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A stylized illustration of a rural landscape. It shows rolling green hills with several trees of varying sizes. In the foreground, there are curved, light-colored paths or fields. The overall style is soft and illustrative.

BUSINESS DEVELOPMENT SERVICES GUIDE

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Foreword

The publication “Business Development Services Guide” is intended to be used by the stakeholders in organic sector in Serbia. It has been developed within the framework of the UN FAO Project GCP/SRB/001/HUN: “Assistance to the Development of Capacity and Support Services for Organic Agriculture in Serbia“, implemented by FAO and financed by Hungarian Ministry of Agriculture. The project is implemented in coordination with the Ministries of Agriculture and the Ministry of Education of Serbia.

The project aims to improve capacity of farmers and other value chain stakeholders in organic market oriented value chains through participatory training in farmer field schools and farmer business schools. That is further supported by strengthening of Center for Organic Production in Selenca which has been empowered to provide training and facilitation of market linkages and business development. Project visibility and awareness about organic agriculture was enhanced by numerous activities and publicity work of national Association for Organic Agriculture Serbia Organica.

Broader base of competences for organic agriculture has been supported by upgrading secondary education curricula for organic agriculture and inclusive practical training of teachers and high school students. Overall institutional environment for inclusive organic value chain development will be strengthened by participatory formulation of National programme for capacity development and provision of support services for region-specific organic production development.

The materials produced within the framework of the project have been tested and validated during the workshop and training sessions.

“Business Development Services Guide” was prepared by Zhupan Martinovski.

We gratefully acknowledge contributions of all participants and principal authors, as well as all project team members: Aleksandar Mentov, National Project Manager; Olga Keselj and Bratislav Stamenkovic, National Consultants; Zhupan Martinovski and Vladislav Popov, International Consultants; Gyongy Kurthy, International Team Leader; as well as Nevena Aleksandrova and Stjepan Tanic from FAO Regional Office for Europe and Central Asia for their technical guidance and supervision of project implementation. The manual layout and design were prepared by Alexander Swanwick.

INTRODUCTION

OVERVIEW OF THE CHANGES WITHIN THE RURAL ENVIRONMENT

The globalization, economic liberalization and the market-led development have a direct effect on the design and way of carrying out the farming and market activities of today's farming and the provision of agricultural services. The farmers are forced to adjust their farming systems towards commercialization and diversification of on-farm and off-farm enterprises. However, their farm enterprises are only part in the whole food chain where is required full transparency, efficient communication and cooperation by all stakeholders engaged, independent from their nature, size and type of activities in.

Enterprise development has a significant role in economic growth through activities of diversifying the farming systems in the efforts to increase farm income. This is considered as an important pathway for poverty alleviation in the rural areas. The farmers in this process of enterprise development, however, are faced with a range of constraints limiting them to contribute effectively to sustainable and equitable economic growth. Many of these constraints are well recognized and include:

- inadequate economies of scale;
- high risks associated with farming;
- lack of capital, assets and infrastructure;
- limited access to markets, and
- inadequate technical and managerial skills.

It is well known, that in the developing countries, most of the agriculture is fragmented and managed by small farmers. In this way, they play significant role in the agriculture businesses activities and in the economic development, particularly in the rural areas. Their importance and role as small businesses carried through different forms as marketing cooperatives, producer groups, and small and medium enterprises (SME) is recognized by the governments and donors having in mind the influence in poverty reduction, increasing employment and development of private sector.

However, despite identified role of the small farmers and SME, their participation at modern markets is still not properly organized and plays as exception rather than the rule. Farmers are frequently hampered in their business' growth by financial and non-financial factors, such as low educational level, inadequate technical skills, lack of information and poor market access. These factors can have a negative impact on the small businesses' prosperity. Assisting them through providing business development services (BDS), which refers to multiple kinds of non-financial services accompanied with financial services will facilitate and increase farmer's productivity, profitability and competitiveness of their enterprises at the local and international markets.

Therefore, the issues are raised as:

- How much the farmers use the business development services?
- What needs to happen in order the small farmers and their businesses to sustainably increase the participation in value chains?
- How do the BDS provider act efficiently at the BDS market and what has to be improved?

NEED FOR DEVELOPMENT OF SKILLS

There are identified important issues which need improvement like the development of skills with the small farmers and SME businesses for:

- a) Enabling market linkages for goods and services;
- b) Acquiring internal and bridging social capital, and
- c) Obtaining professional business and technical management capacities.

