

# **Commercially sustainable BDS to poor customers**

**- The case of Sri Lanka -**

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## Executive Summary

This paper explores by means of theoretical and action research if it is possible to offer Business Development Services, such as management training to poor customers on a commercially sustainable basis. The hypothesis is that either the product or the delivery channel has to be modified in order to cater to poor customers. In some cases both must be modified. This paper makes the assumption that the product, ILO-SIYB training is suitable for poor customers, but the delivery channels must be modified.

Two pilot projects were completed with modified training delivery mechanisms. The first built on a mobile business centre that in cooperation with the district chamber of commerce went around to small villages to market and conduct training the same day. The second pilot project built on working very close with a Community Based Organization as a natural link to their poor members. Many of the tasks were then decentralized to the CBO.

Main findings were that by working closely with a CBO many of the indirect costs can be overcome and service can improve and in the end lead to a commercially sustainable service. Commercial sustainability measured as cost recovery was 100% for the CBO approach, while customer retention rate was only 30%.

A few key aspects turned out to be particularly important. To ensure technical sustainability the appropriate segment must be identified that can benefit from the particular training. Trainer quality became essential in training poor customers since they need even more examples to understand the concepts.

For the institutional sustainability trust from the target group played a crucial role in getting participants to come and pay for training. Trust was obtained best from working closely with an existing community based organization or from having a massive promotional campaign with many people, which is too expensive. A second key aspect regarded promotion. Only direct marketing was efficient especially together with a local organization.

Financial sustainability in terms of cost recovery could be obtained by making customers pay to the local organization. Costs were reduced by marketing the service in conjunction with a monthly meeting, conducting training in temples or schools and transporting by motorbike. Costs can be further reduced by reducing the material cost involved. Maximum utilization of the trainer can be achieved by combining training in the morning and follow-up in the afternoon.

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## Abbreviations

BDS	Business Development Service
CBO	Community Based Organization
EU	European Union
GERME	Gérez Mieux Votre Entreprise
HCI	Head Count Index
HDCC	Hambantota District Chamber of Commerce
IFP-SEED	InFocus Programme – Small Enterprise Development
ILC	International Labour Conference
ILO	International Labour Organization
MBC	Mobile Business Centre
M&E	Monitoring & Evaluation
NGO	Non Governmental Organization
PO	Partner Organization
PGI	Poverty Gap Index
SEEDS	Sarvoya Economic Enterprise Development Services
SIDA	Swedish International Development Cooperation Agency
SIYB	Start and Improve Your Business
SPGI	Squared Poverty Gap Index

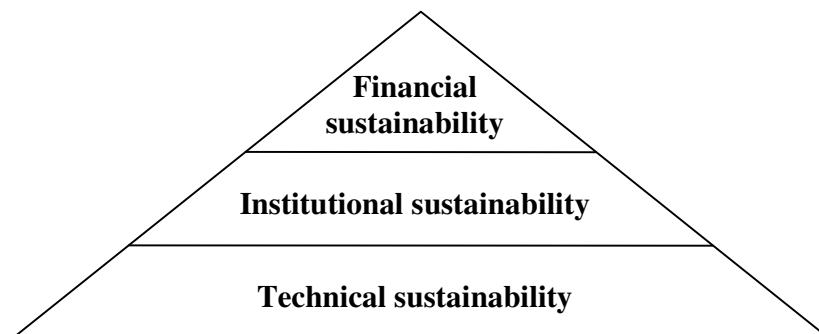
## PART I - THEORY AND JUSTIFICATION

### I.1 Introduction

#### I.1.1 Purpose and organization of paper

Sustainability has increasingly become a main topic on the development agenda. Whether focus is on environmental, technical, institutional or financial sustainability depends on the development programme, but it all relates to creating a system where processes and services are sustainable over a longer period of time. In the field of business development services sustainability is often referred to as a combination of technical sustainability, i.e. ensuring high quality and customer satisfaction, institutional sustainability, i.e. ensuring a correct division of labour and knowledge management within an organization and between organizations and finally financial sustainability, i.e. ensuring that the money or resources invested can be recuperated. The sustainability dimensions can be described in the triangle below. The technical sustainability is laying the foundation, institutional sustainability acts as the glue between stakeholders and financial sustainability finally is the end result, the crowning piece when all other factors are in place.

**Figure 1 The hierarchy of sustainability dimensions**



The purpose of this paper is to identify a *sustainable* mechanism of delivering BDS, in this case SIYB training, to disadvantaged entrepreneurs. A sustainable mechanism in this case means an SIYB training delivery which:

- Satisfies the customers
- Can be replicated by the SIYB partner organization
- Is delivered on full cost recovery basis.

Once a sustainable delivery mechanism has been developed the aim is to disseminate the information and replicate the approach among the SIYB partner organizations.

This paper is organized in two parts, where the first part discusses theory and justification of this paper and the second describes the action research that has been carried out. The remainder of this first chapter discusses the rationale/mandate for ILO, IFP-SEED and SIYB to develop methodologies for sustainable business development services that target poor people. The second chapter discusses poverty, what it is, how it can be measured

and poverty characteristics of Sri Lanka. Chapter 3, investigates the concepts of sustainability in BDS and draws on the latest research on how to attain sustainability in private sector BDS initiatives. In part II the chapter 1 the rationale for the action research is given. Chapter 2 defines some indicators of achievement to measure the success of the commercial sustainability. Chapter 3, 4, 5 and 6 describe the target group, institutional set-up, intervention principles and intervention mix of the two pilot projects. Chapter 7, finally presents the observations, conclusions and ends by giving some recommendations.

### **I.1.2 ILO's and IFP-SEED's mandate to work with pro-poor BDS**

#### **I.1.2.1 Working out of poverty – a main focus of the ILO**

The mandate for combating poverty is rooted in the constitution of the ILO and has since then been reinforced in important documents such the Declaration of Philadelphia 1944 and by several Director Generals in the history of the ILO.

In 2003 the 91<sup>st</sup> labour conference of the International Labour Organization laid renewed emphasis on the importance of combating poverty in the world. The Director General's report to the ILC focused on poverty eradication and the ILO vision of how this can be achieved by promoting social justice and decent work.<sup>1</sup> The report also emphasized the adoption of the Millennium Declaration, which have given the UN system a common framework to fight poverty.

A recent IFP-SEED publication from 2004 called "Poverty reduction through small enterprise development" clearly defines the linkages between poverty reduction and small enterprise development within IFP-SEED.<sup>2</sup> Some key findings and recommendations are worth mentioning here.

- First, poverty reduction is one of three key areas of focus for the next biennium in the Job Creation and Enterprise Development Department. As a result, support for the continuation of pro-poor small enterprise development activities and pressure/incentives to emphasize poverty reduction in the coming months and years will remain high.
- Second, there are natural links between small enterprise development and poverty reduction. These include income for poor owners, workers and their dependents, job creation for the poor unemployed and goods and services provision for poor people. The broader concept of poverty, which includes rights, dignity and voice, is also related to decent work in small enterprises. As mentioned above this paper does not look at poverty alleviation through BDS, but assumes, in line with IFP-SEED, that enterprise development targeting disadvantaged entrepreneurs has a poverty alleviating effect.

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<sup>1</sup> Somavia, J., "Working out of poverty", 91<sup>st</sup> International Labour Conference

<sup>2</sup> Vandenberg P., (2004) "Poverty reduction through small enterprise development – Concepts, ILO activities and recommendations for future work", ILO – InFocus Programme on Boosting Employment through Small Enterprise Development, Geneva

- Third, the paper recommends SEED, in conjunction with the Enterprise Specialists in the field, to develop a Handbook on Small Enterprises and Poverty Reduction. It would guide technical cooperation activities on the issue and provide support to field offices involved in the design and implementation of pro-poor projects.

It can thus be assumed that IFP-SEED is increasing its focus on poverty reduction and will actively work on developing new tools to measure the poverty reduction of small enterprise development as well as new methodologies of how to cater to poor people with enterprise development services.

#### 1.1.2.2 Poverty focus in the SIYB programme

##### *Past pro-poor SIYB initiatives*

Poverty has always been a cross cutting concern in the SIYB program and quite some work has been done to address poverty from different aspects. Two SIYB projects have developed new SIYB products for poor people. The regional SIYB project office in Harare developed what was called Simplified Start and Improve Your Business. The package, which was finalized in 1999, targets men and women who want to start and manage small businesses of their own, but have limited levels of education. In Nepal, SIYB was adapted to build solely on visual presentation. The package targets illiterate people in rural areas. This program is still being implemented, however with donor subsidies on the transaction level.

In Vietnam, a study was made on the impact of business training on ethnic minorities, which often belong to the poor strata of society.<sup>3</sup> The study showed that SIYB training had higher success rate with the ethnic minorities than in general. The authors attributed this to suitable training material and immediate access to credit.

In West-Africa the GERME project started to develop a simplified package, but later changed to develop guidelines in the Trainer's Guide for trainers assisting businesses with simpler operations. The revised guidelines require trainees with a minimum literacy level.

Most recently a study was conducted on "The Direct and Indirect Contribution of SIYB to Poverty Reduction". The study presents the results on poverty alleviation in an empirical study based on a small number of entrepreneurs in Zimbabwe, Zambia and Uganda. The empirical study supported the hypothesis that SIYB can be used as a poverty alleviating tool since the trainees showed positive effects on income and employment generation, but also education, productive asset accumulation, dignity and status, involvement in networks and business associations. The results of the study should however be interpreted with care since the empirical study was made on a sample of only 15 SIYB trainees.

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<sup>3</sup> Christensen, J.D. and D. Lamotte (2001). 'Emerging entrepreneurs in rural Viet Nam: A study on the impact of business training on ethnic minorities', SEED Working Paper, No. 13 (Geneva: ILO).

Research shows evidence that SIYB has a poverty alleviation effect which always must be a starting point when approaching new pro-poor SIYB initiatives. Several of the past initiatives are working from the hypothesis that new SIYB service products are needed to cater to poor entrepreneurs. However, the study on ethnic minorities in Vietnam shows that poor entrepreneurs can benefit from the existing training packages. As of today, no initiative has looked at how the existing SIYB curriculum can cater to poor entrepreneurs in a commercially sustainable way.

*Mandate for research within the SIYB Sri Lanka project*

The SIYB Sri Lanka project's activities are spelled out in the project document and revised by its steering committee. The steering committee is constituted by the project's stakeholders i.e. the funding agency SIDA, the Ministry of Small and Medium Enterprise Development and ILO locally, regionally and SIYB globally.

The project document states that one of its activities should be to provide training and counselling to training coordinators in PO's to identify SIYB training opportunities and managing SIYB training.<sup>4</sup> This action research project aims at equipping partner organizations with SIYB delivery methodologies, which would unlock new markets that to many of our partner organizations are core target groups within their mandate.

The former Sri Lankan government made it clear at the time when the research was initiated that reducing poverty is a key objective for the government. The current Sri Lankan government through the Ministry of Small and Medium Enterprise Development has emphasized the importance of reaching out to weaker markets at the national BDS conference 2004.

Partner organizations to the SIYB Sri Lanka project normally consider the poor as a white spot from a cost recovery perspective.<sup>5</sup> Many PO's argue that the only way of reaching this segment is by donor funding. Simultaneously poor people are often stated as a target group in their mission statements. The subject of reaching the poor with cost recovery BDS has therefore been subject to international workshops in Sri Lanka organized by an SIYB partner organization, SEEDS.

### **1.1.3 Assumptions and hypothesis**

When targeting poor people a common assumption is that the service has to be adapted or modified to suit the target group. It is a core assumption also in this paper. However, a modification of a service can take the form of either modifying the core service, i.e. the content or modifying the service delivery process. As was described above there have been a few SIYB initiatives catering to the assumption that the core service need to be changed, but as of today no initiative has kept the core service intact and instead modified the delivery process in order to better suit the demands of poor people.

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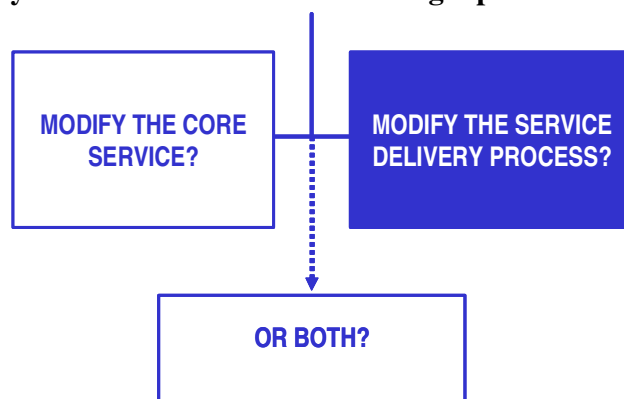
<sup>4</sup> ILO, "SIYB project document", 2000, Activity 1.2.4. under output 1.1 in the immediate objective #1: New and existing entrepreneurs throughout Sri Lanka should have opportunity to acquire the skills and knowledge needed to start a new business or to consolidate or expand an existing one.

<sup>5</sup> In this case cost recovery from the end beneficiaries – the trainees.



