Microenterprise Best Practices

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A Newsletter of the MBP Project

MBP RESEARCH—

Strategic Linkages and Competitive Advantage: Action Research on Small Enterprise Networks in India

In a network system, micro and small enterprises solve their day-to-day management problems with the help of nearby providers of business development services (BDS). These enterprises sharpen their specialized production skills through contact with one another, with customers, and with the best consultants. They come together around new market opportunities identified for them by entrepreneurial brokers. They exploit these opportunities so long as revenues exceed costs. Then they are free to regroup in response to new signals in the marketplace.

To understand the factors involved in creating effective network systems among micro and small enterprises, MBP is conducting an action research project involving several clusters of tiny firms in India. The main objective of the project is to refine a sustainable methodology that will help micro and small enterprises grow and make substantial contributions to job creation through strategic linkages and cooperation. A secondary objective—related to the promotion of specialization and productivity—is to increase the demand for, and the availability and quality of supply of, BDS. In fact, the project sees network formation itself as an innovative BDS.

In the action research, MBP:

- Targets clusters of micro and small enterprises to study their business systems and learn how to introduce network strategies;

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MBP PUBLICATIONS New

Publications Series

Regulation and Supervision of Microfinance Activities: The Bolivian Case Study, by Arelis Gomez, German Tabares, and Robert Vogel (IMCC/MBP).

A Cautionary Note for MFIs and Donors Considering Microinsurance Products, by Warren Brown (Calmeadow/MBP), Colleen Green, and Gordon Lindquist (DAI/MBP).

Technical Tool Briefs for Natural Disaster Response, by Joan Parker (DAI/MBP) and Geetha Nagarajan (MicroBanking Bulletin/MBP).

PUBLICATIONS. MBP publications and working papers can be downloaded free of charge from http://www.mip.org/pubs/mbp-res.htm. If you don't have access to the web or prefer a bound copy, publications are available at cost for US$.10/page. To order, please E-mail mip@dai.com. For a complete list of publications, send an E-mail to content@dai-listserve.dai.com

Can Microfinance Meet the Poor's Needs in Times of Natural Disasters? by Joan Parker (DAI/MBP) and Geetha Nagarajan (MicroBanking Bulletin/MBP).

A Microfinance Training Simulation: Client Risk and HIV/AIDS and the Challenges of Mutual Guarantee Programs, by Joan Parker (DAI/MBP) and Heather Clark (UNCDF/MBP).

Microfinance and the Market for Credit Information in El Salvador, by Tom Lenaghan (DAI/MBP).

Designing BDS Interventions as if Markets Matter, by Michael Field and Marshall Bear (DAI/MBP) and Rob Hitchins (Springfield Centre for Business in Development).

Disaster Loan Funds for Microfinance Institutions: A Look at Emerging Experience, by Warren Brown and Geetha Nagarajan (Calmeadow/MBP).

Regulation and Supervision of Microfinance Activities: The Philippines Case Study, by Arelis Gomez, Thomas Fitzgerald, and Robert Vogel (IMCC/MBP).

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MBP GRANT FACILITY

Microfinance Network Development in Africa

In the past several years, international donors and organizations have fostered and begun to promote the development of both national and international microfinance networks. The development of these networks has come in response to changing national regulatory requirements for microfinance institutions (MFIs), the growing concern for MFI operational and financial sustainability, and a move toward the dissemination and incorporation by MFIs of international best practices in microenterprise development. Several institutions, including the Small Enterprise Education and Promotion (SEEP) Network and Women's World Banking, have been at the forefront of this trend, working at both national and regional levels with networks to:

- Define and promote professional standards;
- Provide a forum to engage in joint research and training;
- Develop and disseminate publications for wider use;
- Share best practices;
- Serve as a clearinghouse on broad sectoral issues; and
- Encourage the transformation of MFIs into formal financial institutions.