At the development of the skills it must be taken into account that the small businesses are very fragile, particularly at their start-up. Therefore, there is a need of support through appropriate financial and non-financial services. Providing different type of services known as BDS, particularly nonfinancial services become critical issue to the entry, survival, productivity, competitiveness and growth of small farmers and small businesses. Providing of the BDS services requires organized, systematic and cooperative actions between all stakeholders in the value chain focused as well on creation of favourable business environment.

As the farmers are faced with lot of challenges in the commercialized farming and need support, the provision of support services by the Business Development Service (BDS) providers is widely recognized as important tool for rural development. However, the performance of these support services is mostly not at satisfactory level and efficient. At the same time, the support services provided by different players (publicly funded services, project funded services and private funded services) faces also various challenges. The publicly funded services show constraints regarding limited outreach and funds, dependence on external aid and economic unsustainability.

There is clearly a gap between demand and supply of business development services in the developing countries, in issues as:

- Accessibility;
- Appropriateness;
- Efficiencies;
- Gaps in the understanding between clients and providers.

PURPOSE OF THE GUIDE

The guide has purpose to provide quality information and education base for the stakeholders involved in the organic food supply chain. This guide is focused on the improving the quality in providing business development services and enabling sustainability of the BDS provider, as well enabling common benefits of the farmers and other stakeholders using these services. The use of BDS by the farmers should be also seen a possibility and opportunity for adding value to their products and to obtain bigger share from the market value of offered products at the market.

The private sector together with Non-Government Organizations (NGOs) attempts to take the role of the publicly funded services. However, providing support services by the private/civil organizations sector has failed to respond effectively resulting in serving the rural sections which are better-off, be present only at developed market areas and with developed infrastructure. Smaller farmers and rural communities located in more remote and undeveloped areas have, in particular, been supported at insufficient/lower scope.

At the field work and trainings held with the farmers and BDS providers as Centres for Organic agriculture in Serbia, it was identified significant lack of organized approach and vision how this system should operate efficiently, and to achieve sustainability on long term. In the environment, where this system is dominantly relied on government support, various subsidies provided and donors assistance, there is a need of significant change in the behaviour and functioning towards development of BDS market and having business services on commercial base with appropriate role of the private sector.

The development of such market also understand and capacity building of the BDS providers in order to guide and to be active participants in the food supply chain. Various approaches in the organization and delivery of support services are practiced, particularly provision of business services at the farm level and in particular in those rural areas where markets are weak. Unfortunately, few efficient settings and useful lessons have been drawn during the field work in the past.

The guide also will contribute to increasing the awareness of having more sustainable BDS market as it is expected with grow of organic market in Serbia, the need for BDS to be raised and bigger involvement of the BDS providers in the chain of organic products. The strengthening role of the BDS providers have to reinforce the capacity of the farmers engaged in organic production, which will have easier access to the local and export markets.

The idea of the Centre for Organic Production in Selencha, they to organize the electronic sale and the distribution of the organic products of its members, is only one component of whole experience and system which has to be developed on commercialized base. The sustainability of the BDS providers will be enabled if they have part in the financial flow, as their involvement takes time and generates costs, and consequently has to be compensated. Some services will need modification in range and scope, requiring higher levels of farmer collaboration and the assistance of intermediaries (publicly funded services, private funded services and Civil Society Organizations), in order the quality of the support services to be improved. In any case, the farmers and their organizations must accept that support services should be provided through market mechanisms and where they will pay for services delivered. As well, the donors are concerned towards the commercial provision of support services, with a focus on farm commercialization and rural enterprise development as the engine for pro-poor growth.

Therefore, the guide has an objective to support the farmers and BDS providers in order more useful and competent services to be provided.

BUSINESS DEVELOPMENT SERVICES

What are Business Development Services? They are generally defined as: “... services that improve the performance of the enterprise, its access to markets, and its ability to compete. It is also used that the BDS are those non-financial services and products offered to entrepreneurs at various stages of their business needs.

The BDS can be training, consultancy, marketing, information, technology development and transfer, business linkage promotion, etc. BDS are designed to serve individual businesses. These services are primarily aimed at skills transfer or business advice.

The field of business support services has been growing alongside the SME development process internationally and became important because services:

- can assist farmers and their business organizations to run their business more effectively,
- if appropriately applied, can act as an enhancer of access to finance.

The provided services must be effective and can be from technical, managerial or financial in nature, independent from the type of BDS provider, formal or informal service provider. However, the provided services share several common factors:

- a) effective solutions to bottlenecks that lead to small farmer exclusion;
- b) a business orientation to guarantee sustainability over time;
- c) flexibility linked to clients' needs, and
- d) provision by operators close to the clients.

