

## **What Do We Know About BDS Markets?**

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### **Section 1: The Context**

Every organization – whether public or private, for-profit or non-profit, large or micro-enterprise – has support functions that are critical to its survival and competitiveness but that are not their core mandate or competency. Examples include accounting (in non-accounting firms), training (in non-training institutions), market research (in non-market research firms), and computer services (in non-IT firms). No organization, no matter what its size, can operate for long without functions like these. These are the support functions that the donor community is calling *business development services*, or services that improve the management and productivity of the enterprise.

So the first question in surveying any economy is “*how* are business development services already being provided?” The answer will usually be a mix of in-house (self-production), private sector suppliers, government suppliers, and donor-funded non-profit agencies. The key development issue is not whether or not these functions will be performed, but rather whether they will be performed in-house or purchased from an external supplier – i.e., will they be provided by the owner-operator or by a firm that specializes in supplying such services. This means that, in addressing the improvements needed in business development services, the focus needs to be on how to *enhance* the effectiveness (including increased specialization and better quality) of existing service provision, rather than on creating or offering substitute services.

By way of context, service industries contribute the largest percentage of gross domestic product (GDP) in all economies, ranging from 44 percent in an economy like Vietnam to 93 percent in an economy like Antigua and Barbuda. Within the service sector, from 38 to 50 percent of production is “intermediate services” or services sold to other businesses, of which business development services (BDS) are a further subset. These are services that provide not only functional benefits but also generic (cross-functional) benefits such as increased strategic flexibility (through moving BDS provision from a fixed to a variable cost), optimized use of skilled resources for the core business, improved operational efficiency, and increased value-added (see Figure 1 for examples by function). All business development services themselves use other business services, so that the quality and availability of a particular type of business service has an effect on the quality and availability of all other business services.

In all of the economies focused on by the donor community, at least half of the enterprises in the formal and informal sectors are service enterprises. Unfortunately, service enterprises themselves have received very little attention as “productive” activities, although

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<sup>1</sup> The discussion in this article is based on field research on business services in 29 developing economies, with a focus on firms with 10 employees or less and comparing firms in urban areas with those in rural/remote regions. The author’s first comparison of 81 economies at four levels of development, *Service-Led Growth: The Role of the Service Sector in World Development*, was published in 1985.

they typically show strong employment generation potential and are frequently headed by women. The management challenges in service enterprises are not the same as those in goods producing enterprises, and there is little reason to believe that donor interventions designed for handicraft producers or small manufacturers would generalize well to service operations.

While the donor community recognizes that goods-producing enterprises need assistance to improve their quality and productivity, there has not yet been a parallel initiative for business service firms (other than training agencies and occasionally consultants). Since virtually all management training programs are geared to the manufacturing and marketing of goods (not services), this leaves the managers of business service firms with little technical support.

## Section 2: Supply-Side Issues

### 2.1 Indigenous Business Service Suppliers

*Characteristics of suppliers.* There is generally a bimodal size distribution of local business service suppliers in developing markets. Most private sector suppliers are MSMEs themselves, with the notable exception of the large governmental agencies and the large foreign multinationals (major accounting firms, engineering firms, market research firms, etc.). Private sector business service suppliers may be either generalists or specialists in a particular business service. If specialty firms have developed, it is usually by acquiring foreign clients (either locally based or in export markets) in order to have sufficient demand to sustain the maintenance of specialty skills. Private sector business service suppliers may be sole proprietorships, partnerships, or affiliates of foreign multinationals (as is often the case for accounting firms). Some business service suppliers are “subsidiaries” of larger organizations – e.g., executive training provided by universities, market research provided by government trade development agencies – and so are protected from market forces.