Through its Grant Facility, MBP has supported eight networks in Africa. MBP was encouraged to target African countries, where national networks were just starting to emerge from programs initiated by the World Bank's Action Research Program, United Nations Development Programme, and Women's World Banking. Six of the networks received grants to participate in a distinct, one-year program, the MBP Collaborative Learning Program, which sought greater collaboration among the networks and with SEEP. Each network participated in network development events sponsored by SEEP or other organizations and implemented network development activities. Three networks received grants that were longer in duration and larger in scope and funding. These grants provided core support to address institutional development needs and linked the networks with SEEP for training and technical assistance.

Collaborative Learning Program with the SEEP Network:
ALAFIA, Benin, $25,000
AMFIU, Uganda, $25,000
CDMR, Nigeria, $25,000
GHAMFIN, Ghana, $25,000
JCC, Namibia, $25,000
ZAMFI, Zimbabwe, $25,000

Core Support:
CARE (for MicroNet), Mozambique, $79,942
GHAMFIN, Ghana, $40,000
World Vision (for AEMFI), Ethiopia, $88,585

Through their MBP grants, all eight networks identified common challenges and focused on meeting these challenges by:

- Improving quality of MFI services;
- Improving the technical skills and knowledge of network staff;
- Building resource centers within the network to disseminate information;
- Building local in-house capacity through training of trainers;
- Strengthening members' engagement in governance and policy formulation;
- Assessing member needs; and
- Developing and providing standards, ratings, and benchmarks for MFIs.

MBP Newsletter

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The results of MBP support to these networks provide three lessons. First, by partnering indirectly with SEEP, the networks and MBP have gotten "more bang for the buck." By participating in the program, all eight networks have had greater access to resources provided by SEEP—namely, hands-on technical assistance and mentoring from SEEP managers, opportunities to exchange information with other networks and practitioner organizations, and technical training and participation in topical workshops. More important, these networks are now engaged in SEEP's long-term Network Development Services Program and will continue to collaborate with one another and benefit from SEEP's technical assistance and mentoring long after MBP ends.

Second, through the partnership with SEEP, nascent African networks were exposed to lessons learned from more mature networks in other parts of the world, including Latin America, Asia, and Eastern Europe, as well as in South Africa.

Third, because of the short time frame for grant activities (one to two years) and the relatively small sums of funding available from MBP, results were limited. For the six networks in the Collaborative Learning Program in particular, grant funding was too small to provide core support. Also, the Collaborative Learning Program's one-year duration limited opportunities for action research and other initiatives more than if the term of the grant been longer and the bulk of grant funding not been tied (such as for participation in network-related workshops and conferences).

Going forward, networks in Africa and other regions still face significant challenges. SEEP, Women's World Banking, the World Bank, and others are developing tools to assist new networks in their growth and development. Other challenges to be addressed include:

- Better assessing the preferences of network members and their willingness to pay for new services;
- Developing appropriate rate structures for network services provided to members;
- Maximizing cost efficiencies and network externalities through collaborative learning; and
- Identifying appropriate donor interventions related to network development that foster sustainability early on.

Just as with individual MFIs, networks will need to focus on becoming driven and financed by demand to be sustainable in the long term.

For more information on SEEP Network Development Services Program, visit its website at www.seepnetwork.org.

MBP INFORMATION DISSEMINATION

MBP-SEEP Discussion Series. In collaboration with the SEEP Network, MBP is hosting half-day seminars in Washington, D.C., to present and discuss recent MBP research. Two seminars were held during April 2001:

Ratings, Standards, and Benchmarking: What Have We Learned? The series kicked off on April 12 with a seminar on ratings, standards, and benchmarking. Representatives from MicroRate, PlaNet Finance, and the Micro Banking Bulletin discussed the approaches and techniques used by their organizations to select, collect, evaluate, and monitor performance indicators of microfinance providers. Presenters discussed the purpose of performance standards, including self-regulation, industry benchmarking, monitoring of network members, and establishment of best practices; the use of performance indicators, such as monitoring and evaluation methods; and the incorporation of results into operational and strategic decisions of an MFI.