Scope of BDS

Business Development Services include:

- training,
- consultancy and advisory services,
- marketing assistance,
- information,
- technology development and transfer, and
- business linkage promotion.

A distinction is sometimes made between “operational” and “strategic” business services.

Operational services are those needed for day-to-day operations, such as:

- information and communications;
- management of accounts and tax records,
- compliance with labour laws and other regulations.

The market for operational services is functioning because there is often articulated demand and willingness to pay for these services.

Strategic services, are used by the enterprise to address medium- and long-term issues in order to improve:

- the performance of the enterprise;
- its access to markets,
- its ability to compete.

For example, strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing. In any case, the distinction about operational and strategic services may vary according to time and circumstances. For example, communication services may simply facilitate normal business operations for larger enterprises, but for small farmers and their SMEs, these services may be a crucial vehicle for strategic operations on medium- and long-term.

Unfortunately, though existence in most of the countries of the markets for strategic services in some form, their development is mostly focused to the donor interventions and depending from the circumstances largely failed to develop.

Integration between financial and non-financial services

Financial services are crucial for farmers to access and sustain participation in dynamic markets. For example, the leading customers as supermarkets and processors tend to pay only after a certain period (often 45 days or more), so there are needs for a mechanism to bring liquidity into the supply chain. In addition to working capital, financial services in which the commercial relationship rather than collateral assets guarantee the loan can be arranged as 3-way agreements between buyer, producer and financial institution

The issue is also degree of the integration between the availability of financial and non-financial support. Very oft these services and function are separate and are running into a parallel process. Though some of the BDS providers have a very good policy of consulting farmers and entrepreneurs about their needs and being able to adapt their production and marketing, it is still a challenge the services provided as non-financial support to bring benefits to the farmers and their organizations regarding unlocking the capital and enabling financial services.

The lack of an integrated approach in providing services has resulted in:

- A less than coherent strategy to create an enabling environment for small farmers and their businesses;
- Appropriate non-financial support not being available to offer alternative sources of risk management to financial institutions as a pre-approval condition to approving loans;
- Non-financial support being developed in isolation of the skills transfer needs of funding providers;
- Business support organisations and funding sources not being set up in any convenient proximity to one another.

BDS PROVIDERS

The services are provided by BDS providers directly to various types of beneficiaries among which, as well to the SMEs and farm households. They may be for-profit firms (e.g. consultancies, lawyers, bookkeepers etc.) and individuals, as well not-profit government agencies, NGOs, national and sub-national, industry associations, etc.

It can be met a variety of modalities for service provision in order to reach the farmers and to support them in creating viable rural enterprises. The BDS providers can be classified into four major categories:

- I. Public sector providers;
- II. Private providers;
- III. NGO providers, and
- IV. Cooperative/membership based organizations.

Business support practitioners are graded:

- on the basis of their experience;
- engaged professionals and type of their specialization.

The types of services generally include business advisers, consultants, mentors, training programmes and incubator models through a range of institutional types engaged in the delivery of business services in rural areas. Each institutional provider has its own characteristic features and rationale for service delivery. This multi-institutional delivery mechanism often poses questions regarding the most appropriate service delivery organization.

I Public sector providers

According the experience and literature, the public sector providers are the least successful direct providers of business services. They often suffer from a lack of vision and respond to a mandate imposed from the outside, rather than having a sense of mission that generates internal and external commitment. They are competing with local providers of business services. In many programmes, the public sector providers have a proactive role as facilitator in forging linkages between exporters and rural enterprises.

It is big criticism that the traditional support through public services has not achieved its objectives:

- Farmers and enterprise productivity;
- Their competitiveness;
- Job creation;
- Poverty alleviation, and
- Social mobility;
- Weak monitoring and evaluation of the services provided.

In most cases where government plays a facilitating role, the subsidy component is usually high.

The approach is often justified on the basis of working with disadvantaged people in remote areas, or to meet broader national policy objectives.

II Private sector providers

In the reality, the private sector is the dominant direct provider of business services. In some instances, the business development services are provided with financial support from donors. The successful private business support should enjoy government support, but avoiding interference. The profit motive and the entrepreneurial nature of private providers ensure sustainability and growth potential.