*Availability.* In order for markets to function optimally, business services need to be available to enterprises across geographic regions, either on-site or virtually through the Internet. Most business service suppliers in both developed and developing economies are concentrated in urban areas in order to be near a critical mass of potential customers. This geographic distortion curtails the availability of business services in rural areas for both formal and informal sector enterprises. The rapid growth in on-line service availability, however, offers a creative solution as long as enterprises have cost-effective Internet access.<sup>2</sup>

*Quality.* “High quality” services (i.e., being of consistently excellent technical quality, delivered on time, error-free, with a rapid initial response rate) are typically difficult to find in developing economies. Successful small businesses, however, do solve this issue over time. As one Vietnamese respondent put it, “There’s good quality out there if you have the patience to look for it. It took us two years of experimenting, but now we have some very good suppliers.” Despite international assumptions that developing countries’ comparative advantage is lower labour costs, most firms studied reported that they competed internationally based primarily on quality or “value for money” rather than simply on lowest

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<sup>2</sup>The International Trade Centre UNCTAD/WTO has just published a handbook, *Offshore Back Office Operations*, illustrating that virtually any business service is now offered through distance delivery by business service firms in developing countries.

price. Access to quality business service inputs, therefore, has a direct impact on competitiveness.

*Specialty services and customer orientation.* The business services that are available in developing countries tend to be generic or basic in nature. It is common to find local business service firms described as not understanding how to assess potential customers' needs and adapt their services accordingly. Foreign-owned firms often report difficulty in training local staff to customize service provision appropriately. It would appear that, while there is difficulty convincing client firms to purchase *generic* business services (rather than self-serve), there *is* a market for specialty services if they were available and matched to client demand.

## **2.2 Sources of Competition**

*Competition from government agencies.* Private sector business service suppliers typically face competition from public sector agencies as well as donor-funded NGOs. The “crowding out” is most apparent for training, consultancy, and market research services. Firms in these sectors survive mainly through foreign corporate clients or as contractors to the donor community itself. The smaller the business service firm, the stronger the need for foreign customers in order to survive. The degree of competition from government agencies depends in part on the policy environment – e.g., whether public/NGO provision is subsidized and therefore cheaper, or whether public sector provision is mandated (as is often the case for government departments or for private sector firms wishing to gain a given credential).

*Competition from self-production.* The primary competition faced by private sector suppliers, however, is not government or NGO provision but rather in-house production (self-service). Due to concerns about confidentiality or professional standards, firms in developing economies show a pattern of high reliance on internal resources for services like market research and accountancy/audit services. Enterprises are most likely to turn to outside resources for training and computer services. Service firms were noticeably less likely to use external consultancy services, both because they are critical of the quality of assistance available and because they have difficulty finding consultants knowledgeable in issues facing the managers of service firms.

*Awareness barriers to purchase.* Another challenge for suppliers of business services is a lack of awareness among their potential clients about the costs associated with the (often unconscious) choice to self-produce business services in an unskilled fashion. Most MSMEs show little awareness of the opportunity and economic costs associated with:

- a. Diverting skilled resources from producing core revenue-generating products and services to self-producing business services.
- b. Using generalist rather than specialist business services expertise.
- c. Purchasing low-cost and low-quality BDS inputs “to save money.”

At the same time, business service suppliers are not themselves necessarily well-informed users of other business services, with few able to articulate supplier selection criteria and many themselves self-producing.

## **2.3 Improving Indigenous Business Services**

Criticisms of indigenous business service suppliers by their clients typically include the

following issues:

- Poor ability to identify client’s business service needs.
- Poor ability to promote/market own capabilities to meet needs.
- Failure to use current approaches/technologies.
- Slow initial response to client requests.
- Poor on-time delivery.
- Inconsistent performance.
- Unable/unwilling to problem-solve with clients.
- Lack of the specialized skills clients need.
- Lack of business experience and knowledge of MSME reality.
- Unprofessional behavior, including lack of confidentiality.