This research make the assumption that the existing SIYB training products also suit poor people in Sri Lanka, but the service delivery process to reach poor people in a commercially sustainable manner need to be modified.

**Figure 2 Two ways of service modification to target poor customers with BDS**



## I.2 The nature of poverty

### I.2.1 What is poverty?

The nature of poverty is multi dimensional, meaning that it can take many faces and is thus difficult to define. Current poverty research is quite united in the viewpoint that poverty consists of some kind of material deprivation, low access to basic services and non-material deprivation, which could take the form of voicelessness and social exclusion. IFP-SEED has within ILO defined poverty as follows:<sup>6</sup>

*“Poverty is a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are denied access to basic services (health, education, water, sanitation), and are constrained in their ability to exercise rights, share power and lend their voices to the institutions and processes which affect the social, economic and political environments in which they live and work.”*

It is not the aim of this paper to discuss different definitions of poverty; instead the paper aims at discussing how to measure poverty from an enterprise development perspective and with emphasis on the special characteristics in Sri Lanka. Since poverty is such a broad concept it is often noted that measuring poverty is difficult. The following discussion will focus on some general dimensions of poverty and suggest some indicators or proxy variables to measure poverty in Sri Lanka, when describing intervention target groups.

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<sup>6</sup> Vandenberg P., (2004) ILO, IFP-SEED, Poverty reduction through small enterprise development – Concepts, ILO activities and recommendations for future work

## **I.2.2 Dimensions of poverty**

### **I.2.2.1 The rural-urban poverty dimension**

Rural poverty is characterized by lack of access to services common in urbanized regions, e.g. health, education and infrastructure and the incidence of income poverty is often higher in rural areas.<sup>7,8</sup> However, that is not to say that urban poverty does not exist. Rural migration to the cities have caused the development of slums with high under employment, no access to land and a higher cost of living.

Another important aspect of living in rural areas is the business linkages which are critical in being a successful entrepreneur. Business linkages have been found much more developed among people living in urban areas compared to rural businessmen.<sup>9</sup>

### **I.2.2.2 The gender dimension**

Research shows that more women than men are poor and especially female headed households are poverty stricken. According to the ILO Gender Bureau as much as 70% of the 1.3 billion people living on less than \$1 per day could be women. Women often have lower educational level, participate more in the informal economy and have to compromise between income generating activities and household work. Cultural barriers that restrict women from fully participating in the economy further worsen poverty for women.

### **I.2.2.2 The social dimension**

Social exclusion is a part of the definition of poverty. The EU defines social exclusion as a: “process through which individuals or groups are wholly or partially excluded from full participation in the society in which they live”.<sup>10</sup> Socially excluded people have a weaker so called context network; they have little or no voice. This category has more difficulties in working themselves out of poverty since they cannot easily access the formal sector. They are also more vulnerable to external shocks that might throw them into poverty. Their potential to cope with risk is inherently lower.

## **I.2.3 Choosing indicators to measure poverty**

In the case of measuring the poverty level of target groups for BDS interventions an appropriate approach would be to use a combined measurement framework in a composite index where at least the monetary and capability approaches described below are included.<sup>11</sup> To operationalize the monetary approach the so called HeadCount Index

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<sup>7</sup> Lipton M, (1977), “Why Poor People Stay Poor: Urban Bias in World Development”, London.

<sup>8</sup> Note that several studies have indicated that access to education, health and infrastructure are correlated with poverty

<sup>9</sup> Weeratunge N, (2001), “Micro-Entrepreneurs and Entrepreneurial Cultures in Sri Lanka: Implications for Poverty Reduction”, Colombo

<sup>10</sup> European Foundation, (1995). “Public Welfare Services and Social Exclusion: the development of Consumer Oriented Initiatives in the European Union”, Dublin, The European Foundation

<sup>11</sup> Lok Desallien R. (1997), Poverty Measurement: Behind and Beyond the Poverty Line, Technical Support Document from UNDP, p. 54

is suggested as an indicator and measures based on the capability approach are access to electricity, access to safe water and adult illiteracy.

As discussed earlier in this chapter there is some kind of universal consensus that poverty is about deprivation. IFP-SEED has made an attempt to define poverty in order to create a common platform to start from in approaching poverty. This is important, because when it comes to defining poverty to such a degree that it becomes measurable, then the universal consensus ends. Different definitions of poverty automatically leads to different measures being developed and finally different initiatives to target poverty developed and implemented.

In the current debate of how to measure poverty four approaches can be distinguished, the monetary approach, the capability approach, the social exclusion approach and the participatory process approach.<sup>12</sup> Each approach has a number of advantages and disadvantages.

#### 1.2.3.1 The monetary approach

The *monetary* approach is based on a utilitarian assumption about people. The monetary approach assesses the monetary income or consumption of each individual and relates it to a set minimum level under which poverty is defined. Consumption poverty is generally taken to be the preferred indicator of the “standard of living”, whereas income is only used as a proxy for consumption<sup>13</sup>. Also, since consumption is easier to measure in household surveys than income, it is generally accepted as a more reliable indicator of poverty<sup>14</sup>.

The most notable argument to why the monetary approach is useful is its ‘measurability’. Compared to the other approaches it is relatively easy to measure income or consumption. However measuring poverty by only looking at monetary values might not give an accurate picture. For example, cost of living is different in rural and urban areas therefore the same income or cost of a defined consumption basket might differ within a country. Furthermore a poverty line based on an income level is not telling how poor the people living under the poverty line are. A successful poverty reducing strategy would try to focus on people living just under the poverty line since they would be the easiest to get out of poverty and thus create quick results. Monetary poverty must therefore be further specified in order to define what is actually measured.

The class of measures originally proposed by Foster, Greer and Thorbecke in 1984 is widely used to measure income poverty, and is therefore described here.<sup>15</sup> These

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<sup>12</sup> Stewart, F. (2003) The implications for chronic poverty of alternative approaches to conceptualizing poverty. Presented at the conference on chronic poverty in Manchester on April 7-9, 2003.

<sup>13</sup> Ravallion M., (1992), Poverty Comparisons – A Guide to Concepts and Methods; Worldbank, LSMS Working Paper #88

<sup>14</sup> Alailima 2001 – Sri Lanka: Growth, Distribution And Redistribution

<sup>15</sup> Foster J., Greer J., Thorbecke E., (1984), A Class of Decomposable Poverty Measures, *Econometrica* 52

measures are threefold, although they should not be regarded as alternative measures, but rather as measures of three different things:<sup>1617</sup>

- The HeadCount Index as a measure of the **prevalence of poverty**. The HCI describes the percentage of people whose consumption, or another suitable monetary value, is below the defined poverty line.<sup>18</sup>
- The Poverty Gap Index (PGI) as a measure of the **depth of poverty**. The PGI is based on the aggregate poverty deficit of the poor relative to the poverty line.
- The Squared Poverty Gap Index (SPGI) as a measure of **severity of poverty**. By squaring the shortfall between an individual's level of consumption and the poverty line, it places greater weight on poorer individuals.

These three measures all have advantages and drawbacks. The HCI is easy to compute and also easy to understand. It is preferred when assessing overall poverty reduction or basic comparisons. The draw back is that it does not give any information about how poor a poor person is. The following two measures, PGI and SPGI, attempt to provide more information on this subject, but become less understandable. Combined with other indicators showing the severity of poverty the author finds PGI a preferred measurement indicator.

#### 1.2.3.2 The capability approach

*The capability approach* comes with the view that development should be seen as the expansion of human capabilities, not the maximization of utility, or its proxy, money income. Poverty is then defined as “the failure of some basic capability to function” where basic capabilities are “intended to separate out the ability to satisfy certain elementary and crucially important functionings”.<sup>19</sup>

There is thus an emphasis on the “outcomes” characterizing the quality of life of individuals, and a shift away from monetary indicators. Monetary resources are considered as a means to enhancing well-being, rather than the actual outcome of interest. Monetary resources may not be a reliable indicator of capability outcomes because of differences individuals face in transforming those resources into valuable achievements, which depend on different individual characteristics for example differences between able bodied and handicapped people, or differences in the contexts in which individuals live e.g. differences between living in areas where basic public services or infrastructure are provided and areas where those services are absent.

In order to operationalize the capability approach one has to translate capabilities which represent a set of all the *possible* achievements an individual may have, into something

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<sup>16</sup> Ravallion M., (1992), Poverty Comparisons – A Guide to Concepts and Methods; Worldbank, LSMS Working Paper #88

<sup>17</sup> Ravallion M., (1998), Poverty Lines in Theory and Practice, Worldbank, LSMS Working Paper #133

<sup>18</sup> Ravallion 1992 – Poverty Comparisons / A Guide to Concepts and Methods

<sup>19</sup> Stewart, F. (2003) The implications for chronic poverty of alternative approaches to conceptualizing poverty. Quotes from Sen, A. K. (1992). Inequality reexamined. New York, Oxford, Russell Sage Foundation ;Clarendon Press.

which is observable. For this reason, poverty assessments measure *functionings* (actual outcomes) rather than capabilities. These practical applications of the capability approach normally interpret the minimal essential CA as being constituted by among others health, nutrition and education.<sup>20</sup> Lok Desallien proposes that access to public services can be a means to improved human capabilities which is the end. She suggests indicators such as access to health services, access to electricity or access to safe water.<sup>21</sup>

The major advantage of the capability approach is that it anchors poverty in real conditions of human lives rather than in the utilitarian approach to welfare. It measures outcomes, such as nutrition, directly instead of using some kind of imperfect instruments to measure the same.

The disadvantage is that it is very difficult to measure, but in the case where it is possible to measure such as level of education the capability approach can easily be included as a poverty indicator.

### 1.2.3.3 The social exclusion approach

The *social exclusion* approach is defined as a 'process where individuals or groups are wholly or partially excluded from full participation in the society in which they live'. The application of the concept of exclusion requires the identification of society specific indicators derived from the identification of relevant societal "norms". Yet the norms in many developing countries, defined as what most people experience, might be below what is considered minimally acceptable, and often below what is considered desirable.

The advantage of the social exclusion approach is that the analysis of exclusion lends itself to the study of structural characteristics of society and the situation of groups, e.g. ethnic minorities; or the landless, which can generate and characterize exclusion, in contrast to the two individualistic approaches mentioned above. It therefore often helps setting a framework to why monetary or capability poverty occurs.

The disadvantage with looking at poverty from a social exclusion perspective is that it is very difficult to measure and it can easily become very subjective.

### 1.2.3.4 The participatory process approach

The *participatory process* approach, which includes the above mentioned approaches, builds on a process where poor people define how poverty should be measured and who is poor. The participatory approach is the only internally imposed method of defining poverty. The other approaches are all externally imposed.

The advantage with a participatory *process* approach is that first, the participatory approach provides an additional perspective on what it means to be poor from the perspective of the poor themselves. Second, the participatory approach improves other

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<sup>20</sup> Stewart, F. (2003) The implications for chronic poverty of alternative approaches to conceptualizing poverty

<sup>21</sup> Lok Desallien R. (1997), Poverty Measurement: Behind and Beyond the Poverty Line, Technical Support Document from UNDP, p. 55

measures of poverty, by making them less 'external'. Third, it helps to identify the constraints the poor themselves feel are preventing them from escaping from poverty.

The disadvantage with a participatory *process* approach is that it is almost always conducted by outsiders. It suffers from 'valuation neglect' since entrenched conditions and norms may limit the way the poor perceive their condition. Furthermore, conflicts about poverty in a community cannot be solved with this technique and socially neglected people, often the poorest, are not included in these community assessments.

According to Stewart 2003, the four poverty measurement methods above are not overlapping each other particularly much. This is worrying from a measurement point of view, since each measurement approach will deliver different results about who is poor and how poor they are. This will create different poverty reduction initiatives depending on which measurement framework to use.

### **I.2.4 Level of measurement**

Once indicators have been decided it is important to identify the correct measurement level of poverty. Three measurement levels can be identified in enterprise development and they are discussed below. The household level is suggested as the level of measurement since it provides the most accessible and accurate data.

#### **I.2.4.1 Enterprise level**

*The Enterprise level* measures how the enterprise is doing. The advantage with measuring poverty on an enterprise level is that it is relevant as M&E data for BDS interventions. Therefore this approach is used in M&E for enterprise development activities. However there are disadvantages with measuring poverty on enterprise level. Data about the enterprise does not tell us how this money is being used by the household. Vandenberg, argues in an ILO-SEED paper that the enterprise level is not appropriate measurement level due to a number of aspects:<sup>22</sup>

- While enterprises may be more or less profitable or viable, they are not more or less poor. People in households are poor or non-poor.
- Even the fairly straightforward idea that hiring employees is poverty reducing is problematic. It does not account for the displacement effect: the fact that one business' growth may take place at the expense of another (that a hiring is offset by a layoff).
- Increased enterprise income (profits) can help to reduce poverty but the connection is not always assured. The only thing that can be said for certain is that increased enterprise profit increases the income available to the owner/entrepreneur.

#### **I.2.4.1 Household level**

*The household level* is the most commonly used level of measurement, since it provides an easy to measure entity. Many poverty surveys are also targeting this level of

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<sup>22</sup> Vandenberg P., (2004), ILO, IFP-SEED, Poverty reduction through small enterprise development – Concepts, ILO activities and recommendations for future work

measurement. We can speak of poor households when the income generated by the economically active members is insufficient to satisfy the needs of all members in the household.