Unfortunately, the BDS providers often concentrates upon serving the needs of the larger, resource-rich farmers and exclusion of others, because of their interest in generating profits. It is also frequent praxis the private providers to work mainly in regions where markets are already well-developed. Furthermore, it should be recognized that the market for private service providers can be very limited in some rural areas, and that business services often do not reach the more vulnerable farmers.

The challenge is to promote private sector involvement whilst also ensuring that development occurs in more remote rural areas.

III NGO providers

The twin fears of market failure and government inefficiency have helped to catalyse the emergence of NGOs in the development arena. Provision of business services by NGOs has become one of the dominant modes of service delivery. This model has been embraced by both donors and governments. Nowadays, NGOs play the role of delivering business services to promote crop production and exports.

The NGOs involved in the delivery of services can demonstrate a much higher level of success than the public sector because of their decentralized operations and commercial outlook. They often combine a business-like organizational culture with a concrete social welfare agenda. Their presence is extremely useful in reaching a large number of farmers with inexpensive and effective services. At the same time, there are business services which are not lucrative enough to attract private providers, but at least services can be provided effectively by NGOs in the case that sufficient funding is available.

However, there are serious drawbacks to NGO delivery of business services, like:

- Dependent on donor funding for their operations and, in spite of claims of sustainability, they are often not able to continue delivering business services after donor withdrawal.
- Direct delivery by NGOs also hampers the growth of commercial providers and limits the expansion of service provision.

IV Cooperatives/ membership-based organizations

In many cases, the better service schemes are organized through membership associations. These organizations offer the advantage of being close to small farmers, thus better representing their interests while effectively delivering business services. The farmers organize themselves in this way in order to increase production and market access. Improved flow of information to farmers leads to greater control over their produce and sale decisions. They need to develop a strong sustainable support base to generate more income and manage themselves as a business. The membership organization should work effectively to facilitate access to extension services, donor assistance, technical support, financial services, etc., for the benefit of members.

However, the membership organization model is often far from perfect. They can lack a clear vision regarding their role and/or to be dominated by the interests of larger farmers. The managerial and technical capacity of these organizations can be often weak, as well with low levels of accountability or with permanent conflicts among members. The lack of professional staff and skills are additional constraints. The financial basis of the organizations could be fragile if the members fail to pay their dues and no other financial means are available.

In general for all type of providers, the local service providers are in a better position to support local initiatives and it is easier for them to identify and address common needs of the local farmers, to focus on objectives and manage service provision better. These factors are also more likely to improve sustainability.

DEVELOPMENT OF BDS MARKET AND STRENGTHENING BDS CAPACITY

BDS Assessment

In order the Business Development Services market to be developed, it is necessary an assessment of the existing market to be carried out and to be identified:

- 1) Weaknesses and opportunities;
- 2) Reasons behind the lack of demand for or supply of services;
- 3) Extent of market distortions.

As here we discuss about the development of BDS market particularly from the view how to help the small farmers and their organizations, it has to be focussed particularly on the identification of:

- Farmer's knowledge of business support;
- Usage of business development services;
- Farmer's experiences of having business development services;
- Priorities in providing business development services;

Identification of above issues can help in identification of:

- Local mechanisms of service delivery;
- Payment modes and conditions;
- Intervention strategy and instruments;
- Local institutions and networks to build upon;
- Provision of baseline for measuring progress in market development.

The BDS market assessments depend on the scope and who is the beneficiary:

- Donors and BDS facilitators doing initial market assessments may choose a broad scope that will allow them to benchmark the stage of development of BDS markets, identify existing or potential BDS providers to work with, and measure progress in expanding the demand and supply of services and the range of products available.
- For individual BDS providers, the market analysis is likely to be very narrow in scope, focusing on the specific service to be supplied, the characteristics of the target market, and existing or potential competitors.

However, in both cases, the relevant "BDS market" will need to be defined according to the specific type of service, target clientele, and geographical coverage.

Various assessments provided general results which are identified as obstacles for further development of the BDS market and who also provide guides how to be improved the market and to strengthen the capacity of the BDS providers.

Constraints of BDS Providers

Weak markets for support services are a characteristic of remote rural areas and there is little understanding of the market for rural service provision in general, its limitations or its potential. Constraints and limitations on the capacity and skills of business service providers can be grouped in:

- Inability of BDS providers to identify, design, develop and package a bundle of consultancy services that is well adapted to client demand;
- Unrealistic cost estimates of consultancy services offered by providers to clients;
- Limited organizational and management ability to provide effective support services;
- Limited confidence by clients in the competence, skills, credibility and reliability of BDS providers;
- Limited understanding by service providers on how service markets work and how to reach them;
- Lack of knowledge about the diversity of the market;
- Lack of ability to establish formalized client relationships;
- Limited range of services available and offered to clients to meet market demand;
- Limited expertise in broadening the range of services on offer;
- Low quality of services offered;
- Limits to ensuring long-term financial sustainability;

Strengthening capacity of the BDS providers

Having in mind above identified gaps, the further development of the BDS was considered through relying on private-sector actors to provide a diverse array of services in achievement of economic and social goals. At the same time, it is raised the issue how BDS providers could be financially self-sustainable, or even profitable.