In order to address these criticisms, one must first be clear about root causes. The design of many donor BDS interventions has rested on assumptions about what creates problems in the way in which BDS markets operate (see summary in Table 1). There are other possibilities, however, such as the following:

- Limited availability of appropriately trained staff for business service firms
- Clients unable to distinguish high-quality business services
- Lack of a client base willing to pay for high-quality business services
- Lack of economic incentives to provide high-quality business services
- Lack of articulated professional and quality standards
- Lack of cost-effective Internet infrastructure for distance service delivery
- Lack of market information for business service firms about potential client needs
- “Creaming” of high-margin MSMEs by donor-funded agencies
- MSMEs not viewed or developed as a “mass market”
- Government regulations prohibiting extended service hours
- Government regulations limiting access to working capital by business service firms
- Lack of government support for instituting quality systems
- Delayed payments by government agencies to business service suppliers

**Table 1: Apparent Donor Assumptions about BDS Markets**

<b>Apparent Assumption</b>	<b>Proposed Design Solution</b>
BDS not available	Donor supplies BDS
BDS not available in rural areas	Donor supplies BDS in rural areas Donor builds rural capacity
BDS available but of poor quality	Donor supplies BDS Donor trains local BDS suppliers
BDS demand low due to inability to pay	Donor supplies or subsidizes
BDS cannot be provided profitably to MSMEs	Donor supplies or subsidizes
BDS available but not customized to MSME needs	Donor develops new “products” for local suppliers
BDS available but not valued by MSMEs	Donor subsidizes initial BDS purchase

*Addressing cost concerns.* One of the ongoing challenges for business service firms is access to working/growth capital. Typically in developing economies, banks do not accept accounts receivable (the most common form of asset) as collateral against which overdrafts or operating lines of credit facilities are made available. So business service firms become entirely dependent on the financial resources of the owner and the owner’s extended family. In addition, business service firms typically experience longer delays in payment from customers than their goods-producing counterparts, sometimes as long as 18 months in payment from government clients.

Private sector business service suppliers usually work on an hourly or daily billable rate – i.e., what they sell is their time. To at least break-even, they may well target SMEs with higher margins and growth rates. Their willingness to work with clients where margins are lower or the cost of delivery is higher will depend on their perceived ability to recoup additional costs such as redesign (e.g., to meet MSME needs more effectively) or marketing (e.g., to convince MSMEs that the investment in purchased business services is worthwhile). Table 2 provides some suggestions for how various cost factors can be addressed effectively.

**Table 2: Suggested Ways to Minimize Delivery Costs to MSMEs**

Source of Increased Cost	Strategy to Minimize Cost
Low density/number of clients	Work with groups of client firms Train local paraprofessionals to assist
Low margin clients	Transfer effort cost through self-service
Need for customized, redesigned services for multiple client groups	Create small standard modules to “mix and match”
Need for wider geographic access	Deliver electronically or on-line Train local paraprofessionals to assist
Need for extended/24 hours access	Deliver electronically or on-line
Need for specialized skills or equipment	Supplement client base with clients demanding/paying for specialty services
Need to invest in quality control	Put quality system in place, plus recruit clients willing to pay for quality

*Addressing staffing issues.* Most developing economies have a scarcity of highly-skilled workers, due to either lack of access to education or out-migration of skilled workers. Service firms need more highly educated staff than manufacturers do. Recruitment of highly skilled staff for donor-funded projects (often at very favorable terms) can inadvertently restrict further the staff available for local business service firms to hire. Although staff are critical to the success of business service firms, few firms other than training firms have formal human resource development plans or ongoing skills upgrading initiatives. Focusing on staff skills is particularly important in business service firms since it is the staff who create and customize the service delivered, often in interaction with the customer.

### 3.0 Demand-Side Issues

#### 3.1 The Purchase Decision

Many MSMEs are not even aware that there is a business services purchase decision to

be made. The basic decision to “make” (provide in-house, or self-serve) or “buy” (purchase from an external supplier) is influenced by whether or not the enterprise believes that a present cost will lead to a future benefit. In other words, the enterprise needs to be able to justify the business service purchase cost as an investment in future profitability. The issue of internal production or external purchase is the best use of scarce resources. The optimal use of an MSME’s resources is for their core productive/profitable activity.