The advantage of measuring on the household level is the accuracy of data for the particular entity. Comparisons can also be made between countries since household level is normally used for public statistics. The disadvantage, however, is that the level of poverty in a household is dependent on the distribution of food, health services etc. over different family members. Not all households operate in a supportive, collective manner however. Gender imbalances in the household division of labour and income may result in skewed access to total income, with men receiving a larger share. This may reinforce the poverty trap, as women tend to spend more of their income on the welfare of children. Men tend to spend more on tobacco and alcohol. To get a true picture of the poverty one might have to go down to an individual level.

#### **I.2.4.1 Individual level**

*The individual level* would be an appropriate level of measurement to capture each individual's situation. Many household indicators assume homogeneity within the household despite individual members are treated differently. So do often families in boy child preferring cultures discriminate against female household members. Disaggregation of household data poses difficulties in how to measure the share of household income, access to services etc. distributed on different family members, since they might have different consumption needs etc.<sup>23</sup>

### **I.2.5 Who are the poor in Sri Lanka?**

#### **I.2.5.1 Poverty in Sri Lanka**

Chapter I.2.1- I.2.4 defines the framework through which we can analyze poverty in Sri Lanka. The poverty measurement of Sri Lanka is decomposed in dimensions relevant to the target groups of the pilot projects. For example the Sri Lankan situation is compared with the Southern Province and the rural-urban dimensions.

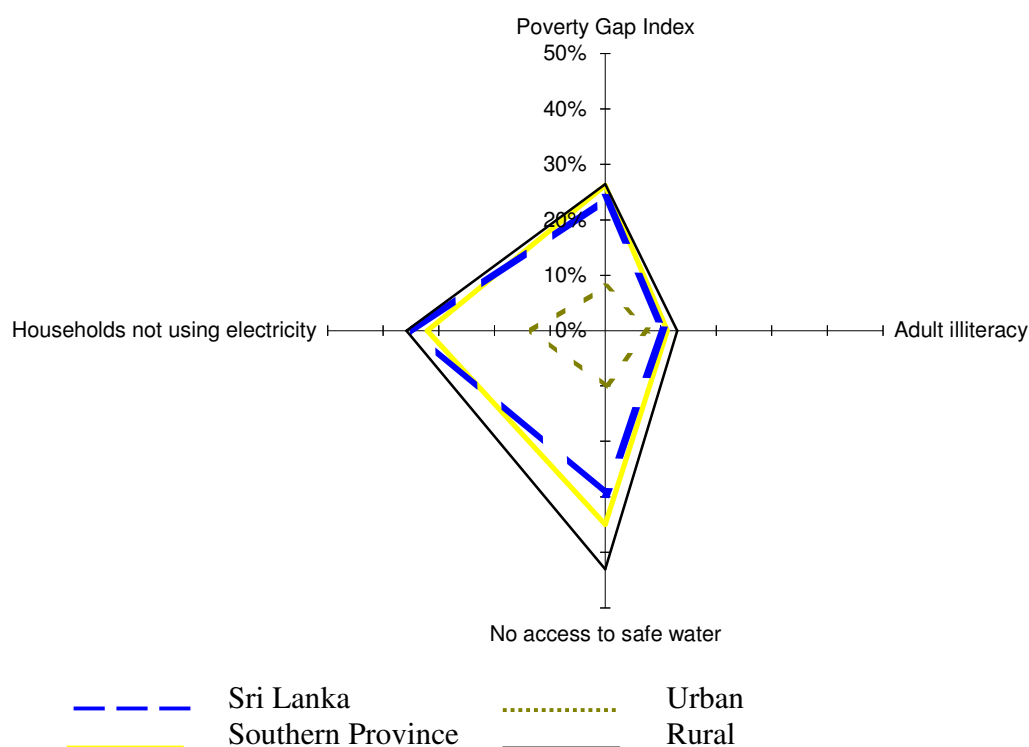
The main conclusions from the composite poverty index show that the incidence of poverty is high in Sri Lanka by international comparisons. Some capabilities of the people are positively high such as literacy, however other capabilities necessary for a decent life such as basic infrastructure is extremely under developed even more so in the Southern province.

It is also clear that the rural/urban phenomenon is strong in Sri Lanka. Rural areas show high incidence of poverty using the monetary approach, they have higher proportion of illiterate people and the infrastructure is considerably worse than in urban areas.

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<sup>23</sup> Lok-Desallien, R., (2000), Review of poverty concepts and indicators, UNDP, New York

**Figure 3 Composite poverty index of Sri Lanka and the Southern Province<sup>24</sup>**



In Sri Lanka 70% of the population live on the country side and 12% live in the Southern Province. Data from 2002 shows that 24% of the Sri Lankan population live under a nationally defined poverty line corresponding to Rs 1294/USD 13 per month or Rs 43/USD 0.45 per day.<sup>25</sup> It is strikingly that as many as a quarter of the population lives on less than half a dollar per day, which by international standards is considered to be extreme poverty. The Southern province, where the two pilot projects are located is a little worse off, PGI of 26%, and the *rural* areas of the southern province where the target group is located are even poorer looking at the Poverty Gap Index.

<sup>24</sup> Data from Dept. of Census and Statistics Sri Lanka, 2002: Household Income and Expenditure Survey 2002 – preliminary results; and Kelegama S., (2001), Poverty Situation and Policy in Sri Lanka, Working Paper for the ‘Asia and Pacific Forum on Poverty’ / Asian Development Bank, Manila 5-9 Feb. 2001; and the Department of Census and Statistics Sri Lanka website; and Abayawardena S., (2002), Water, Health and Poverty Linkages – A case study from Sri Lanka, IWMI

<sup>25</sup> The poverty line has been defined from a minimum required adult equivalent food expenditure model developed by the Department of Census and Statistics in Sri Lanka. It therefore does not follow any international standard and might have been constructed with an aim not to expose the poverty in Sri Lanka. However it uses the HeadCount Index methodology and uses the latest data available. It allows to translate it into a monetary income which can be compared with other countries.



Capabilities like education show that in general Sri Lanka is doing well with an average of 11% illiteracy rate both national and in the Southern province. Looking at it from a rural/urban perspective illiteracy rates rise in the rural areas to 13%. Even in rural areas it is possible to offer material based training to 87% of the population, an important observation for all BDS interventions. Compared with India with an illiteracy rate of 44% Sri Lanka has achieved a lot in this area.

Infrastructure and public services are normally considered as means to help people use their capabilities. In Sri Lanka 34% of the population have no access to electricity and 30% have no access to safe water. Regarding water the Southern province is particularly vulnerable with a big dry zone and here 35% of the population have no access to safe water. If we apply these indicators on the Rural/Urban sectors where the pilot target group can be found we find that access to electricity and safe water is even lower. Sri Lanka is doing badly in this respect. An international comparison shows that in India 19% do not have access to safe water and in Bangladesh that number is as low as 16%.

Earlier in this chapter it was pointed out that female headed households normally tend to be poorer than male headed households. Female headed households make up nearly one fifth of all households in Sri Lanka. Poverty among them is unevenly distributed in the sense that female-headed households in the urban sector are much likelier to be poor than in the rural or estate sector. One reason might be that in the rural and estate sectors female headed households are more likely to be supported by their spouses who may be migrant workers or in the military.<sup>26</sup>

#### 1.2.5.2 Poverty indicators of the southern province

The southern province is an area with a turbulent political past such as up-risings, terrorist attacks from extremist organizations and general unrest among the youth. The area has in general higher incidence of income poverty than Sri Lanka as a whole.<sup>27</sup> The province is partly situated in a dry zone and consequently the access to safe water is a major problem in this area. However the southern province does not stand out as being an area of extreme poverty in relation to the rest of the country. It has also not been the aim of the pilot project to find such an extreme district, since an assumption is that the intervention area must have some functioning markets in order to make it possible for commercial BDS to take place.

As was discussed earlier in this paper the rural areas score worse on a set of poverty indicators than the national average and the urban areas. This has been one main parameter in choosing the intervention areas.

Hambantota is considered the most disadvantaged district in the Southern province. The district is situated in a dry zone of Sri Lanka, which has made it to one of the most frequent drought areas in Sri Lanka. Hambantota district has a higher Poverty Gap Index

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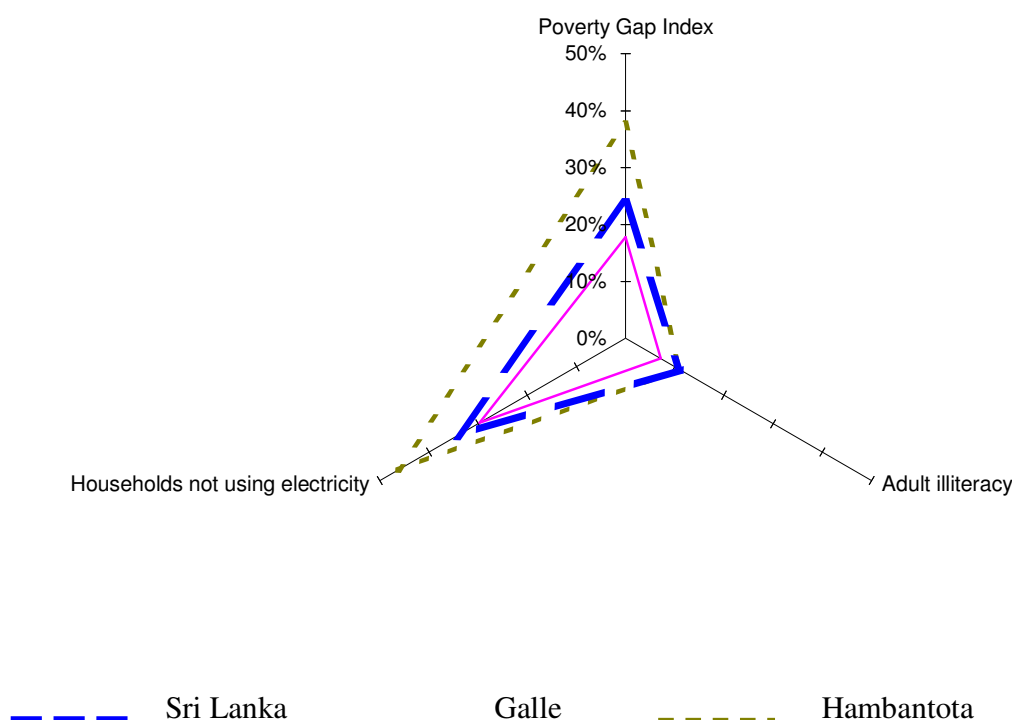
<sup>26</sup> Gunewardena D., (2000): Consumption Poverty in Sri Lanka 1985-1996

<sup>27</sup> All statistics relating to Sri Lanka excludes the war affected areas since the government has not been able to obtain data from those areas.

and fewer households use electricity. It is also well known that this is an area with low rates of access to safe water. As regards the education level Hambantota is scoring as the Sri Lankan average.

Galle district is a comparatively well off region. The Poverty Gap Index is lower than for Sri Lanka as a whole and literacy rates and access to infrastructure is higher.

**Figure 4 Composite poverty index of Hambantota and Galle**



## I.3 Sustainable Pro-poor business development services

### I.3.1 What is sustainability in BDS?

#### I.3.1.1 What is a BDS?

Business development services (BDS) are all services meant to assist a business person to start, manage and expand their business operations. The spectrum of BDS is broad, ranging from operational BDS like communication and transport needed for the day-to-day operation of a business, to strategic BDS like training and consultancy services needed to gain the business management know-how.

#### I.3.1.2 What is a BDS organization?

A BDS organization is any organization with a mandate to provide business development services to the business community. BDS organizations can be public or private sector institutions, and registered as a non-profit organization or as commercial business.

Examples for BDS organizations are consultancy companies, computer training institutes and vocational training centers.

### 1.3.1.3 What is commercial sustainability from a BDS perspective – the case of SIYB training

Sustainability in an SIYB context means that SIYB programs can run sustainable in a given geographical context, i.e. on district-, national-, or regional level, and/or on any level of an institutional hierarchy, i.e. on the level of a single organization or the level of a national association of SIYB training providers.<sup>28</sup>

In the context of the SIYB training to poor people, the term sustainability refers to sustainable SIYB training where local BDS providers provide training to poor entrepreneurs over a longer period of time on at least cost recovery basis. In this definition it is not specified what type of organization provides the service or who pays for the service.

In order to further narrow the definition of sustainability from a BDS perspective we can add the term commercial to the term sustainability. Commercial sustainability aims at defining from where the payment should come. A commercially sustainable BDS service recovers the cost from the end users or another player in the market that will benefit from paying the service cost. Such a player could for example be a buyer of certain goods or services that want to train its suppliers in order to get higher quality supplies.