Voucher Training Programs: What Have We Learned? On April 30, MBP, in collaboration with the Inter-American Development Bank and the SEEP Network, organized a panel discussion on voucher training programs. The purpose was to provide participants with a comparative picture of voucher programs around the world and to present lessons learned from past and current experiences in terms of design, implementation, and sustainability. Case studies were presented by representatives from GAMA Consulting in Uruguay, Swisscontact in Peru, the USAID/DAI BIZPRO project in Ukraine, and DAI/Brazil.

To receive copies of these presentations, please E-mail mip@dai.com.

Future Seminars in the MBP-SEEP Discussion Series

End of June — ***Microfinance and HIV/AIDS,*** Greely Hall, Academy for Educational Development, Washington, D.C. Presenter: Joan Parker (DAI/MBP).

July 10 — ***Networks and Linkages in India,*** Greely Hall, Academy for Educational Development, Washington, D.C. Presenters: Richard Hatch and Paul Bundick (DAI/MBP).

August 9 — ***Microfinance in Post-Conflict Environments,*** Greely Hall, Academy for Educational Development, Washington, D.C. Presenters: Joan Parker (DAI/MBP) and Dave Larson (World Relief/MBP).

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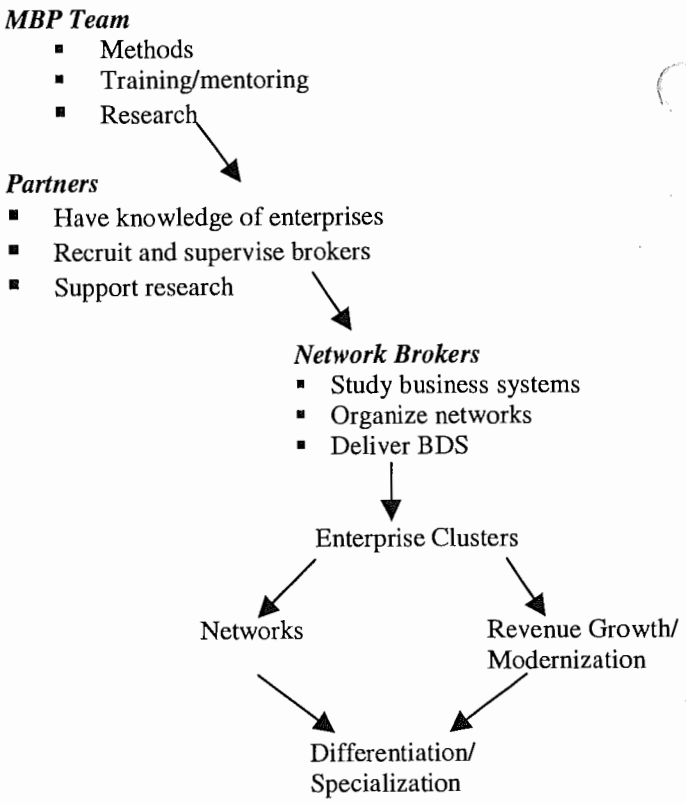
MBP RESEARCH (continued from p. 1)

- Selects partner organizations to leverage the limited staff and resources MBP can provide;
- Develops the materials needed to provide training to selected partners and, through them, network brokers;
- Designs efficient subsidy schemes to stimulate demonstration networks and attract an initial group of network brokers;
- Provides technical assistance to partners, brokers, and pilot networks; and
- Conducts research on effective methods and tools needed to ramp up network development to a national scale.