If the enterprise elects to stretch its resources to “make” or self-produce a support function, it is usually for one of the following reasons:

- Lack of awareness that the service is needed/useful
- Lack of awareness that providing the service takes skill (i.e., a belief that “anyone can do it”)
- An over-estimation of their own competence to provide the service
- An inability to find an appropriate business service supplier
- An inability to find a business service supplier that offers good quality service
- A lack of financial resources for outsourcing the support service
- A strategic choice to control the production of the support function

Any decision to “buy” is influenced by both the type of business service being considered and the stage of enterprise development. For some services, enterprises typically begin by self-serving and then move to external purchase (e.g., training, accounting). For others, enterprises begin with external purchase and then bring the function in-house as demand for it increases (e.g., logistics management). Whether or not an enterprise will “buy” externally-produced business services may also depend on:

- The choices available and the perceived “value for money”
- The information available on the benefits to expect from purchase
- The degree to which the skill is actually possessed internally
- Whether or not the service is seen as critical to competitiveness

There are also cultural factors that influence the purchase decision. Cultures differ in the extent to which persons are willing to trust strangers with competitive information, and whether or not there is perceived “loss of face” if external help is sought. Cultural norms also influence concerns about confidentiality (e.g., not reporting financial data to tax authorities), and political beliefs influence whether or not business services are viewed as “productive.”

If an enterprise elects to “buy,” it may buy from a subsidized source (e.g., government, donor, patron, parent company, related firm) or on the open market (e.g., local business service supplier, foreign imported service). As a number of donor-funded projects have demonstrated, subsidized initial trials (e.g., vouchers) do not necessarily lead to ongoing non-subsidized purchase. For that to happen, there typically needs to be some formal review of the benefits achieved so that the enterprise is aware of the value or impact of the business service that has been received.

One of the most common ways to offset the risk of a service purchase is through the use of recommendations and referrals. MSMEs trying to decide whether or not to buy externally-produced business services can use that same dynamic by seeking purchase-related information from credible sources and by visiting model firms that do purchase

business services.

### **3.2 Barriers to Purchase**

Very small enterprises (less than ten employees) face human resource constraints in acquiring and analyzing information on alternate sources of business services. They are also less likely to have formal exposure to analyses of the relative benefits of investing in specialty business services. Should they decide to make the purchase, they may still face challenges in finding staff time to manage the external business service supplier.

Another type of constraint is that of mandated purchasing. For example, family-owned firms may require purchasing from within the family, foreign-owned subsidiaries may be required to purchase from within the corporate structure, donor agencies may require purchase from donor nationals (“tied aid”), or government agencies may require their officers to purchase from other government agencies.

*Business service firms as purchasers.* In general, business service firms tend to be more demanding of other service providers in terms of access and quality control. They know from their own experience what is possible. As they tend to be small, they are also usually unable to spare staff for extended periods of time for off-site training or to oversee suppliers. Other factors that make them likely to self-produce include the lack of services designed to meet their needs (e.g., training on how to manage and market service operations), or a lack of expertise in how to establish quality systems in business service firms.

*Government and donor agencies as purchasers.* In developed market economies, the most frequent mechanism used to strengthen business service suppliers is through the “buy local” procurement practices of local government. All too often, though, in developing countries, governments and donor agencies utilize foreign service suppliers in order to ensure good quality control. Government and donor agencies may be unaware that such procurement practices, in addition to their policies and programs, have the potential to strengthen or distort existing business service provision.

### **3.3 Impact Measures**

When evaluating the impact of business services on the enterprises purchasing them, it is easy to unwittingly select factors that equate success with size. A word of caution is in order. Economic development and successful enterprise operations do not necessarily equate with increase in organizational size. Alternate economic benefits (such as quality of work life or enhanced balance between family and work responsibilities) may be associated more frequently with smaller firm size – i.e., there exists a rationale for favoring MSME development other than simple job creation or productivity growth. MSMEs can avoid the negative consequences of increased size (e.g., increased fixed costs), while realizing some of the competitive benefits, through increasing market diversification and strategic alliances.