At the development of the BDS and improving their performances has to be taken into account:

- commitment to the principles of a market economy;
- State has a role in providing an enabling environment, in correcting or compensating for market failures, and in the provision of public goods;
- State cannot be involved in the direct provision of private goods at the market;
- Majority of BDS are private goods and are thus similar in nature to any other service, so market rules must be applied;
- BDS are provided on a commercial basis even for the lowest-income segment of the small farmers and SME sector.

Therefore, training and technical assistance is also required to strengthen the capacity of service providers to:

- i) analyse the demand for services;
- ii) design appropriate service-based packages;
- iii) prepare training programmes which will be useful assistance in delivery of effective services.

It has to be also taken into account the skill levels and experience of people employed to offer these services. These include considerations in terms of:

- How much time does the service take out of the business day or out of the home management time?

- Are confidence building/coaching services for farmers available?
- Clear understanding of business finance and financial services - what products and services are available, how to access the funds, how to prepare themselves for approaching funding organisations and what the pricing structure is.
- Business development needs to be recognised as a source of risk management by banks, particularly for market segments that lack traditional security or business track records.

The successful development of business services depends on a careful assessment of production systems and supply conditions, as these determine the volume of demand for services. At the same time, the market for business services is constantly changing. New service providers emerge and disappear, only to be replaced by others.

Therefore, assistance is provided by various donors, governmental and other external assistance programmes focused towards building capacity of the BDS providers. However, this assistance must not result in their increased dependency on external assistance which disables the sustainability and initiatives in the NGOs and membership organizations, as self-help and dependency are natural opposites.

This is understood by the donors and national governments, initiating various actions of assessment of the performance of the BDS suppliers and services, and trying to develop a more effective strategy for BDS as one instrument of private sector development.

METHODOLOGY OF BDS DEVELOPMENT

Today, it is general agreement that the model of BDS delivery must follow the principles underlying the market development approach. This is in accordance with the new role of the farmer as Manager and Entrepreneur in the rural environment.

Having in mind, that farming is business and that business must pay for the service delivery, this situation causes also changes from public towards private sector service provision. In this direction are shifted, as well, the donor's support programmes aiming at creation, sustainability and growth of MSEs in BDS sector.

The effectiveness of BDS providers can be achieved only when services provided are in combination of support services for obtaining knowledge and skills, enabling market access and marketing information, infrastructure and microfinance services. The BDS platform is in supporting rural enterprise development. Emphasis was placed on developing the social and human capital of farmers, enhancing enterprise profitability and creating an enabling environment. Therefore the development activities are focused on:

- promoting the development of technical, managerial and commercial knowledge among small farmers/entrepreneurs;
- scaling-up 'survivalist' income generating activities in order to generate a virtuous process of micro-capitalization and re-investment;
- creating an enabling environment for MSE development.

The goal pursued has been to create a linkage between demand and supply related to business services in an effort to ensure longer-term sustainability. The support services, directly provided under this approach, are of general interest for farmers and local entrepreneurs at different scales of their business enterprises. Technical assistance and training are provided for:

- Formulation of business plans;
- Implementation of the business plans and during the start-up and consolidation phases of new enterprises. The activities are focused to identification of the post-harvesting, processing, packing and storage facilities, as well to market outlets.

The scheme for BDS services aims for promotion of all the services that contribute and facilitate saving of production costs and creation of added value to primary production. The services are going to be provided on a commercial basis to support farm enterprise development.

BUSINESS MODELS OF SERVICE DELIVERY

Although donors involved with farm enterprise development still largely deliver services directly to farmers, the BDS model proposes the use of support service organizations or business intermediaries for service provision to the farmers in the process of farm enterprise development. The objective for such model is enhancement of the efficiency, effectiveness, and sustainability of service providers.