Target Enterprises. To develop a replicable methodology, the project in India works in a variety of business sectors and settings, including women-owned firms serving local markets, urban service businesses, and groups of subcontractors involved in corporate supply chains. Within these settings, the project targets entrepreneurs creating new enterprises, established firms looking to grow, and businesses based on both modern technology and traditional production techniques. The project assumes that entrepreneurs in India know a great deal about their problems and opportunities; given a chance to cut costs or increase revenues without excessive risk, they will do so. Hence, the project uses profit opportunities as the principal incentive and uses broker services and challenge grants to encourage experimentation with new products and markets. The project views trust as something gained through cooperation and sees interfirm division of labor as evidence of a willingness to cooperate.

Also, the project assumes that outside of simple operational services such as couriers and accounting assistance, BDS are rarely available or affordable. Therefore, in most settings in India, it will be necessary to stimulate both demand and supply. By aggregating enterprise purchasing power in networks, the project hopes to create more attractive markets for BDS providers. Increased use of BDS by tiny firms becomes feasible through cost-sharing—the larger the network, the lower the individual cost. A major research issue is how to make BDS a routine part of enterprise operations.

Project Model. The project combines the experience of MBP's action research team, local partners with established relationships with target micro and small enterprises, and newly minted network brokers to introduce an organizational technology—business networks—through the following delivery model:



Subsidies and Challenge Grants. The project foresees th attracting suitable broker candidates and evolving new, sustainable forms of network BDS may require short-term subsidies. The rationale for using subsidies to increase the demand for or supply of business services is well understood. In the case of network brokers, however, there is no evidence yet in the targeted business communities that network brokering is a sound way of making a living. Further, trained brokers are expected to spend most or all of their time nurturing enterprise networks. A basic salary must be provided from an outside source until network participants come to value the broker's services—and have increased their revenues to a point at which they can afford to pay brokers' fees.

Networks and network brokers are new concepts in the world of micro and small entrepreneurs. To encourage networking, the project introduces network brokers into the clusters of target enterprises and provides small challenge (cost-sharing) grants to groups of firms entering into cooperation for the first time. These grants are intended to help overcome entrepreneurs' initial perceptions of risk, stimulate experimentation, and create tangible demonstrations of network benefits. The grants are restricted to short term, but strategic activities—such as joint product development, combined marketing efforts, and novel ideas regarding shared BDS providers—strengthen participating firms' competitiveness,

In one challenge grant, Flatted Factory Entrepreneurs' Association, Okhla (Regd.), comprising 150 micro and

small enterprise members engaged in light manufacturing, will undertake a combined marketing effort to penetrate new markets. The marketing effort will present, for the first time, the collective capabilities of Okhla as a whole to potential buyers (large Indian firms) through producing and distributing a common capabilities catalog and linking these diverse capabilities to an Internet site. MBP and Okhla expect the marketing effort to result in a substantial increase in linkages among small businesses as orders are generated and production networks are formed to fill these orders. Also, the marketing effort will involve the use of shared BDS providers—in this case, an advertising company and an Internet-based marketing company.

Over the next few months, our action research will yield resources and tools to help guide donors and others involved in planning and implementing small enterprise network projects. In addition to the introductory report, *Strategic Linkages and Competitive Advantages: Action Research on Small Enterprise Networks in India*, by Richard Hatch, MBP is preparing the following reports:

- **How MSE Business Systems Work.** Drawing on data from broker-prepared business system diagrams and interfirm cooperation charts, as well as BDS use and availability reports from clients and partners, this paper will address key issues in micro and small enterprise interaction with other firms, including BDS providers, and discuss how strategic forms of cooperation can be stimulated.

- **Technical Note on NGOs in Enterprise Development.** This technical note is a study of the culture, belief systems, and limitations of nongovernmental organizations as partners in small-business development efforts. The paper will thereby examine the influence of donors on the strategies and activities of NGOs and reevaluate criteria for the selection of partners.

- **Networks: Key Strategy for Microenterprise Growth.** This paper will provide a detailed discussion of network strategies for donors and enterprise development program managers, including information on network definitions and typologies; discussion of the costs and benefits of network interventions compared with competing enterprise development approaches; and investment strategies for donors, governments, and multilateral lenders.

