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What Works In a Market-Oriented Strategy for SME Development - Evidence From Myanmar

1. Key findings:

- Direct delivery of business development services (BDS) based on subsidies is not sustainable or scalable beyond donor driven interventions. It also runs the risk of distorting the market as businesses become unwilling to pay for services. This has led to an emphasis on a BDS market facilitation approach over the last 15 years. Market facilitation involves working with local organizations and offering them incentives and capacity to provide demand-led services on a cost-recovery basis so that these services are available in the long-term.
- This paper shows how using this approach in Myanmar, the ILO secured partnerships with 432 local BDS organizations between February 2014 and April 2017 by incentivizing them to join the ILO training and to pay for it. Incentives for these service providers included increased capacity, expanded product portfolio and access to new markets leading to more revenue for the organizations.
- Initially some organizations received subsidized training from the ILO as part of the early adopters' scheme. But starting 2016, training offered to organizations was charged for. Despite this "no free lunches" policy, the outreach was sizeable. 948 Trainers and 39 Master Trainers were trained to provide management and start-up training to businesses. This substantially exceeded the project target of 250 Trainers and 22 Master Trainers.
- 51% of all Trainers and Master Trainers were women, which shows that they were not disadvantaged by the paying principle and were able to access the services.
- The ILO insisted that local partners adopt the "no free lunches" policy at their level too and charge fees for services to MSMEs. Despite operating in a market crowded with donors, 61% of the 432 organizations were able to recover costs and 33% improved their financial situation.
- 345 out of the 432 local organizations were for-profit and private sector mostly operating in urban areas as it was easier to charge fees in cities than in rural areas.

What Works in SME Development

The What Works in SME Development Series is presenting key findings of interventions promoting small and medium enterprises as a means to create more and better jobs. It covers ILO programs as well as interventions of other agencies using ILO products.

The main objective of the new Series is to increase the take up of effective SME programs by leading actors in this field. The issue briefs target ILO constituents, other policy makers, development practitioners, and the private sector presenting key evidence at a glance. Preference is given to rigorous quantitative research, but the Series also covers other research approaches contributing to more evidence on what works and what does not work.

The What Works Series is coordinated by the SME Unit of the International Labour Organization, for more info see www.ilo.org/sme



- 98% of the training providers reported to continue providing training introduced by the ILO, with or without its support in the future. A strong sign of sustainability of the programme in Myanmar.
- 9,779 individuals were trained in how to start or manage their business, which led to the creation of 1,234 new businesses (49% by women) and 7,387 jobs (61% for women) by early 2017. 1,874 existing businesses reported an improvement in turnover. These are well beyond the project target of training 4,000 entrepreneurs, starting 1,000 businesses, creating 3,800 jobs and improving 1,500 businesses. This shows that even while charging for services offered in a development programme, it is possible to reach scale and allow for women's participation.

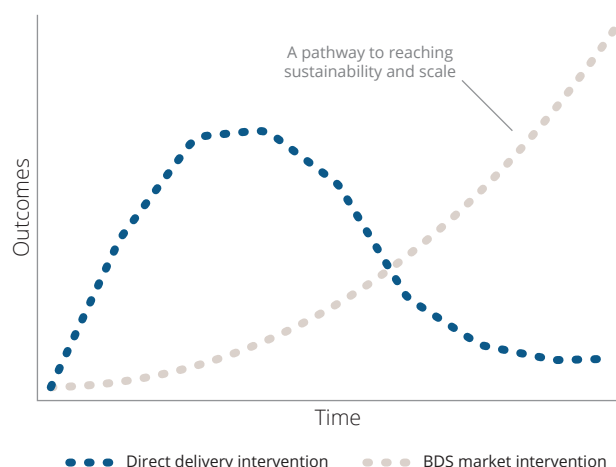
2. The challenge

Research shows that majority of jobs in the world are provided by Micro, Small and Medium Enterprises (MSMEs) and that in lower income countries this share is almost 80%.¹ In contrast, MSME productivity is low and therefore, they require support in the form of financial and business development services (BDS).