In order to further analyze the term commercial sustainability in the delivery of SIYB training, three dimensions of sustainability can be distinguished:

- Technical sustainability
- Institutional sustainability
- Financial sustainability

Technical sustainability relates to training quality. For a training offer to be sustainable, it must satisfy minimum quality expectations of the customers in the market, but better anticipate and exceed these expectations. Only if customers are satisfied with the quality of services received, will they continue demanding them and one cornerstone in the sustainability equation is fulfilled.

Institutional sustainability relates to the capacity of the training provider to manage SIYB programs, both within their own organizations, and among other stakeholders, for example intermediaries that have the direct access to the target group. The institutional sustainability is a function of customer focus since ultimately the institutional arrangements will only endure if they are also end-user-friendly, i.e. if they correspond

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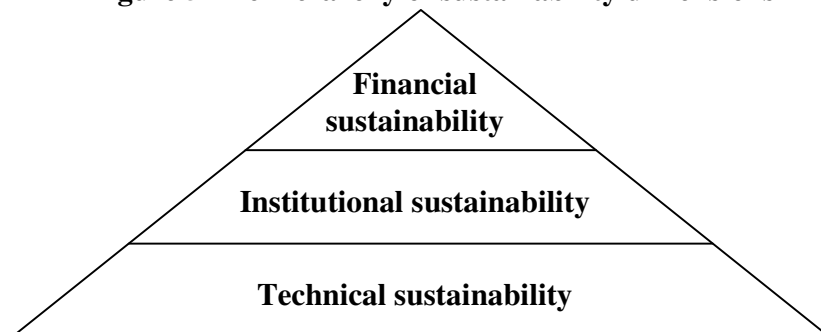
<sup>28</sup> Henriques, Michael 1994: What is sustainability in an SED context?, paper presented on occasion of the Hague Conference in December 1994; also refer to SDC 2000: Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions, SED issue papers No.5, p.24

with the service needs and wants of the target group. In the case of serving poor people institutional sustainability might rely heavily on the relationship to the local community.

Financial sustainability refers to the capacity of training providers to recoup their costs of SIYB training. Empirical evidence indicates that financial incentives drive both individuals and organizations in SIYB organizations to perform; accordingly, financial sustainability also refers to a situation where all training stakeholders derive some form of monetary benefit from their continued involvement. So is for example the customer interested in getting higher sales as a result of going for marketing training and a market intermediary might enjoy more people paying a membership fee if the BDS organization provides relevant services to their members.

The link between the three perspectives is *dialectic* in the sense that each dimension enforces one another. When all three perspectives are satisfactory met, the conditions for a sustainable provision of BDS services are met. In an environment where the target group consist of disadvantaged entrepreneurs the sustainability challenge comes from offering a service that meets the needs and wants of the target group (technical sustainability), finding a way of reaching and delivering the service to the target group in a cost efficient way (institutional sustainability) and finally make the participants pay for the service delivery (financial sustainability).

**Figure 5 The hierarchy of sustainability dimensions**



### **I.3.2 Sustainable BDS – lessons learned**

#### **I.3.2.1 Key learning points for technical sustainability**

Two main areas are particularly relevant for technical sustainability when working with weaker markets namely focus on quality and focus on the service delivery cycle.

The right quality is important when selling BDS to weaker markets or as a BDS expert in Sri Lanka put it: “They are poor but not stupid”, meaning that in order to make BDS commercially viable in weaker markets BDS organizations must cater to the needs of the poor. The ILO-SIYB Sri Lanka project has identified two quality aspects which need focus in order to achieve technical sustainability among poor target groups:

- Resource person's qualification and experience; business concepts are not different when explaining them to poor customers. They sometimes need to be explained differently and applied to the environment of the target group. These kind of exemplifications of concepts require strong trainers confident with modern management and their applications. Too many times, people believe they can train weaker target groups in management, but without qualified trainers the result is often that the target group does not fully understand the concepts and the resulting impact is therefore limited. Commercial sustainability would then be threatened.
- Ability to adapt to the target group; the way of communicating is different in weaker markets. Examples and visualization are very important. A high quality is dependent on the resource person's ability to understand the level of the target group and how they will best benefit from the service.

A renewed emphasis is also put on the service delivery cycle. Below are challenges and learning points for the service delivery cycle to poor people:

- Marketing and selection will have to focus more on finding the target group since conventional marketing methods are often not so successful with poor people. Working through networks and other similar areas have shown more efficient. Focus of the marketing need to be more on educating the customer since they do not have any prior experience of the service. Finally, the importance of making the service tangible becomes even more important. Tangible inputs such as brochures, books, raw material or machines, and outputs such as more sales, decreased costs and better cash flow for the customer are key to sell and retain customers.
- Delivery must be more cost focused without compromising on the quality. Cost reducing initiatives can relate to transport, venue, number of resource persons and the length of the service delivery. Training for example can often be decomposed in modules and thus lower the cost per intervention. Training material is often a cost driver and must be balanced with the perceived benefit by the client.
- Follow-up becomes more important since this is where the service often becomes tangible and show results. For any impact and for customer retention follow-up is crucial. Without follow-up to poor clients BDS will get a bad reputation and will not be able to sell again.
- Evaluations sometimes have to be customized. It is often the case that poor people do not have permanent addresses and tracer studies therefore become more relevant.

#### 1.3.2.2 Key learning points for institutional sustainability in pro-poor BDS

The BDS market development approach defines two key roles in delivering services to MSEs – facilitator and provider.<sup>29</sup> Based on past experience with traditional publicly funded BDS providers and hidden private sector providers, the BDS Primer lists a set of characteristics that constitute an appropriate market oriented BDS provider:<sup>30,31</sup>

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<sup>29</sup> Miehlebradt A. and McVay M., (2003) Seminar Reader on Developing Commercial Markets for Business Development, BDS Reader, Turin

<sup>30</sup> Ibid

- Capacity to deliver services
- Close to small enterprises in culture, operating environment and geography
- Low cost structure
- Commercial focus, business culture and accounting and management systems
- Organizational independence, especially from donor funds
- Organizational stability

The above criteria are somewhat contradictory and the criteria must be chosen according to the target group to serve. Micro enterprises are better off with a low cost provider operating with the same culture in order to match the target group while growth oriented entrepreneurs need high calibre services with strong commercial culture and business focus. This is normally not fitted in one organization and consequently appropriate organizations can cater to respective market segments.

The BDS market development approach is clear about the role of the BDS facilitator. No intervention or subsidies on the transaction level, but rather technical support and subsidies on the pre- and post transaction level. Suitable activities for the facilitator could be to conduct activities such as assessing demand, developing new services and delivery mechanisms, training suppliers and measuring program impact. Once a functioning BDS market is in place donor funded facilitators should exit the market, but commercially sustainable facilitator services can become potential spin offs.

In the case of developing commercially sustainable business models for the delivery of management training the role of the facilitator could thus be to:

- Assess the markets; who are the poor, what are their characteristics, what are their needs and wants, what is their payment potential, what alternative payment mechanisms are suitable for this group, can they be segmented in any way in order to better cater to their needs and wants, etc.
- Develop new service delivery mechanisms; this could include new ways of doing promotion, service delivery and follow up as well as new payment mechanisms.
- Develop new services; if there is a demand in the market and a functioning delivery mechanism exist but the service is inappropriate to the needs of the target group the facilitator can subsidize the development of new services. It could for example be adaptations of existing training material or new training techniques that better serve a particular target group.
- Training of trainers; is necessary if the service and intervention strategy is fundamentally different from what the existing competence of the provider. Training should however be conducted on a cost recovery basis in order not to distort the existing market for facilitator services.
- Measuring program impact; can be done both on provider level in order to measure improved capacity of the BDS provider and on entrepreneur level to

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<sup>31</sup> Also refer to Committee of donor agencies for small enterprise development, (2001), Guiding Principles for Donor Intervention.

measure impact of the program/project. A set of measurement indicators to be used are suggested in the BDS Guiding Principles.<sup>32</sup>

The BDS conference in Turin 2003 put new emphasis on successful business models in creating sustainable pro-poor BDS. It is commonly agreed that it is difficult to find business development service providers that can cater profitably to marginal markets, often poor people in remote rural areas. According to the BDS conference in Turin four successful strategies have been developed to cope with this sustainability challenge.<sup>33</sup> The last two points are interesting from the purpose of this paper since they point in the direction of modifying parts of or revamping the whole business model in order to achieve sustainability.

1. Disseminating information about existing businesses that deliver BDS
2. Supporting replication of existing businesses that deliver BDS
3. Improving the delivery of BDS by existing businesses. Here focus is creating demand driven services and develop the delivery methods using existing delivery channels.
4. Developing new or modified businesses to deliver BDS. This model is appropriate if findings show that no delivery of BDS exists and/or the existing service is so inadequate that it should better start with a new business.

A cornerstone in developing new business models is that the whole business system is depicted with markets, facilitators, providers, customers and the customers' customer. Only then can the feasibility of the model be justified and the role of each player can be defined.

#### 1.3.2.3 Key learning points for financial sustainability in pro-poor BDS

The BDS conference in Turin identified three fundamental challenges in developing financial sustainability in BDS when targeting MSEs.<sup>34</sup>

1. The time of payment, which normally is up-front long before the pay-off for the investment, creates difficulties for the entrepreneur to finance the service.
2. The customization of service is high but the scale of many BDS services are often small.
3. Donor-funded markets have distorted the BDS markets to such a degree that entrepreneurs are unwilling to pay for services they want.

These challenges have however been met with the development of improved business models for the delivery of BDS. Below is a summary of the latest findings about commercially sustainable business models.

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<sup>32</sup> Committee of donor agencies for small enterprise development, (2001), Guiding Principles for Donor Intervention.

<sup>33</sup> Miehlabradt A. and McVay M., (2003) Seminar Reader on Business Development Services – Testing the Guiding Principles, BDS Update, Turin

<sup>34</sup> Miehlabradt A. and McVay M., (2003) Seminar Reader on Developing Commercial Markets for Business Development, BDS Reader, Turin

*Fee-for services*; is most in line with the market development approach and aims at offering financially viable services from the outset. In order to use this strategy and still overcome the challenges mentioned above two main modifications can be done to the business model of the BDS provider:<sup>35</sup>

1. Offer low cost services with short pay-back period by using innovative techniques to make the customer pay:
  - Reduce costs by deliver the service through other small scale enterprises.
  - Modularize the services so they can be sold in smaller pieces.
  - Offer introductory services with immediate value-added for a small fee in order to attract customers and improve their cash-flow to finance the purchase of more services.
  - Offer gradual payment mechanisms such as instalment payments
  - Offer financing to allow the poor to pay for services
  - Collect payment on commission if the services contribute to the profit of the business
  - Group purchase – help MSEs to purchase as a group and receive a group discount
2. Divide activities among facilitators and providers so that each market player focuses on what it does best:
  - The provider serves the MSEs and the facilitator develops supplier capacity.
  - The facilitator can subsidize activities on the pre-transaction level such as marketing of the BDS services and market research used in order to effectively design the service product.
  - No subsidies of services on the transaction level should be used since it distorts the market.

*Facilitating embedded services*; means including BDS services in the sales of other products or services to MSEs. It can take the form of technology, market information, quality techniques etc. Sometimes BDS services can be embedded in financial services so that it is a service provided if the loan is taken. The delivery of BDS as embedded services has good potential since they are a part of another product offering. To reach poor people these services have to be delivered through markets that disadvantaged entrepreneurs can access.

*Cross subsidizing*; can be done in cases where there is a demand for a service but it cannot be delivered on a cost recovery basis. Some BDS providers still decide to provide it and finance the delivery from other operations. Cross subsidizing can take the following three forms:

1. Profits from BDS services to larger businesses are used to subsidize BDS services to smaller businesses
2. Profits from an unrelated activity is used to subsidize BDS services
3. Profits from a viable BDS service is used to subsidize a non viable BDS service.

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<sup>35</sup> Ibid



Some of these cross subsidizing strategies are common in the private market where they can be used to keep a client base, enhance the image, or become dominant in order to keep other entrants out of the market.

*Third party payment;* aims at selling BDS services to MSEs but charging larger firms who also benefit from the service either in terms of marketing to a specific target group or because of improved services from their MSE suppliers.

*Piggy-backing on micro finance;* has often take the form of using credit meetings to promote or disseminate information about BDS. The way BDS is integrated in micro-finance activities varies a lot. Some offer it as a separate, non required, fee based activity with separate BDS and loan officers. Other micro-finance organizations make BDS services, in particular training, a required part of getting a loan and the payment becomes a part of the interest or loan. This approach has been tested and it has a number of advantages and disadvantages.

Advantages are:

- Low promotional costs if credit meetings are used
- The client can pay with the finance he/she gets
- Delivery costs can be kept low if micro-finance facilities are used
- Decreased over-heads since they are shared with the micro finance activities

Disadvantages are:

- Clients may feel compelled to purchase the service in order to be treated favourably in their loan application
- Mismatch of target group for micro finance and BDS
- Dilution of staff focus and competence if they have to do both finance and BDS
- Focus of the BDS if delivered by a finance institution is on loan repayment rather than business development
- Decreased institutional profitability if profitable micro-finance is used to cross-subsidize BDS

The use of micro-finance as a tool to promote and deliver BDS must thus be used wisely keeping some of the negative aspects of the piggy backing model in mind.