## **Section 4: Maximizing Donor Effectiveness in Supporting BDS Markets**

### **4.1 Criteria for Effectiveness**

A number of donors have already noted that a paradigm shift is required in how local business services capacity is developed. Based on research to date, the following comments are offered on the current criteria for evaluating effectiveness:

a. *Scale/Outreach*

A major shift that could be very effective would be for donor agencies to see *business service firms* (especially those owned by women or the poor) as their primary clientele. If local business service firms are functioning effectively, they should be able to assist local goods producers to operate profitably. Also, it is usually more cost-efficient to work on strengthening intermediaries (in this case, business service firms) than to try and help every enterprise individually.

b. *Impact*

In addition to fiscal measures such as increased profits or increased size, we could also consider measures that are size-neutral, such as:

- Improved quality of services
- Improved availability of services
- Increased outsourcing of various aspects of service delivery
- Increased number of new business service firms supplying other business service firms

c. *Cost effectiveness*

In order to demonstrate that donor funds have been well-spent, some additional measures could include the following for business service firms:

- Reduced cost of new technology adoption
- Reduced cost of customizing services

d. *Sustainability*

In order for business service delivery to be truly sustainable, business services need to be provided by the private sector on terms that are financially realistic. The true test of sustainability will be for donor-funded agencies to have only an initial research and development role.

## 4.2 Assessing Market Needs

Not all markets are at the same stage of development or have the same characteristics. Centrally-planned economies, for example, will have suppressed the overall development of business services for political reasons. In economies with large conglomerates, most business service suppliers are likely to exist as subsidiaries of the parent company. Here, for example, are four kinds of markets that would require different approaches:

a. *Demand has been suppressed* (e.g., political philosophy, subsidization).

Demand would need to be stimulated through local purchase by donor agencies, plus marketing the benefits of external purchase to MSMEs.

b. *Demand is present but low density.*

Local business service suppliers would need to be convinced of the viability of MSME demand, and then assisted to manage costs in targeting MSMEs (see Table 2).

c. *Demand from high-margin businesses is growing rapidly.*

Local business service suppliers would need to be convinced that diversification of one's client base is ultimately of value, and then helped to market to MSMEs.

d. *Easily-met needs are still high volume and high growth.*

Incentives would need to be developed for targeting more complex MSME needs.

Another market assessment issue has to do with the specific needs of micro-enterprises. If micro-enterprises wish to be viable economic supports to their owners, they have the same needs as larger firms for business support services. When they receive inputs informally from family or community members, they face the challenge of having little “marketplace” recourse in the event of uneven or poor quality. It is often the presence or absence of quality support services inputs that makes the difference in whether or not a micro-enterprise will become economically viable.

### 4.3 Possible Donor Roles in Indigenous Business Services Development

*Capacity strengthening.* In order to intervene effectively on the supply side, the objective needs to be to strengthen local capacity to deliver quality business services at prices that are affordable for MSMEs and that allow the private sector supplier to make a profit. Expecting private sector firms to provide business services at or below break-even prices or on a volunteer basis will either drive them out of business or encourage them to seek more profitable client groups in order to survive. A first step in capacity building is to assess the current supply of business services in terms of variables like those in Table 3.

**Table 3: Variables for Assessing Business Services Capacity**

<ul style="list-style-type: none"><li>• Both generic and specialty services available</li><li>• Adequacy of service and service delivery design to meet MSME needs</li><li>• Geographic distribution</li><li>• Accessibility of services in terms of hours, languages, etc.</li><li>• Quality of service, including speed of response and delivery</li><li>• Telecommunications and Internet infrastructure</li><li>• Availability of staff with secondary education and appropriate skills</li><li>• Incentives for ongoing staff training</li><li>• Incentives for adoption of quality management systems</li><li>• Presence of service industry associations with codes of conduct and requirements for ongoing professional education</li><li>• Availability of managerial training in services marketing and management</li></ul>
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The following types of initiatives have been helpful in strengthening local capacity to provide a wider range and better quality of business services for MSMEs:

- a. Providing information on international best practices on quality service and customization, including relevant websites and case examples.
- b. Underwriting the cost of specialty skill development, including how to design or customize services<sup>3</sup>.
- c. Providing training and coaching in how to assess and address client needs.