Many technical cooperation projects aimed at supporting MSMEs face the challenge of having to reach a high number of beneficiaries in a short period. The incentives for project managers to directly deliver and pay for services offered to beneficiaries in order to meet the targets are strong. The dangers of this traditional strategy are that:

- Projects rapidly roll-out services that do not necessarily respond to the local demand
- Local capacity to deliver services is not created as projects directly offer services to beneficiaries
- Implementation costs are high as everything is paid for, even services with local demand
- Long-term sustainability is jeopardized, as services tend to stop with the end of the project and the associated funding

Figure 1: Direct delivery vs BDS market facilitation approach



In contrast as indicated in Figure 1, a BDS market facilitation approach² strives to achieve sustainability by enhancing local service providers' capacity and generating demand so that a well-functioning service market exists by the end of the project. When adopting this approach, projects can offer limited subsidies in the beginning to attract local actors to use the services. This should however, stop when local actors actively seek to access the services at a price.

When the ILO launched two projects in 2014 in Myanmar: "Entrepreneurship Development and SME support" and "Supporting Tourism through Business Management Training" (funded by Norway and Switzerland), it was confronted with the same challenge that direct delivery of services at no cost was the rule in most other development projects in the country. Many local organizations had become heavily reliant on donor funds to access and provide services. Additionally, decades of economic isolation yielded an unfavourable business environment and limited support structures for MSMEs. The projects adopted a BDS market facilitation approach right from the start, by adopting the following principles:

- Organizational independence – local actors have high visibility and take ownership in implementing tailor made activities to meet the demands of the target group
- Legitimacy – working with local actors that others in the market look up to; actors who can influence others to provide similar services and contribute to a BDS market expansion

¹ De Kok, J.; Deijl, C.; Veldhuis-Van Essen, C. 2013. *Is small still beautiful?* (Eschborn and Geneva, GIZ and ILO)

² BDS Market Facilitation Approach has been endorsed as good practice by the Committee for Donor Agencies for Small Enterprise. 1998. *Business development services for SME development: preliminary guidelines for donor-funded interventions*



- Cost recovery – incentivizing local actors to pay for useful services
- Continuity in service provision and market retention– clients return to purchase add-ons of the same training or purchase another service from the same BDS provider
- Long term outreach and impact at scale

The research presented here will explain the project design, data collection methods, evidence on how far a market facilitation approach was followed in Myanmar and explore the critical success factors vis-à-vis direct delivery of services by projects.

3. The programme and implementation design

The objective of the ILO projects was to support nationals to set up and run their business as well as create a market where local organizations could earn revenue from offering business support services.

As a first step, the ILO conducted a market assessment in 2013 to understand the problems impeding MSME growth, MSMEs' awareness of these problems, BDS

availability, consumption patterns and willingness to pay for services. The assessment helped to identify various types of organizations with whom the ILO could partner in providing BDS to MSMEs. The types of organizations were as follows:

- **BDS providers:** for-profit organizations offering business consultancy services
- **Private companies and freelance training providers:** for-profit entities that offered MBA classes or other types of training³
- **NGOs and INGOs functioning as microfinance institutions:** not-for-profit organizations offering business support services in rural areas
- **Government agencies:** not-for-profit support offered through ministries operating in the big cities

Between 2014 and 2017, the ILO partnered with 432 organizations, out of which 345 were profit oriented and therefore, more likely to provide services tailored to match the needs of businesses on a cost-recovery and sustainable basis. This reflects the projects' long term view on sustainability.



³ Like training in software development, vocational skills and soft skills



In 2014, the ILO projects started working with local partner organizations to introduce the “**Start and Improve Your Business (SIYB)**”⁴ training programme in Myanmar. SIYB is one of the largest global business management training programmes helping small-scale entrepreneurs to start and grow their business.⁵

It has four training packages that respond to stages of business development: Generate Your Business Idea (GYB); Start Your Business (SYB); Improve Your Business (IYB); and Expand Your Business (EYB). Since 2015, the ILO and its partners initiated additional training and business support services like⁶:



Regional BDS Programme, implemented with GiZ that combines “Competency Based Economies through Formation of Entrepreneurs” (CEFE) and SIYB methodologies. MSMEs are taught business management concepts through action learning.