In a SEED working paper Suzuki presents suggestions of how to make training sustainable, based on international experience.<sup>36</sup> The model is based on the assumption that a vicious circle between the demand and supply side must be broken. This vicious circle is created since MSEs have low demand due to bad experience/heard of low quality services. Supply is low since the potential is considered low among the suppliers and they thus do not want to invest in adapting the offering and marketing. The way to overcome this is by focusing on some strategies throughout the training cycle.

- Awareness; Use of voucher programs to increase quantity bought
- Trial; Short courses at discounted rates, reduce upfront payment through instalments

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<sup>36</sup> Suzuki A., (2002), Business Training Markets for Small Enterprises in Developing Countries: What do we know so far about the potential?, ILO IFP-SEED, Geneva

- Demonstration effect; Visible results among the trainees
- Retention: Quality improvement through M&E system
- Sustainability; Capitalize on the established market reputation with cost plus prices and investment in marketing

Suzuki does not give any empirical evidence on the impact of the application of this model. It should therefore be used as theoretical discussion based on international experience rather than examples of best practice.

## PART II – ACTION RESEARCH

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### II.1 Rationale

The main contribution of this research is its action research on how BDS delivery mechanisms need to be refined when targeting weaker markets in a commercially sustainable manner. Part I. of this paper describes the target group and best practice in offering BDS to weaker markets in a commercially sustainable manner. Part II. applies the theory on two pilot projects in the Southern province of Sri Lanka, where the aim is to sell SIYB training to poor people on a commercial basis. The following chapters describe the intervention and its findings.

### II.2 Indicators of achievement

The objective of the action research was to offer commercially sustainable SIYB training to poor customers by focusing on modifying the delivery mechanisms. To evaluate the fulfilment of this objective a number of indicators of achievement were developed.

**Table 1 Indicators of achievement**

<b>Sustainability dimension</b>	<b>Indicator of achievement</b>	<b>Threshold level</b>
<i>Financial</i>	Cost recovery – % of revenues in relation to costs	100%+
<i>Institutional</i>	Replicable service transaction – can the same set-up be replicated	Yes
<i>Technical</i>	Retention - % of the clients who purchase a second module	50%

### II.3 Target group

#### II.3.1 Intermediate target group

The intermediate target group were BDS organizations with an objective to offer BDS to weaker markets. In this pilot project the target group consisted of two organizations Hambantota Chamber of Commerce and Sarvodaya Economic Enterprise Development Services. These organizations implemented the project and technical expertise was used to increase the capacity of these organizations. The choice of implementing organization was based on a few main parameters presented in the table overleaf.

**Table 1 Evaluation of implementing partner organizations**

<b>Parameter</b>	<b>Hambantota District Chamber of Commerce</b>	<b>SEEDS</b>
Presence in the Southern Province	+	+
Capacity to deliver SIYB training <sup>37</sup>	-	+
Portfolio of BDS services	+/-	+
Activities in rural areas	-	+
Potential for replication	+	+
Commercial focus	-	+/-

For the first project the Hambantota District Chamber of Commerce was chosen. The Hambantota district is situated in the most rural area of the southern province. The chamber does not have any capacity to deliver SIYB but they offer an array of services ranging from career counselling to channelling credits and training as well as regional and national lobbying. It also works as an umbrella organization for local trade associations in the towns and villages of the district. Some of these associations are active, while others are less active associations. This network provides a platform for replicating a successful concept. To date the commercial focus has been poor in the Hambantota Chamber, since the chamber mainly funds its activities with donor support.

In the second project Sarvodya Economic Enterprise Development Services (SEEDS) was identified as an implementing partner. SEEDS also has a strong presence in the Southern province, but with the difference that they are working with mainly women saving societies in rural areas.<sup>38</sup> SEEDS is one of the biggest SIYB partner organizations with a strong capacity to deliver SIYB training island wide. The replication potential is therefore high. The organization consists of a credit division an enterprise development division and a training division, thus a strong focus on BDS and related services. Historically SEEDS has been a donor focussed NGO, but the last years the organization has set up targets to become commercially self sustainable with positive results. The pilot project was therefore in line with the development direction of the organization.

In the case of SEEDS the project did not only use the capacity of SEEDS as a BDS organization, it also developed the marketing strategy around CBOs linked to SEEDS'

<sup>37</sup> In the case of the Hambantota Chamber a master trainer was hired to join the chamber team to deliver SIYB training.

<sup>38</sup> For an overview of the institutional environment for BDS in the Southern Province refer to: CCC-Swedegroup Consultants pvt Ltd, Analysis of the institutional environment for training small and medium entrepreneurs in Matara & Hambantota, September 2000, and The Ministry of Enterprise Development Industrial Policy and Investment Promotion, Towards a Competitive Business Development Services Market in Sri Lanka – SUPPLIER DIAGNOSIS, February 2003.

through saving societies. There are both advantages and disadvantages with working through CBO's like in the case of SEEDS. The main advantages are that the contact with the target group is strong and trust is high. The people can easily be informed in advance and the number of real services offered can be many if the organization offers many services. Disadvantages are however that the members are normally even less used to pay for services than rural shop owners. Cost recovery might therefore be a problem.

### **II.3.2 Ultimate target group**

The ultimate target group were poor people living in rural areas in the Southern Province of Sri Lanka. The poverty could take the form of income poverty, lack of capabilities such as education or lacking infrastructure. It could also be social exclusion of some kind. General poverty characteristics of the rural population in Sri Lanka and people living in the Southern Province can be found under chapter I.2.5

The action research did not aim at specifying indicators and threshold levels to select poor people who would be targeted and allowed for training. This would both have been practically difficult and commercially non sustainable. Instead the pilot focused on

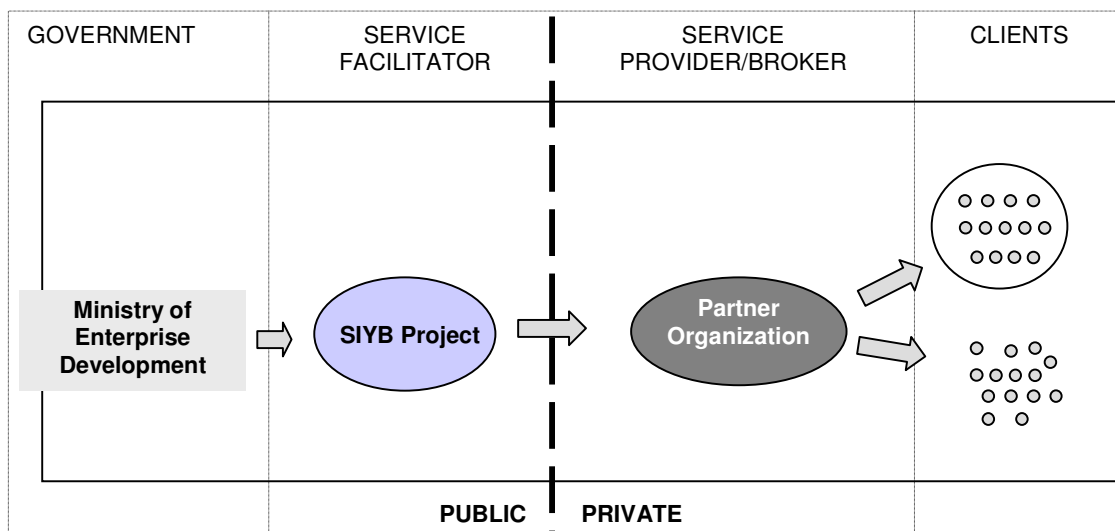
1. Rural areas with high incidence of poverty (Hambantota project)
2. Target groups belonging to networks or groups with characteristics of disadvantaged people e.g. low income, women or socially excluded (Galle project)

## **II.4 Institutional set-up**

The general institutional set-up involved:

- A government which sets the regulatory framework and influences service facilitators.
- A service facilitator which facilitates the provision of in this case SIYB training to poor people.
- A provider who offers SIYB training to poor people.
- Sometimes a broker/intermediary who provides access to the target group.
- Clients, in this case poor people in rural areas, who buy the services.

**Figure 6. Institutional set-up**



Since the two different pilot projects were planned to be implemented sequentially, learning points from the institutional set-up in pilot 1 would be fed in to pilot 2. Chapter II.6 will highlight the differences in the two pilot projects.<sup>39</sup>

## II.5 Intervention principles

The action research is rooted in the principles of the BDS market development approach that emerged in the 1990's. The following principles were used in the design of the projects:

- User pays principle; meaning that the user pays for the services accessed at market price.
- No subsidies on transaction level; in new market development projects the facilitator can subsidize marketing, product development and evaluations but not the transaction between provider and customer.
- Customer centred delivery approach; taking into account that poor people seldom have the resources to seek training opportunities and then travel to obtain training. The project therefore focused on taking the services to the target group.

<sup>39</sup> For a systematic overview and reference of how SIYB is marketed please refer to: Klemmer, A. (2001) Marketing the SIYB Programme – A manual for training managers, International Labour Organization – SIYB Sri Lanka project

## II.6 Intervention mix

### II.6.1 Focus on sustainability in the general intervention design

The two pilot-projects were scheduled in a sequential order, which opened up for improvements in the intervention design from one pilot-project to the other. In short the first pilot project in Hambantota was based on a mobile business service unit that arrived in a rural village and conducted marketing and service delivery on an independent basis. The second pilot project was conducted in Galle and was based on strong community linkages for marketing and training in the community on a date agreed by the community (clients).

The changes made from one project to another were based on hands-on experiences in the field about what did work and what didn't. This subchapter will present the intervention set-up in the two pilot projects and explain why they were changed. However a few fundamental intervention characteristics were adhered to throughout the project.

Issues regarding *technical sustainability* related to follow-up services. Follow-up would be offered to all participants as a way to sell more service and achieve higher impact. A few follow-up alternatives were planned:

1. Follow-up a few weeks after the training. In conjunction with the follow-up a new module is promoted. Visible results for the trainer are used to promote another module.
2. Follow-up on last visits training in the morning and training of a new module in the afternoon.
3. Group counselling in conjunction with training of a new module.

A main feature with the follow-up was to make the participants understand the value added of the training in order to retain the customers. It was therefore supposed to be a quality control in itself. If customers did not get any perceived value added they would not buy a second training module.

The pilot projects were designed to go to each village twice. This was expected to have some positive benefits. First, if the clients would be satisfied with the first training round they would probably like to sign up for a second round and with the help of the word of mouth marketing more people would be interested in services provided in the second round. Trust from the business men in the village was also expected to be built to help sell the services promoted.

From an *institutional sustainability* perspective earlier experience in Sri Lanka has shown that marketing together with a local partner is a key success factor in order to make people trust the information and eventually buy management training. A key component of the delivery was therefore to keep delivery costs down by working with organizations that have strong access to a target group.

*Financial sustainability* was addressed by modularizing the service and to work with efficient follow-up. The SIYB training consists of several modules that can be taken out

and trained separately (especially IYB). In order to reduce the intervention costs one module was trained at each intervention. The training had a maximum duration of five hours meaning that the trainer could travel to the village do the training and travel back in one day.

In conjunction with the training, related services were supposed to be offered such as specific BDS services. They could be in the form of technology transfer, enterprise information services, career counseling and marketing of credit schemes. These related services were delivered the same day as training was conducted in order reduce delivery costs per service unit and simultaneously increase the attention around the “business day” in order to attract more customers. More services would mean increased total revenues which could help to cover the fixed costs incurred.

### **II.6.2 Project 1 - The mobile business centre in Hambantota district**

The practical set-up of the pilot project in Hambantota consisted of a vehicle equipped with all necessary material to deliver training wherever needed. The concept was named the “Mobile Business Centre” (MBC). The MBC would go to small rural villages and market a basket of services offered by the HDCC and SIYB. In the afternoon/evening IYB training would be delivered. The practical set-up is discussed in detail below within the framework of the 4 P’s of marketing, namely product, place, price and promotion. First a comment is made about the target group.

- Target group*     The villages were situated in rural areas of the Hambantota dry zone, an area with the lowest access to infrastructure in the Hambantota district. At the outset the target group was people coming to the weekly market day. These are low income people with low education. Two main reasons forced the project to change target group. First, that kind of target group did not go well with the Chamber’s objective of promoting HDCC membership since they mainly target bigger SMEs. HDCC’s potential members are generally not disadvantaged entrepreneurs in contrast to many entrepreneurs coming to the weekly market day. Second the entrepreneurs coming for the weekly market day do not have time to participate in training during the market day since:
- They live far from the village and need to catch a transport home from the village before it gets dark. Late afternoon training is therefore not possible.
  - During the fair they do not have time for one to one marketing.

The result was that the target group was redefined to be existing businessmen within a radius of 2 km from the small rural village centre that the MBC would visit. These have low access to infrastructure as they are situated in Hambantota, but educational level of this target group is often fairly high.

- Product*     The Mobile Business Centre was based on the idea to offer as many services as possible during the day the MBC was coming to the village in order to be able to generate maximum amount of revenues to cover the fixed costs in



terms of truck, generator etc.

The SIYB service product to deliver was IYB modules. In this case the training of one IYB module would take place between 17.00 and 19.00. It would be material based and delivered as a two hour seminar.