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<sup>4</sup>See the material on service design and customization in the International Trade Centre UNCTAD/WTO 1999 publication for business service firms in developing and transitional economies, *Innovating for Success in the Export of Services*.

- d. Providing research and development monies for adapting existing services to the specific needs of MSMEs.
- e. Strengthening/establishing service industry associations with standards of practice, certification/licensure, codes of conduct and continuing professional education requirements by “twinning” new associations with already-established service industry associations.
- f. Helping create and implement human resource development plans in business service firms.
- g. Helping business service firms develop internationally-recognized qualitymanagement systems (i.e., ISO 9000).
- h. Underwriting the redesign of service delivery for distance or web-enabled delivery channels.
- i. Providing annual training monies per staff member if the firm has a quality system in place with standard procedures and performance measures.

In order to ensure success in capacity-building initiatives, the following standards of practice are proposed:

- All business services should be supplied by local business service firms, selected through a competitive bidding process.
- Donor agencies should only use firms that meet standard industry criteria for professional competence (e.g., certification).
- Donor assistance should be available to all locally-owned business service firms provided they have met any relevant criteria (rather than “picking winners”).
- The objective should in all instances be to improve the local capacity that exists rather than to create a parallel delivery system.
- Program initiatives should be expanded to include strengthening local business service industry associations in their quality assurance role.

*Offsetting initial purchase risk.* Any time a business service is purchased there is a risk involved because services are not created until the purchase contract is concluded. This means that business services are not available for inspection prior to purchase in the way that goods are. MSMEs face uncertainty both about whether they need business services and about how best to offset or reduce purchase risk. In order for MSMEs to make an informed purchase decision, they will need the following types of information:

- Why the particular business service is important to their success
- The consequences of self-provision if they lack the necessary training
- The criteria to use in selecting an external supplier
- The suppliers that are available from which to choose
- How to manage the external supplier so that their needs are met

The following activities can help MSMEs make appropriate business services purchase decisions:

- a. Providing information on the availability and capabilities of business service suppliers (who provides what for how much), plus quality ratings.

- b. Funding informational campaigns by business service industry associations to educate MSMEs about the benefits of business services and how to select a supplier.
- c. Sponsoring “show and tell” events that give MSMEs a sampling of the types of business services that are available and their benefits.

In order to help MSMEs offset the initial risk of business services purchase, any subsidized purchase program needs show how ongoing non-subsidized purchase will be induced. In addition, interventions need to be matched to the specific constraint(s) that exist in the market (for example, developing supplier directories if there is a lack of information, or sponsoring “show and tells” if MSMEs doubt benefits).

*Facilitating information access.* Access to information is always a challenge in developing/transitional economies. The following activities can help provide transactional information to help with decisions regarding the purchase of business services:

- a. Conducting market research on MSMEs’ business service needs and sharing that information with business service suppliers.
- b. Preparing articles for service industry association newsletters on how to identify business service needs and promote one’s business services.
- c. Creating flyers that can be distributed on the benefits of business services, when to use an external supplier, how to select a business service supplier, and model contract terms.
- d. Providing articles in the general media about the benefits of business services for MSMEs.
- e. Publicizing success stories that analyze the impact of business services.
- f. Preparing directories of business service suppliers and their capabilities (like a Michelin guide).

Standards of practice for the provision of information include incorporating the education of MSMEs regarding business services in any program planning, and ensuring that impact analysis is provided, not just information.