Business Eye Opener programme in rural areas targeting farmers and small income generating communities to stimulate business awareness



Leht Li training developed with Coca Cola to address the skills gap of small scale retailers. The ILO created the curriculum consisting of modules on record keeping, stock control and marketing each taking two hours to fit the schedule of retailers. Coca Cola markets the training by including flyers in its product packages distributed to its retailers.



A **Business Start-Up Campaign** called “Hands Together” was launched in cooperation with AAT Business Park, a local BDS provider with sponsorship from the national business community. The aim of the campaign was to provide technical and financial support to young entrepreneurs in starting their business.

The steps followed in implementing the programmes described above were:

Individuals working in partner organizations with business management experience were trained in the ILO programmes through a Training of Trainers (ToT) process. These Trainers then provided training to potential or existing entrepreneurs. Trainers who showed exemplary performance were selected to become Master Trainers and were further trained in conducting ToTs, marketing the ILO programmes and were also involved in developing, printing and distributing training materials.

Project implementers established a transactional relationship with the trainers and their organizations by offering them incentives to join and pay for ILO training. Main incentives were the ability to expand product portfolio, tap into unserved markets and ultimately earn more revenue. The projects also collaborated with other donor agencies, like GiZ, to adopt the same approach to prevent market

distortion. As the BDS market was underdeveloped, the ILO funded the initial Trainer and Master Trainer development processes conducted until 2015. This was part of its “early adopters” scheme of attracting clients to try something new. From 2016, the ILO started to remove subsidies and out of the 22 ToTs, the ILO financially supported only eight. 2017 saw a withdrawal of financial support.

Local partners were expected to develop a business model for service provision for MSMEs as well. They were free to decide on how to market their training, how to fix their training schedule and fees. The ILO merely facilitated the process and provided guidance on the standards to follow in the implementation of the training programmes. The Training of Entrepreneurs (ToEs) was never subsidized by the ILO. Training providers were expected to recover their costs by charging fees or securing sponsorship from other sources by way of free venue, low cost catering, etc.

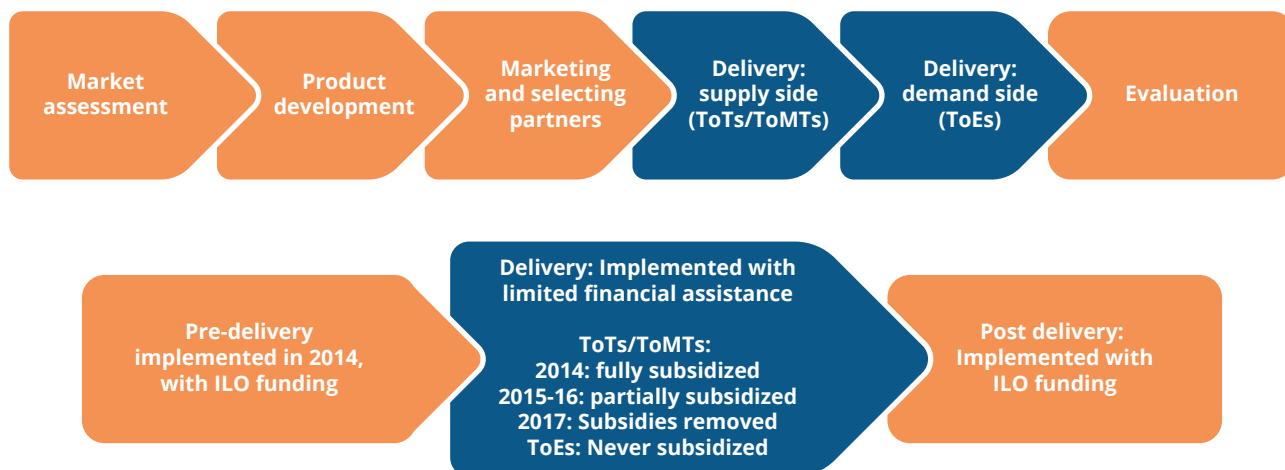
4 For general info on SIYB, visit www.ilo.org/siyb. For SIYB training in Myanmar, visit www.siyb.com.mm

5 By 2016, an estimated 15 million clients had been trained in SIYB, making it the largest programme: http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_178124.pdf

6 For details on the training programmes, visit <http://siyb.com.mm/en/about/#>



Figure 2: Project implementation design



While BDS market facilitation has been regarded as priority in development programmes, seldom has it been operationalized into tangible activities as in the implementation design seen above in Myanmar. This is consolidated in the findings below.