At the outset of the MBC project the Chamber had a range of products that they claimed could be offered to the entrepreneurs when the mobile business centre arrived in the village. It ranged from training seminars, enterprise information service, marketing of a credit scheme targeting youth, and career counseling.

*Place* Initially all services were supposed to be delivered in the open air. A suitable location for SIYB training would be identified; chairs set-up and a pin board and white board would make the scene. Light would be provided and if electricity could not be provided from a nearby shop a generator would be used. The training location was later changed to indoor alternatives, see the results sub chapter.

*Price* The price of the IYB evening training was Rs. 250 equivalent to USD 2.5. Included in the price were one manual, a file, note papers, a pen and a two hour business management training. The price of the manual was approximately Rs. 170 equivalent to USD 1.7 so there was a calculated margin of Rs. 80 equivalent to USD 0.8 or 32% to cover trainer charges and fixed expenses. It is not a level where this service could be delivered in a sustainable manner, but together with other revenues, generated in the same day, it could be possible.

The seemingly low price was motivated by several factors. First, the target group is not used to buying intangible services like training. Until a few years ago they were paid sitting allowance for similar training. Second, the ability to pay is low in these rural villages.

*Promotion* The plan was to inform the local trade associations about the arrival of the MBC. The village trade association would then inform the local business men about the arrival of this MRC loaded with services. This procedure was expected to increase the impact of the promotional campaign.

Once in the village, the promotion of the SIYB and HDCC services were based on mass marketing and direct marketing. In the morning the MBC arrived in the village and set up a colourful stand with banners. At the stand, visitors could get brochures about the chamber and the IYB training. They could also talk to a representative from the SIYB and the Chamber. With regular intervals the truck equipped with loudspeakers would go out for promotion tours in the village. The loudspeaker message told the businessmen in the village when and where training would take place.

During the course of the day the SIYB trainer would walk around to meet business men in their business premise in the village and to promote the training in the evening.

**Picture 1 Promotional stand in Weerakitiya, Hambantota District**



### **II.6.3 Project 2 - A customer centred service delivery in Galle district**

As a response to feedback obtained from the Mobile Business Centre project the customer service delivery approach was developed.

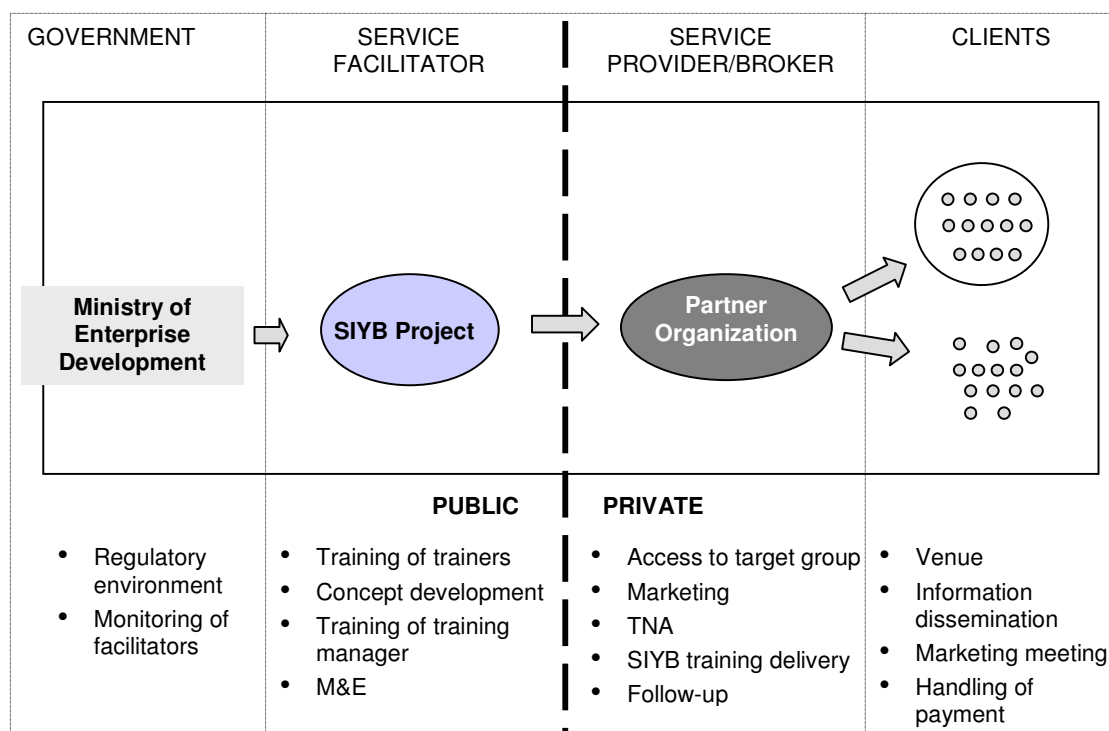
As can be seen in figure 6 the division of labour between the different players in the market is clear. The SIYB project works as a facilitator to the providers. Essentially the facilitator trains the trainer and trainer managers of the partner organization, develops the concept to be tested and conducts the monitoring and evaluation in cooperation with the provider.

The provider on its side provides access to the target group, conducts marketing, delivers the service and handles the payment. Payment and day-to-day contact with the customers is delegated to a representative in the community based organization.

The clients, in this set-up, normally provide the venue for training and information meeting. They also provide further information dissemination through a client representative once the information/marketing seminar has taken place. The clients pay up-front for the service they receive.

The main difference to the conventional set-up of SIYB training is that the provider works more closely with the target group and more work is put on the target group in order to minimize the cost of travel and time for the provider.

**Figure 7 Intervention strategy of the customer centred delivery approach**



The practical set-up of what was named “Customer Centred Service Delivery” built on two main parameters: low costs and community ownership. A trainer would come with motor bike and inform the CBO about IYB training in their monthly meeting, the CBO administers payment and further information dissemination and provides a venue when the trainer comes to deliver the training and do the follow-up. The SEEDS pilot project thus built more on ownership by the partner organization and the community based organization.

*Target group* The target group of the mobile business service centre was members of SEEDS affiliated community based organizations. These CBO have low income people as members. Access to infrastructure in this area is fairly good especially compared to Hambantota. More in particular the services targeted the group of people who have small businesses, income generating activities or were in the process of starting a business in these SEEDS societies. The concept is however based on an inclusive approach

so if it is possible to reach out to other entrepreneurs in the same village they also make out a part of the target group.

*Product* SEEDS has a range of products that could be promoted to the entrepreneurs in the SEEDS societies:

- SIYB training was the core offering in this pilot. Two IYB modules would be delivered on two different occasions. The two modules were marketing and costing.
- Counselling/follow-up is normally a costly matter but if it is included in a bigger service package the cost will go down. In this pilot the aim was to provide counselling every afternoon after the training in the morning. In practice this meant that training would be provided in the morning and the next time the trainer arrived he would train a new module in the morning and conduct counselling in the afternoon on the subject that was discussed at the last training event.
- Enterprise development services could be offered with the enterprise services division of SEEDS. Services that can be offered by SEEDS' enterprise division are business information, business plans and technology transfer.

Since training and enterprise development services are offered by different departments in SEEDS a cross functional cooperation was required to deliver the above mentioned services.

*Place* The services would be delivered in the village temple, school or community hall. Most temples have a lecture hall and they are provided for free. Non training services could take place in conjunction with the lecture hall or in individual meetings at the entrepreneur's premises. No training equipment except at the most a pin board would then be needed. Chairs and tables could be provided from the training venue. This set-up meant that both the information seminar and the training would be conducted in an environment known to the customers, which might increase the trust from the clients.

*Price* The price of the training was set to Rs 350 equivalent to USD 3.5. Out of these USD 2.5 went to the manual and USD 1 went to cover trainer fees and training related costs. SEEDS has a strong pressure to self finance all their initiatives since donor financing is decreasing. Therefore this pilot would be in line with a pro-poor training initiative coming from within the partner organization in the future.

Registration and payment would be done to the local SEEDS credit officer living in the village. If entrepreneurs would want to sign up the same day as the training they could pay before entering the training venue.

*Promotion*

Based on the learning points from the SIYB project's pilot test with the Hambantota District Chamber of Commerce the promotional strategy was refocused on the relationship assets between SEEDS and the SEEDS society. An information seminar would be conducted in conjunction with the saving society's monthly meeting. This would give maximum outreach in an atmosphere of trust and acceptance. The local SEEDS credit officer would thereafter be responsible for information dissemination through a leaflet developed by ILO-SIYB and SEEDS.

Apart from the information seminar and the local information point, no more promotional activity is conducted. Hereafter mouth to mouth marketing would be the main promotional tool.

***Picture 2 Information seminar with a SEEDS saving society***



## II.7 Findings

### II.7.1 Observations

In this section observations from the two pilot projects will be presented and compared. First some general results will be presented; thereafter observations will be discussed in the framework of the 4Ps used above.

	Hambantota	Galle
<b>Overall results</b>	<ul style="list-style-type: none"> <li>9 villages were visited in a total of 16 visits. Totally 87 people were trained of which 34 paid. These paying participants bought 42 manuals. The pilot project generated revenues of Rs 10 500 (USD 105) from material sales but simultaneously incurred costs of Rs. 62 000 (USD 620), excluding labour costs.</li> </ul>	<ul style="list-style-type: none"> <li>At the information meetings in the five selected villages 245 people were present and 27% equivalent to 66 people signed up and paid for training. 77% of the participants were women.</li> <li>The partner organization made Rs 23 100 (USD 230) in revenues while material and labour cost stood for Rs 16 500 and Rs 6 000 respectively.</li> </ul>
<b>Target group</b>	<ul style="list-style-type: none"> <li>Existing business owners with a premise in the visited village.</li> <li>The villages were situated in rural areas of the Hambantota dry zone. An area with the lowest access to infrastructure in the Hambantota region. Income varied between individual participants, but the poorest of the poor were not reached.</li> <li>Mainly trading and service sector</li> <li>Majority (approximately 70%) were men</li> <li>Main age category was 30-50 years old</li> </ul>	<ul style="list-style-type: none"> <li>The participants were members of SEEDS savings societies in the Galle district.</li> <li>41% of the participants reported a household income of Rs. 3000-5000 (USD 30-50), 3% had a household income of Rs 5000-8000 (USD 50-80) and 41% had an income of Rs 12000+ (USD 120+).</li> <li>80% of the participants came from households with an average monthly per capita income of Rs 2200 (USD 22) or less.</li> <li>Access to infrastructure is fairly high since the main road connecting Galle with Colombo is not more than 12 km from any of the villages.</li> <li>Most of the participants were between 26 and 45 years old</li> <li>A majority hold an O-level or A-level degree. The fairly high educational level is results of all villages are situated nearby a main road. Education can therefore be accessed without incurring too high costs.</li> </ul>
<b>Product</b>	<ul style="list-style-type: none"> <li>The Chamber decided in the end not to sell any services direct at the mobile business centre, but instead only promote their services offered in-house. The result was that the SIYB training was the only service offered in the village with the Mobile Resource Centre.</li> <li>The HDCC main objective turned out to be to promote direct HDCC memberships. Totally the chamber sold 2 memberships and received 8 applications.</li> <li>The marketing module was delivered in the</li> </ul>	<ul style="list-style-type: none"> <li>The IYB marketing module was delivered successfully in all five villages. The day of delivery was normally a Saturday, Sunday or holiday since that was when the customers had time to join. No main modifications or adaptations were made to the package. All training was conducted in day time, why power was not needed.</li> <li>A main failure in the delivery is related to the internal institutional cooperation. In the outset the plan was to create a team of resource persons from the training-, enterprise</li> </ul>

first round of training programs. The response was good during training. Some trainees even demanded a full course in IYB.

- The second module that was promoted and offered was record keeping. However the module was never trained in any village.

development- and credit department from SEEDS. Together they would offer a range of BDS products, like an a la carte menu. The credit department could monitor existing loans when the transport was provided in order to save costs. In the pilot the credit department did not actively cooperate with the training department so only SIYB training was provided. With more cross-departmental cooperation the pilot might have been even more successful.

- Follow-up was provided after the training. A clear trend during the follow-up was that the established entrepreneurs were more satisfied and demanded more training than those trainees who only had a business as informal or side activity. In this case the training contents and methodology might be more suitable for established entrepreneurs. The informal entrepreneurs do not always put the same interest in their business or they do not understand the importance of knowledge.

### ***Place***

- Initially training was conducted outdoor, but the perceived value of the training was too low and the dignity of the participants was harmed.
- The best place for training delivery turned out to be a school or a temple, since it increased the perceived dignity and quality of the training.
- Since most training locations such as temples and schools are free to use in the evening the training cost did not increase, but the perceived value of training was higher.

- The training was conducted in temples and community halls. The local temple and community hall were places where the customers were comfortable with the training situation and in addition the venues were provided for free.
- The local CBO provided the venue for the information meeting and the training.

### ***Price***

- To get advance payment during was difficult; the entrepreneurs wanted to wait until the training occasion. Still no efficient technique has been developed for how to make people pay during or before the session.
- It was also difficult to make people pay at the start of the class if people had been let into the classroom without paying.

