BDS development could be put in the MSE development framework. Therefore, HIVOS can play an active role to promote BDS focusing on the MSE group. Some specific areas where Hivos can play a role are:

- Promoting collaboration/coordination between BDS service and microfinance service
- Promoting information exchange on success story of BDS serving MSE group. This area is similar to the promotion of microfinance institution. The success story of Grameen Bank, for instance, has inspired many to start similar effort. Hivos could also do this exchange through promoting regular discussion between successful BDS and Hivos' partners, or promoting internship or training for Hivos' partner with instructor from the successful BDS
- Providing training to develop the human resource capacity, particularly in developing strategies to serve MSE (especially in assessing the specific needs and characteristic of MSE and to develop the service design that meet the MSE characteristic)