4. What we found:

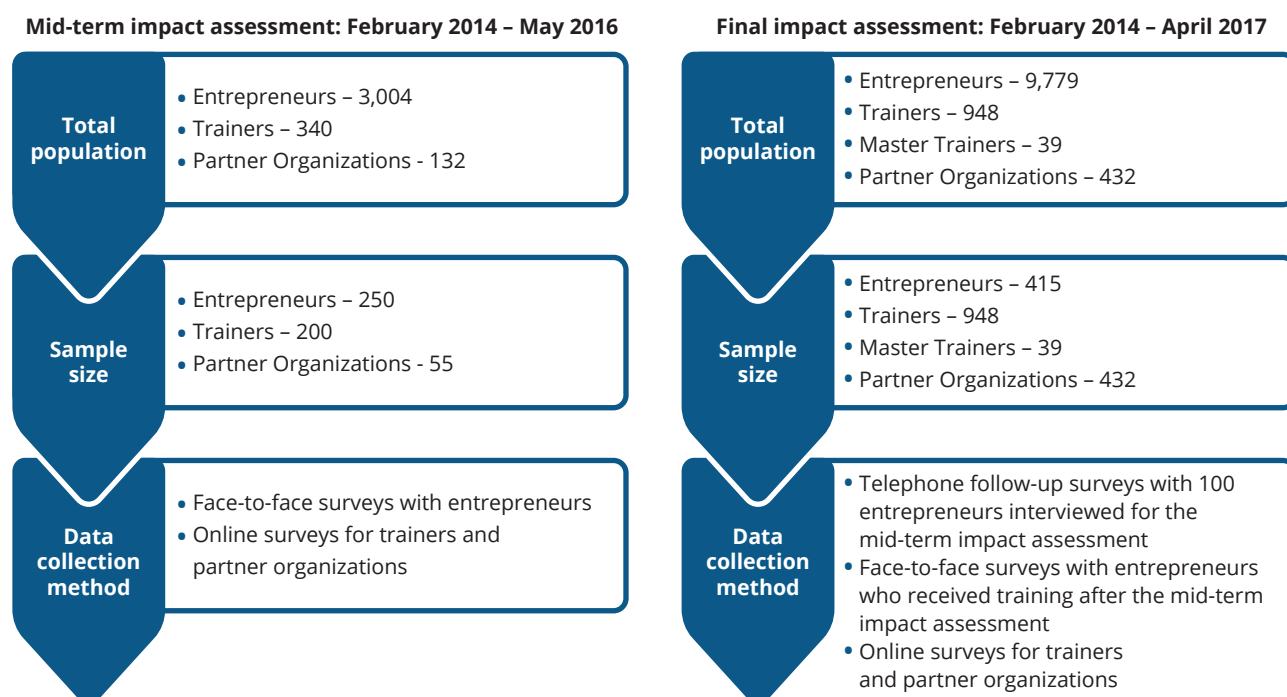
The findings are based on results from the baseline data collected by the projects before any training intervention, the mid-term impact assessment conducted in May 2016 and the final impact assessment conducted in April 2017 for the two ILO projects implemented in Myanmar from February 2014 to April 2017. Stratified random sampling was used so as to include a representative sample from

the total population that received training. Surveys and group discussions used to collect data included both quantitative and qualitative questions. The quantitative part focused on training implementation (e.g. schedule, fees) and business status (e.g. turnover, capital, staff). The qualitative part aimed to gather opinions about individual challenges and need for further support. The data collection methodology is explained in Figure 3.

a) Cost recovery:

Master Trainers reported that the total cost of a ToT, which could last for five to eight days could be about \$2500 for 20 participants. Master Trainers budgeted for refreshments, stationery, advertisements, venue, co-trainer fees and miscellaneous expenses. Invariably

Figure 3: Data collection process



fee charged from participants was about \$250 allowing the Master Trainers to earn a substantial revenue. Master Trainers noted that it was possible to charge these fees in urban areas and not in a rural context. As a result, many of them conducted ToTs only in urban areas where there was willingness and capacity to pay.