- The price of Rs. 350 was charged to all participants without any problems. A main factor was that the payment was administrated by the local SEEDS society. People who wanted training signed up for the seminar in advance and paid a registration fee to the local SEEDS credit officer.
- The price was considered fair by the participants.

### ***Promotion***

- Direct marketing was the most successful and efficient marketing method. It appears as if direct marketing could be enough to attract entrepreneurs to the training. On the other hand only shop owners in the central village would come, since they are the only entrepreneurs living close enough to get a visit in a mobile direct marketing campaign.
- In connection with the promotion of management training it was also

- The local CBO leaders supported the training and they have a strong influence on the members.
- The trust factor, which is important here in Sri Lanka was high thanks to both an existing relationship with clients and many people informing at the information meeting. The last point is worth developing. In Sri Lanka persuasion becomes more effective the more people you have with you meaning that a one

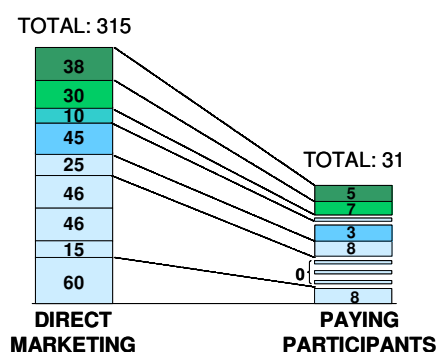


communicated that linkage information will be offered e.g. existing credit schemes in the area. The linkage information attracted many people.

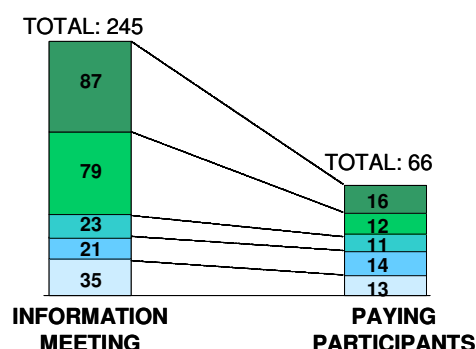
man show will never make people come for training. In this case a trainer associated himself with the CBO to get a stronger position.

- Practical and down to earth communication with many examples from daily life, jokes and tangible presentations are essential to make the target group interested in a service they have never heard of before.

**Figure 8. Impact of promotion in Hambantota project**



**Figure 9. Impact of promotion in Galle project**



### Timing

- Three training time alternatives existed; day training, evening training and holiday training.
- Day training in the afternoon 16.00-18.00 p.m. was used and was not ideal for the local business men. Some had not closed their business while others wanted to leave the village by bus before it got dark.
- Evening training would be preferred by the local businessmen in the village. Evening training in rural areas had some disadvantages:
  - Remote areas meant long travelling and the trainer would be home late in the evening.
  - Power supply is required which increases complexity and cost.
  - Women entrepreneurs in Sri Lanka need to look after their family in the evening and therefore evening training would be discriminating against women entrepreneurs.
- Training on national holidays and week-ends is a feasible alternative but from a trainer point of view it might not be attractive.
- All briefings were scheduled in conjunction with the monthly SEEDS society meeting. Participation and awareness of the activity was therefore high.
- In the SEEDS societies the timing matters a lot also for poor women entrepreneurs. Most training was scheduled on holidays or Saturdays on request from the customers. These entrepreneurs could then follow training during daytime.
- Follow-up on the other hand was conducted during daytime in the week.

### Customer retention

- The program consisted of two rounds for each village. We expected that after the first round more trust would have been built up and customer retention would have been high, but looking at the results of the
- 75% of the trainees received follow-up. Out of these 30% wanted more training.
- Typical characteristics of trainees wanting more training was that they had a full time business engagement and/or that they had business with



training in the second round it turns out that the customer retention is low.

- Some reasons to the extremely poor customer retention could be:

- Bad marketing in the second round. The marketing was in the first round promoted heavily from the chamber and an ILO representative was also there, meaning that the willingness to work in this dry, hot area was still high among the sales staff. In the second round one resource person from the Chamber and one SIYB trainer worked together to promote the training. Their motivation was lower and since they were only two persons they had difficulties in getting trust from the target group.
- Low customer satisfaction. The customer satisfaction was never low according to the daily evaluation sheets that were filled out. However, entrepreneurs that liked it and paid for the training wanted more thorough training, two hours was not considered enough.
- Ability to pay for a second module was too low
- It could also be so that record keeping, which was promoted in the second round, was not as interesting as marketing.

- Finally, many of the participants who participated in the first round without paying did not come for the second round since they could not afford it when payment was much stricter.

more developed areas. They better understood the value of the training.

- Some people did not request training since they could not pay for the training if would be too close after each other. The ability to pay therefore guided when they would demand a new training module.
- The follow-up provided an excellent opportunity to market the next module, but since the ability to pay is low the interval between offering new modules can be much longer than the time between training and follow-up.
- As of today a second round is planned but has not been implemented.
- A proxy variable for technical sustainability is impact. 21% of the trainees had added products to their business after the training. 59% of the trainees had increased their sales after the training. The impact can thus be considered satisfactory.

### ***Commercial sustainability***

- Cost recovery was less than 10%
- Set-up was not successful
- Retention turned out to be less than 10%

- Cost recovery was approximately 100%
- Set-up is possible to replicate but internal cooperation and motivation is doubtful
- 30% have asked for more training.<sup>40</sup>

### ***Picture 3 Training in the open air, Middeniya, Hambantota district***

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<sup>40</sup> See annex 1 for detailed statistics on impact of the marketing training.



## II.7.2 Conclusions

### II.7.2.1 Is the original hypothesis rejected?

The basis of this paper was to analyse, by means of combined theoretical and action research, whether it is enough to modify the delivery of BDS in order to cater to markets segments characterized by poor entrepreneurs. The indicators of achievement guide the evaluation of the research results. The table below shows that financial and institutional sustainability was achieved at the Galle project while retention was not achieved. The foundation for a long-term sustainable method is thus questionable. The Hambantota delivery mode was a failure from a commercial sustainability point of view.

**Table 3 Outcome of indicators of achievement**

Sustainability dimension	Indicator of achievement	Threshold level	Outcome	
			<i>Hambantota</i>	<i>Galle</i>
<b>Financial</b>	Cost recovery – % of revenues in relation to costs	100%+	<b>&lt;10%</b>	<b>100%</b>
<b>Institutional</b>	Replicable service transaction – can the same set-up be replicated	Yes	<b>No since set-up was not successful</b>	<b>Yes</b>
<b>Technical</b>	Retention - % of the clients who purchase a second module	50%	<b>&lt;10%</b>	<b>30%</b>

However, it can with confidence be said that one pilot project has clearly shown that delivery is key in order to sell BDS to poor entrepreneurs. Thereby it is not said that it is the most important aspect regardless of market segment. An important conclusion in this research is that people can be defined as poor on many different parameters leading to

fundamentally different needs and wants. In Sri Lanka it turned out that education was rarely a problem, but the lack of infrastructure and income made the entrepreneurs disadvantaged.

Generally some market segments among the poor entrepreneurs can absorb existing SIYB training methodology and materials. However their ability to pay for the manual is low why the frequency of training might be low. Other segments of the market might be able to comprehend the concepts, but not have the money to buy material based training. These groups would benefit from game and hand-out based training. Yet another group of poor people would not have the capacity to understand the concepts in the SIYB training. This segment needs to be targeted with other BDS specifically catering to target groups with little capabilities in reading and writing. Each sustainability dimension will be discussed below.

#### II.7.2.2 Commercial sustainability

*Technical* The technical sustainability is dependent on a product that is demanded by the target group. Since the customer retention was low it can be questioned how well the IYB service product meets the needs and wants of rural entrepreneurs. One observation is that rural people are not familiar to learn from reading. It might look good to have a book, but it is not used as it should. From this perspective a training concept that is not material based, such as a game combined with handouts might be a better solution. It would also decrease the service delivery costs. Comments from participants in the follow-up revealed that they wanted, but could not afford, a second module in a foreseeable future. The intervention frequency must thus be determined in order to calculate the potential revenues from a target group.

The way of communicating with the target group in the information seminars turned out to be a crucial. Rural entrepreneurs with little formal education need a lot of real life examples to be able to understand the benefits of management training. This translation of theory into practice relating to micro entrepreneurs demand high calibre trainers. Training of poorer target groups might thus put higher demands on the trainers and not the opposite which is sometimes the common picture. This is as important in promotion as training. In promoting SIYB to poor customers it is more relating to customer education rather than pure promotion.

From a promotional point of view it seems effective to market BDS services together with financial linkage services. The Hambantota pilot project confirmed that.

Reaching poor entrepreneurs in the market turned out to be difficult in this program for many reasons. First, the target group of the Hambantota District Chamber of Commerce is relatively well off entrepreneurs. Second, entrepreneurs having IGA's are often working at home and are not as visible as established business men. Therefore the marketing needs to be further refined to reach these groups, for example by working through community linkages. The SEEDS marketing set-up with a strong local partner made it possible to identify poor customers in a cost efficient manner.

An important aspect that has so far been neglected is the issue of impact of commercially sustainable BDS to poor customers. The new BDS market paradigm would argue that the market will regulate itself and bad providers will be sorted out. But are the buyers informed enough? Here the institutional set-up is worth emphasizing. A CBO can work as a gatekeeper for providers with bad reputation since the leaders of the CBO normally have contacts outside the village.

So will commercially sustainable BDS equal maximum impact? Probably not, the provider's incentive is to retain the client, but to an acceptable cost. Therefore equilibrium will probably emerge in the area where customer satisfaction is high enough for more purchases, but not so high that maximum impact is achieved.

#### *Institutional*

The set-up with a Chamber as a link to the target group turned out to be too weak. It neither gave the promotional leverage from having local trade associations for information dissemination nor the trust that is badly needed for "alien" salesmen coming to sleeping rural villages. The link to the target group must thus be much stronger and more committed to the value of this kind of service.

As mentioned above trust from the target group is key to reach under serviced rural areas and even more if the target group is poor. In this respect direct marketing is more efficient than mass marketing and strong links with the target group is even better. If the target group sees this kind of intervention as a long-term commitment trust will emerge. In the case of SEEDS, the SEEDS saving societies make out a perfect starting point, since the whole information dissemination organization already exists. The society meets once a month and offers an opportunity to market the SIYB training. The consent from the local society also automatically shows trust to the customers, which is a key success factor in Sri Lanka. The obstacle of marketing services to rural villages is with this set-up overcome.

Trust is built up from long relationships. In the successful case of marketing management training to the members of SEEDS communities the clients had a financial relationship with the community. Recent research suggests that it can be dangerous to offer BDS and credits under the same roof because clients that default on their loan blame the default on bad training by the same organization. Experience from SEEDS does not indicate any problem of this kind due to a number of reasons. First, the different departments are working so independently that the client does not have the same relationship with the credit officer as with the trainer. Second, the quality of the training is proven high and therefore rarely results in complaints of that kind. Third, BDS is offered to clients who already have a loan. The BDS is thus an added service to the existing members and not a prerequisite for a loan.

It is however clear that the relationship capital that many saving and financing institutions build up with their members seem to be useful in accessing and communicating with the desired target group. In the case of SEEDS it turned out that the internal cooperation had not the capacity or motivation of utilizing this kind of opportunity.

*Financial* The Hambantota project showed that it is not feasible to offer SIYB training on the wheels. Costs excluding labour amounted to Rs 62 000 (USD 620) and if labour was included the costs were up to Rs 100 000 (USD 1000) and revenues only Rs 10 500 (USD 105). Ways to increase revenues is to focus on the village business people and offer more comprehensive training. Such a financial sustainability strategy would however divert attention from the poorest target groups in the villages. Ways to reduce cost are to get rid of all electronics and the generator, conduct training in temples or schools, and put more work on the local partner organization.

The SEEDS pilot in Galle shows with its different set-up that there is potential for commercially sustainable BDS to poor entrepreneurs. The price of training gives a margin of USD 1 to the trainer/organization for every person participating. The cost of a trainer per day for this organization is between USD 7.5-10. With 15 entrepreneurs paying for training all costs in the training cycle is covered. However it assumes that the trainer comes by motor bike or bus to the training venue.

The costs of service production could be kept low by using community halls or temples and by using a motor bike as a means of transport. The main cost drivers were

1. The manuals which make out 70% of the total revenues
2. Labour costs which takes approximately 20% of the revenues

All measures taken to cut material costs for example buy means of having a game and handouts will have a direct and strong impact on the service production costs.

Payment was another main obstacle to overcome in the Hambantota pilot project. Many people came for the training in the belief that they could pay later or they could see the training before paying for it. Once the price was clearly communicated and payment was made at the entrance to the venue, many people backed-out. The price was considered high by some customers. They were not used to buying management training, an admittedly very intangible service.

In the Galle project the society leader acted as a key person in collecting money and disseminating further information. He/she could also emphasize the need for this kind of service. This delegation of administrative tasks had two advantages. First, costs were reduced by the time saving of reduced administration. Second, the client could pay to the society leader at any time thus the convenience increases and there is no way to get away without paying such as customers saying that they will pay later.