*Modeling business services purchase decision-making.* Since donor organizations themselves need to use business services, this provides an opportunity for donors to model the purchase decision through their own procurement processes. By purchasing from local business service suppliers in a transparent manner, donor agencies can use program monies to strengthen local capacity and demonstrate how to select and manage business service suppliers. The following are suggested standards of practice:

- Contract out all possible business service inputs to locally-owned business service firms locally rather than either self-producing or using established international service suppliers.
- Use only local business service suppliers who have met relevant quality standards (e.g., licensed, certified, ISO 9000).
- Advertise the criteria being used to select business service suppliers, along with an

explanation about why those particular criteria are being used.

- Draft a contract for business services that is explicit about performance expectations and measures.
- Monitor the performance of the selected business service suppliers and provide timely performance feedback to improve delivery quality.
- Provide seminars on how to bid successfully for providing business services to donor agencies.

*Influencing government policies and practices.* Because of providing needed funding, donor agencies have an opportunity to influence government practices to a certain extent. There are a number of areas where the donor community could have a positive influence with government officials in helping to “grow” local business services capacity, such as:

- a. *Educating government officials on the importance of business services.*  
One of the challenges faced by local business services firms is that their own governments are not aware of the role played by services in general and business services in particular. It is still common for business services to be overlooked in national development plans.
- b. *Providing technical assistance in gathering statistics on business services.*  
One of the reasons why developing country governments do not support the development of business services is that they have little or no statistical data on their economic contribution. An excellent starting place would be the creation of a business registry to identify existing business service suppliers so that they can be surveyed.
- c. *Encouraging governments to outsource their own needs for business services to locally-owned business service firms instead of self-producing.*  
As mentioned earlier, government procurement can be a powerful mechanism for strengthening local capacity.
- d. *Encouraging the removal of any bias against the use of locally-owned business service suppliers in IFI-funded projects.*  
In some developing countries, governments routinely contract to foreign business service firms as they are either unaware or skeptical of local capacity. Requirements under the GATS to help increase business service exports from developing countries could be used as a rationale for requiring the use of local business service suppliers on donor-funded project teams.
- e. *Supporting the provision of operating lines of credit against accounts receivable for local MSME business service suppliers.*  
At issue here is the definition of the “collateral” or “security” required by central banks when loans are issued. Traditionally, such collateral has been defined only as physical plant and equipment or real estate. Donors could offer technical assistance in assessing the risks associated with accepting various types of accounts receivable as “collateral” instead.
- f. *Advocating for the removal of additional taxes on business service firms.*  
In some economies (like Vietnam), business service firms are taxed at a higher rate

than manufacturers. Lowering the tax rate would make it possible for services to be priced at a lower rate.

- g. *Advocating for education and training relevant to the needs of business service firms.*

In virtually every economy there is a need to rethink the types of skills that are emphasized in secondary and vocational training. Typically such skills training focuses on technical or manual skills.

- h. *Funding improvements in Internet access (both cost and speed) in rural communities.*

As the International Telecommunications Union has acknowledged, telecommunications and the Internet are critical infrastructure services for a “level playing field” among economies and between urban and rural areas.

- i. *Encouraging timely payment of fees due for donor-funded projects.*

If donors are supplying the funds, it should be possible to require fee payment to local suppliers within 45 days.

- j. *Encouraging the provision of seminars on how to bid successfully for government business services provision.*

Once donor agencies develop a seminar for how to bid successfully to supply business services to donor agencies, that model could be modified for government procurement and then shared.

*Researching and developing new approaches.* The most financially challenging tasks for local business service firms are those related to developing or customizing new services. Donor agencies can assist by focusing any direct supply of business services on experimentation with new methods of delivery. In order to ensure that capacity building includes strengthening the capacity to design new services, the following standards of practice are suggested:

- Any direct supply of business services by donor agencies should be to a geographic area or a type of MSME currently without documented access to *any* business services and should be designed as a research prototype.
- Any research prototype should include an exit strategy for transfer to local business service firms (e.g., through franchising) once a successful model has been demonstrated.
- Priority should be given to training local business service firms in how to design and implement new services, rather than creating such “products” for them.