At the level of entrepreneurs, the cost of organizing a ToE in different training packages in both urban and rural areas by the different types of partner organizations is illustrated in tables 1 and 2.

Table 1: Cost and revenue from SIYB and Regional BDS programme ToEs in rural and urban areas

Type of Training/Provider	Total cost for 20 people (US\$)		Training fees/revenue from 20 people (US\$)	
	Rural	Urban	Rural	Urban
GYB-SYB (5 days training)				
BDS provider	-	1500	-	2000
Private company	450	850	1000	2000
Government agency	-	400	-	300
NGOs	500	1325	600	1000
INGOs/Microfinance institutions	750	1000	100	100
Freelance training providers	450	850	1000	1600
IYB: one module (2.25 days training)				
BDS provider	-	675	-	3400
Private company	202.5	382.5	800	3400
Government agency	-	180	-	400
NGOs	225	596.25	800	1400
INGOs/Microfinance institutions	337.5	450	100	180
Freelance training providers	202.5	382.5	600	2800
Regional BDS programme (2 days training)				
BDS provider	-	600	-	1700
Private company	240	340	600	1200
Government agency	-	160	-	1500
NGOs	-	-	-	-
INGOs/Microfinance institutions	-	-	-	-
Freelance training providers	240	340	600	1500

Table 2: Total cost of training per day (8 hours) for 20 people and total fees charged/revenue from the training in US\$

Type of training	BDS provider		Private companies		Freelance training providers		Government agency		NGOs	
	Cost	Fees	Cost	Fees	Cost	Fees	Cost	Fees	Cost	Fees
Coca Cola Leht-Li (urban only)	62.5	750	62.5	750	62.5	750	-	-	-	-
Business Eye Opener (rural only)	-	-	-	-	-	-	-	-	100	Free

Source: Data collection for the Entrepreneurship and MSME support projects, Final Impact Assessment, 2017



Cost of ToEs in urban areas was higher because the rent for venues was higher. The fees charged in the urban areas were also higher because there was greater demand and capacity to pay. In rural areas, awareness of and therefore, demand for business management services was lower.⁷ Hence, training providers offered ToEs at a lower rate in a rural context.

IYB training was more profitable than GYB-SYB training. This is because of two reasons. Firstly, IYB is usually offered to existing businesses with a greater capacity to pay higher fees. Secondly, the duration of an IYB training covering one module is about 2 days while a GYB-SYB training lasts for five days – this increases the cost of the training. Given the profitability, training providers trained more individuals in IYB (5,237 entrepreneurs) than in GYB-SYB (3,177 entrepreneurs).



The other training programmes were also profitable, with the exception of Business Eye Opener, which was implemented to create awareness about entrepreneurship in rural areas. As people would not pay for something they did not know about, the course was implemented for free through NGOs (at zero cost to the projects) that received external funding and consequently were not under pressure to cover costs. These NGOs then connected interested individuals to SIYB training.

BDS providers, private companies and freelancers were able to make more profit as they are more

business-like. Overall 61% of the 432 partner organizations were able to cover the cost of the training, of which 33% were able to also make profit and expand their client base since the introduction of ILO training in their curriculum.

b) Capacity to reach scale:

The projects were able to achieve a sizeable outreach and equally benefitted women even while charging fees for the various training.