## **II.7.3 Recommendations**

### **II.7.3.1 Identify the appropriate market segment for your service or modify the product!**

This action research has clearly shown that disadvantaged entrepreneurs or poor entrepreneurs can have very different needs and wants. A main learning point is to be clear about how the market for BDS to disadvantaged entrepreneurs can be segmented in

order to know where the service offering match the specific needs and wants of a market segment.

For some disadvantaged entrepreneurs the price is the main parameter while for others, the training must be more interactive and less material based since the target group is not used to learning from reading.

If the product does not match any market segment, the alternative is to modify or develop a new product. For example in the case of IYB training it has become increasingly clear that some customers would get more out of the product if it included more learning by doing such as a game. A first action would therefore be to test whether the SIYB game is suitable for this target group.

#### II.7.3.2 Make your offering “hot” through embedded services and direct marketing!

In the first pilot project it was successful to market linkage services together with management training. Discussing credit programs available on the market was very interesting for the participants due to their relative information isolation. Other relevant linkage services such as technology transfer might also attract attention. For customer attention the service should be “loaded” with customer oriented tangible attractions. Technology or credit linkages could make the offering hot.

In the SEEDS societies the target group were already involved in a local savings and credit scheme. Here the local credit officer could explain the benefits of IYB training to his customers and thus create trust for the product.

#### II.7.3.3 Create an institutional set-up based on delegation and ownership!

Reaching the poor is difficult for many reasons. They are difficult to identify and target in a cost effective manner. Their ability to receive and process information about management training is often limited. To overcome the issue of reaching the poor the institutional set-up is key. In the Hambantota project there was no institutional set-up that ensured a strong link to the entrepreneurs because the trade associations were too weak. However, in Galle, an institutional set-up assured access to a target group with the right characteristics and it also made sure a majority would come for the marketing event since it was scheduled in conjunction with the monthly meeting.

Marketing BDS to disadvantaged entrepreneurs has to build on trust. The preferred promotional technique to achieve this is direct marketing. The Hambantota pilot project showed that direct marketing was the main way of marketing and selling IYB training. However it was a very costly and time-consuming technique to meet every entrepreneur individually. In the Galle project this approach was used but in a bigger scale through an information meeting. An information meeting together with the CBO at the monthly meeting provided a natural platform of trust to spread the information. It is therefore recommended to use organizations with strong linkages with the target group for all direct marketing.

The institutional set-up involving a Community Based Organization is successful for several reasons:

- Trust for the service provider is built up by associating the organization with a local CBO.
- The local organization can handle information dissemination before and after the information seminar, thus increasing customer service and knowledge.
- The local organization can administrate payment. This has the advantage that the local organization feels involved and has a commitment to the service. They also make sure payment is being done correctly since they cannot negotiate better deals or ask for payment after the delivery.
- The training venue can normally be borrowed from the local organization.

#### II.7.3.4 Knowledge can be cheap – cut all non-essential costs!

“Cut the crap” should be the mantra when focusing on costs. Focus on the core service and try to get rid of all surrounding costs. In the second pilot phase the only costs that were incurred were transport by motorbike or bus, cost of labour, cost of the manual and contribution to overhead. Truck, generator, sound system, chairs, pin boards and flip charts were all cut out for the second pilot. Venue was provided by the local community and the participants brought their own food or went home to cook.

Since the training is material based there is no need for heavy training infrastructure. In the end, trainer- and training material costs are cost drivers. The trainer is a fixed cost and the training material is variable but always covered in the cost per participant. If the material cost can be further reduced by for example recycling material than the opportunity of offering truly cheap management training emerges.

#### II.7.3.5 Segment the market to find the commercially sustainable sub segments!

The aim of this action research was to analyze whether it is possible to offer commercially sustainable management training to poor target groups by changing the modus of delivery. The first results tell us that so is possible, but with reservations. For example customer retention has still not been proven in any of the pilot projects.

Taking this discussion to a more general level it is important to point out that only a sub segment of all entrepreneurs that could be labelled as poor can benefit from commercially sustainable delivery of in this case SIYB training. Some customer segments might be difficult to target since they do not belong to any CBO. Some would find this to expensive; others cannot process material based training because they are weak in reading and writing. A fairly non-controversial conclusion is that more tools must be developed to cater to these segments, but one should not disregard existing well-tested products. Below is an attempt to visualize the market for commercially sustainable SIYB training in a matrix with products vs. segment characteristics. The grey area shows segments where SIYB intervention might be possible on a commercially sustainable manner. The light grey area is a segment where commercial sustainability is questionable. White areas are segments where new tools must be developed and commercially tested.

**Figure 10. SIYB products – segment matrix**

	IYB modules	Modified SIYB game
Low level of poverty	<ul style="list-style-type: none"> <li>• Good education</li> <li>• Member of a saving society</li> </ul>	<ul style="list-style-type: none"> <li>• Low education</li> <li>• Cash poor</li> </ul>
Medium level of poverty		<ul style="list-style-type: none"> <li>• Low education</li> <li>• Cash poor</li> <li>• No access to credits</li> </ul>
High level of poverty		

Products for the white segments should be cheap to use and that can cater to entrepreneurs with lower level of comprehension. As has been emphasized before, if the manual is taken out the training costs can be decreased with up to 70%, a substantial amount for any customer segment. However the learning effect will of course be reduced.

An alternative to books could be re-usable training material that is highly action oriented and related to real life. These could be financially sustainable for even a small extra fee. For example a game based training product could be a low cost training product that would enhance the learning effect while simultaneously reducing the price of the intervention. The SIYB programs could test the existing SIYB game on poor target groups.

#### II.7.3.5 Conduct further research on specific themes

The most impact oriented areas where research would add value to this discussion are:

- Pro-poor market segmentation; both in terms of how to define different groups of entrepreneurs and their characteristics and also how this would translate into a needs and wants specification for BDS.
- Refined business models for retention and replication; would ensure that the first steps in this action research would be better described and defined in order to spread this knowledge to local providers.
- Need for new products; targeting segments where existing SIYB tools cannot meet the needs and wants of the target group.



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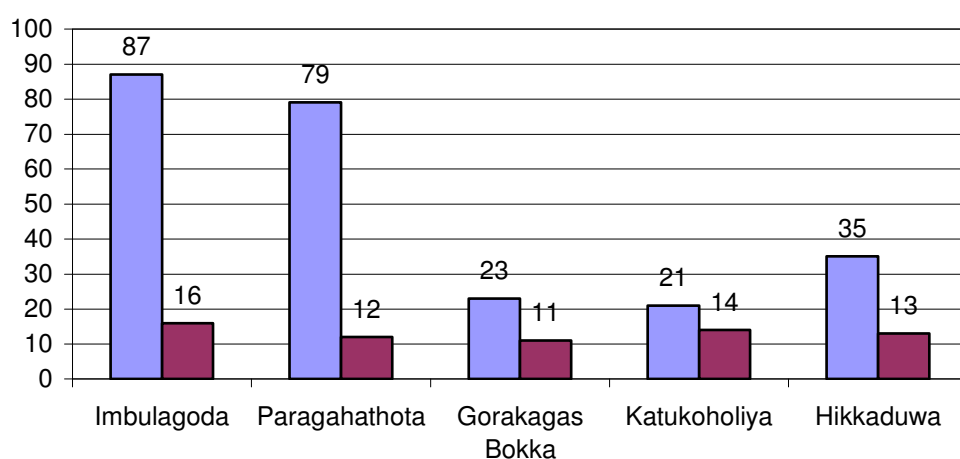
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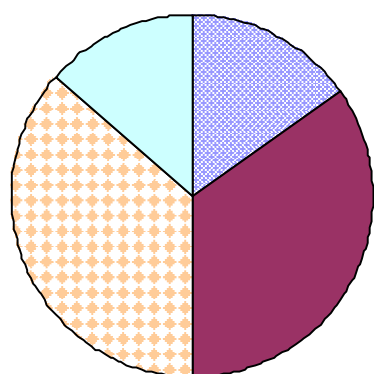
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## ANNEX 1 – Detailed statistics of intervention results

### *Number of participants in information seminars and training – Galle district*

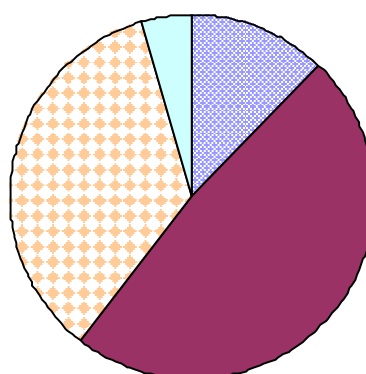


### *Age of participants – Galle district*



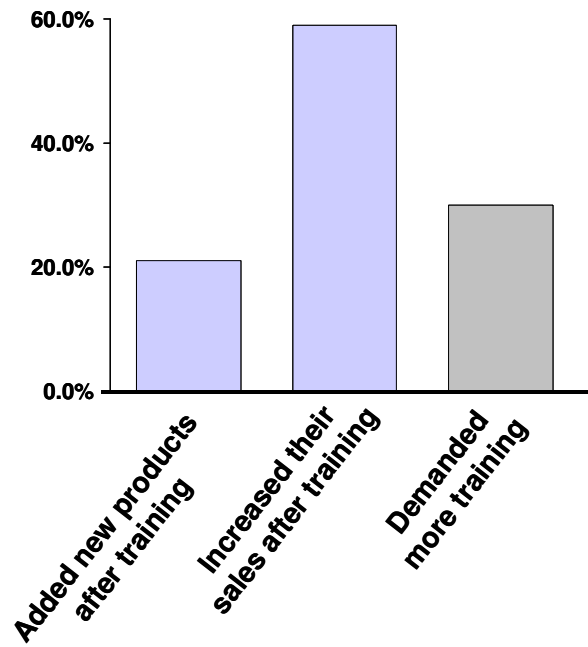
16-25 26-35 36-45 46+

### *Education of participants – Galle district*



Primary Secondary O/L Secondary AL Higher

### Impact of training – Galle district



Commercially sustainable BDS to poor customers - The case of Sri Lanka

Village – Hambantota district	Mass-marketing	Direct marketing	Participants	Payin g	Not paying	Manuals sold	Location	Revenues	Comments
Middeniya 1	60	30	12	5	7	8	Buss parking	2000	Standing audience around the training
Middeniya 2	40	8	8	0	8	3	Temple	750	Info meeting about IYB training
Weerakitiya 1	60	15	24	7	17	8	Under a tree	2000	
Weerakitiya 2	75	15	-			3	School	750	Information for female vocational training
Wallasmulle	50	10	-			0	Temple	0	Rain + little DM
Katuwana 1	50	25	17	3	14	4	FORUT office	1000	Payment main issue
Katuwana 2	35	20	-			1	FORUT office	250	Strong marketing, price was communicated
Beliatte 1	40	10	8	8	0	1	Trade association	250	Strong association, books already sold by HDCC
Beliatte 2	40	15	-			1	-	250	Full IYB demanded by 23 entrepreneurs
Angunukolapalassa 1	55	23	-			2	Temple	500	
Angunukolapalassa 2	55	23	-			0	-	0	Time inconvenient, full IYB demanded
Sooriyawewa 1	85	26	-			3	Temple	750	Time inconvenient due to trade association meeting
Sooriyawewa 2	41	20	-			0	-	-	Full training requested
Lunugamwehera	75	15	-			0	-	-	Too small village
Tangalle 1	150	45	15	8	7	7	Town hall	1750	Strong marketing, help from trade association
Tangalle 2	80	15	-			1	-	250	Interested clients wanted full training
<b>Total</b>	<b>991</b>	<b>315</b>	<b>83</b>	<b>31</b>	<b>53</b>	<b>42</b>	<b>-</b>	<b>10500</b>	<b>-</b>

## ANNEX 2 – Description of SIYB Sri Lanka

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### **Institutional set-up**

The SIYB Sri Lanka project is implemented by ILO with financial support from the Swedish International Development Cooperation Agency, and under the overall coordination of the Ministry of Small and Medium Enterprise Development

### **Project history**

The pilot phase of the project started in March 2000 and ended in February 2002, then introducing the new training product to a small group of local BDS organizations in Matara and Hambantota districts in the Southern Province of Sri Lanka. The national phase of the project started in March 2002 and will end in December 2004; project services have been expanded island wide, the training packages are available now in English, Sinhala and Tamil and are used by a large number of local BDS organizations. Refer below for details.

### **Project objectives**

The overall objective of the SIYB Sri Lanka project is to contribute to private sector development, business growth and employment creation. The immediate project objectives are as follows:

1. New and existing entrepreneurs throughout Sri Lanka should have the opportunity to acquire the skills and knowledge needed to start a new business or to consolidate or expand an existing one
2. Growth-oriented enterprises in selected districts should have benefited in upscaling and expanding their enterprises from the development and pilot-testing of EYB as part of the SIYB family of entrepreneurship development packages
3. Institutional and technical capabilities of the partner organizations (PO's) and the BDS providers should have been strengthened for sustainable availability of the SIYB program in Sri Lanka even after the completion of the project.