- **Preliminary Network Project Design Guidelines.** This technical report will take the form of a brief manual for project managers and BDS facilitators, providing them a practical introduction to network project planning.

Key to Competitiveness. Flexibility is a key ingredient for competitiveness in today's economic environment. If we extend the idea of flexibility from the individual enterprise to the business system as a whole, we begin to see that a regional economy made up of a great many skilled firms that readily link together in networks can attain something very much like hyperflexibility. This is a critical goal for developing economies, and MBP's action research expects to contribute to an understanding of the processes that lead to interfirm cooperation on a broad scale.

Excerpted from *Strategic Linkages and Competitive Advantage: Action Research on Small Enterprise Networks in India*, by Richard Hatch

NEW PUBLICATIONS (continued from p. 1)

Summary of Discussions: MBP Virtual Conference on Microinsurance, by Warren Brown (Calmeadow/MBP) and Michael McCord (MicroSave-Africa/MBP).

Paper Series: Information and Communications Technologies in the Philippines

Information and Communications Services for Micro and Small Enterprises in the Philippines: A Synthesis Paper, by Alexandra Overy Miehlbradt and Ronald T. Chua (DAI/MBP).

Bayantel Public Calling Offices: A Case Study on the Provision of Communications Services to Micro and Small Enterprises in the Philippines, by Alexandra Overy Miehlbradt (DAI/MBP).

The Laguna Small and Medium Enterprise Service Center: A Case Study of Nonprofit Supplier of Information and Communications Services in the Philippines, by Ronald T. Chua (DAI/MBP).

Potential Business Models for the Delivery of Internet-Based Information Services to Micro and Small Enterprises in the Philippines, by Ronald T. Chua (DAI/MBP).

MBP INFORMATION DISSEMINATION
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August 31 ***Governance for MFI Boards of Directors***, Greely Hall, Academy for Educational Development, Washington, D.C.

September 6 ***Performance Measurement Framework for Business Development Services***, Greely Hall, Academy for Educational Development, Washington, D.C.

Please note that all topics and dates are subject to change. For more information and an up-to-date schedule, please E-mail us at mip@dai.com or visit the "What's New" page at www.mip.org.

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CALENDAR OF EVENTS

June 11-29, 2001
The Third Annual Microenterprise Development Institute, Southern New Hampshire University (formerly New Hampshire College). For more information, E-mail mdi@minerva.nhc.edu, or visit http://melin.nhc.edu.

July 9-August 17, 2001
Seventh Annual Microfinance Training Program, Naropa University, Boulder, Colorado. For more information, E-mail MFT@Naropa.edu or visit http://www.naropa.edu/mft2001.

July 16-20, 2001
The State of the Art in Business Development Services for Micro, Small, and Medium Enterprises: Principles, Tools, and Practices (SEEP Network-Training Program) at SEEP, Washington, D.C. For more information, visit www.seepnetwork.org.

July 30-August 10, 2001
Micro Banking Summer Academy 2001. Deutsche Bank Training Center in Kronberg, Germany. For more information, visit www.mbcc.bankakademie.de.

August 5-23, 2001
Business Development Services Training Program 2001, Springfield Centre for Business in Development, Glasgow, U.K. For more information, E-mail bds@springfieldcentre.com or visit http://www.springfieldcentre.com.

September 3-8, 2001
Fourth Seminar on New Development Finance, Frankfurt, Germany. For more information, visit http://www-agecon.ag.ohio-state.edu/ruralfinance.

November 5-9, 2001
Strengthening The Microfinance Industry In Africa: The Role Of National Networks In Performance Monitoring. This workshop will be hosted by ZAMFI and co-sponsored by the SEEP Network in Harare, Zimbabwe. For more information, visit www.seepnetwork.org.