Table 3: Training outreach in Myanmar between February 2014 and April 2017

No. of Partner Organizations	432
No. of Trainers trained	948 (484 women)
No. of Master Trainers trained	39 (19 women)
No. of entrepreneurs trained (4,798 existing entrepreneurs)	9,779 (5,552 women)

Source: Entrepreneurship and MSME support projects, Final Impact Assessment, 2017

The final impact assessment revealed that an estimated 1,234 businesses were created (49% by women), 1,874 businesses improved their turnover and 7,387 jobs were created (61% for women). 68% of those who still did not start a business, plan to do so in the next 12 months. The average time between receiving training and starting a business was ten months.

c) Continuity in service provision and market retention

98% of all training providers reported that they will continue to provide training with or without ILO support because it has enlarged their service portfolio, expanded their client base and most importantly it is a revenue generating activity.

In addition to helping entrepreneurs start or improve their business, the training helped 68% of the entrepreneurs to increase their knowledge of business concepts. 32% of the entrepreneurs reported increased confidence in running their business. Given these benefits, 44% of training providers reported that trainees came back to them for another training - an indication of market retention.

⁷ As indicated in Hakemulder, R.; Wijesena, G. 2014. *Assessment of the business service and training market in Myanmar* (Myanmar and Geneva, ILO)



d) Organizational independence and legitimacy

Capable local providers were put in charge of activities. E.g., the Business Start-Up Campaign was entirely managed by a local BDS provider, with the project providing only advice. The campaign selected and trained 23 individuals, resulting in 19 business start-ups and 104 jobs. Greater ownership over training activities and legitimacy was secured by involving local actors in developing training products. Like the Coca Cola Leht-Li materials were written by Master Trainers from Myanmar. This and limited financial assistance resulted in local actors being able to operate self-sufficiently.

5. Policy recommendations: Getting the BDS market facilitation strategy right

- **BDS market facilitation, what's in the name:** Designing BDS interventions in a market requires assessment of the market for BDS to understand the constraints, opportunities and key actors. This in turn determines the nature of the intervention. Therefore, any project implementing this approach should start with understanding the market in which it is going to operate.
- **Clear view of financial sustainability:** Development projects aim to produce long-term change and benefits via short-term

interventions. It is thus imperative that projects clearly define at the very beginning the functions to be undertaken, by whom and who will pay for which function.

- **Aim for consistency:** Very different approaches to BDS provision among development/donor agencies operating in the same market hinder progress towards sustainable and cost-effective markets. Thus, the project team should coordinate with other agencies and develop an agreement to move away from direct/free delivery of BDS as sustainability of these practices tends to be low.
- **Develop not distort:** A BDS market facilitation approach does not imply a complete rejection of subsidy. All interventions are subsidy of some sort. However, any subsidy that artificially decreases service providers' cost of delivery or the price that clients need to pay for a service are highly invasive and should be avoided. Also, subsidies should be limited to testing ideas or attracting clients. Overall, the project should set a clear structure for subsidy such as, how much subsidy; what for; for how long and what will happen when the subsidy ends? Subsidies should be ended when demand for the product picks up and consumers are willing to use services at a price.





6. Further readings

ILO. 2017. *Market systems facilitation: How good are you?* http://www.ilo.org/empent/Projects/the-lab/WCMS_551173/lang--en/index.htm

The Springfield Centre. 2015. *The Operational Guide for the Making Markets Work for the Poor (M4P) Approach*, 2nd edition (funded by SDC & DFID).

Nelis, R; Hlaing, P. 2017. *Entrepreneurship and MSME Support Project – Final Impact Assessment* (Yangon, ILO)

van Lieshout, S; Mehtha, P. 2017. *The next 15 million, Start and Improve Your Business Global Tracer Study 2011-2015* (Geneva, ILO).

Author: Pranati Mehtha, ILO SIYB programme (www.ilo.org/siyb)

Note on methodology: Impact assessments were used to collect data that tracked beneficiaries' performance before and after the intervention. Stratified random sampling was used, which was representative of the total population trained in various ILO programmes, gender and rural-urban division. As this is not an RCT, there is no counterfactual answering the question what would have happened without the intervention. But the results are reliable and give an indication of the impact.

Sponsors: Research was made possible because of the efforts of the project team, and Norad (Norwegian Agency for Development Cooperation) and SECO (State Secretariat for Economic Affairs) who funded the ILO projects in Myanmar.