In the praxis, the following approaches of business development services can be met:

- i) **“Service delivery”** model is conventional approach. BDS providers determine the needs of farmers and provide services directly to clients free or at subsidized rates. The model aims to create a nucleus of effective service providers with external investments to be made. There is little concern to market focus and the culture of entrepreneurship is largely absent. The model failed because of lack of concern for sustainability of service provision as it is short-lived intervention that rarely met the needs of clients.
- ii) **“Provider-centric”** model characterized with a supply side orientation is oft supported by the donors. Donors provide funding to strengthen service suppliers, which could be NGOs or even private companies. The providers in turn supply ‘needed’ or ‘desired’ services to farmers. The services identified were largely “in the eye of the supplier”. The bad side is that the service providers become dependent on subsidies and the services provided did not meet farmers’ demands. Therefore the services are unsustainable and prevent the development of commercial services. This model also has lack of feedback from service providers and the farmers, as the services are free or offered with subsidies.

The implementation of models above result of non-having answer for supplying services to real needs of the farmer, constraints for ensuring service quality and sustainability problems.

- iii) **“Market development”** model goals to creation, development, and continued evolution of a well-functioning market for service provision. The model stresses the importance of commercial transactions between suppliers and consumers, with an emphasis on demand-side interventions to stimulate market development.

In this approach the core of BDS provision are the markets and the relationship with the farmers (understood as rural entrepreneurs) in which farmers are considered to be customers who are willing to pay for services that they demand.

The markets for services with a diversity of suppliers are more likely to offer a broader range of services required by the rural population. Moreover, the competition acts as a driving force for the development of new innovations by the farmers and adaptation to the local conditions.

The market approach is based on the principles of a market economy, the existing demand for BDS services which can be provided on a commercial basis even for the poor farmers endowed with the minimal assets needed to start a small farm business.

The goal of the business service market development is to develop sustainable markets rather than organizations. The attention is focused on the sustainability of demand and supply and on the development of a competitive market.

BUSINESS DEVELOPMENT FOR FARMERS AND RURAL ENTREPRENEURS

Farmers in obtaining the BDS have to be focussed on emphasizing the aspects such as building confidence, mastery of business strategy and operations, as well as on community development. They have to rely on private providers, but also to have in mind to use the benefits from financial and in-kind support from local and national governments.

The Business Development Service providers have to improve the business and entrepreneurial skills of the farmers in their efforts towards:

- Having innovative initiatives;
- Having creative thinking;
- Be successful entrepreneurs;
- Be confident about their communication;
- Be successful in selling their business plans to the financial institutions.

Therefore, more business training and development facilities are needed in rural areas. There are positive experiences with training provided to the farmers and entrepreneurs, when the training culminated in business plan adjudication, supported by financial institution. The participants were able to apply for business loans from the bank on the strength of their BDS training and clear, focused, business plans.

Unfortunately, the rural areas in the developing countries are under resourced and serviced. The provision of BDS support services is very challenging in the rural areas as result of:

- The special nature of farm enterprise development needs to be appreciated and distinguished from larger, more capital-intensive and urban-centred business ventures. The environment within which farming operates is very dependent from:
 - population density;
 - degree of urbanization;
 - the development of infrastructure, and subsequently;
 - access to markets.
- The farm business is riskier than those within the traditional urban environment. Agriculture is extremely open to the vagaries of weather, markets and changing government policies. That influences to the farmers' willingness and ability to pay for services as the risks of production failure and/or fluctuations in prices impact directly on service suppliers operating in rural areas. A market is sustainable where demand for a service continues and is matched by supply at an acceptable cost and of an acceptable quality.
- The BDS providers have higher transaction costs as a result of the remoteness of the rural areas, the need to travel long distances to reach dispersed farmers in an environment characterized with poorly developed rural transport and communications infrastructure. This situation increases the cost of services provided to farmers.
- Other problems are related to the inability or unwillingness to pay for services provided.
- The remoteness of rural areas impacts on accessibility in relation to skilled labour, markets, suppliers, information, technical advice and sources of finance. Remoteness also leads to rural-urban migration which then leaves the rural areas devoid of able young people, reducing the purchasing power of rural communities even further.

All of these factors make service provision in rural areas and by the small-scale farmers, a relatively neglected area.

From the experiences of the BDS providers working with the small farmers and entrepreneurs, the following obstacles are faced particularly with the start-up businesses in rural areas in the developing countries:

- Poor quality and viability of business ideas;
- Inability to write a business plan;
- People don't know how to differentiate the product or identify markets;
- Farmers are not adventurous enough, unwilling to commit resources and to take risks;
- Unwillingness to commit resources or own assets;
- The banks have poor knowledge about the farmer and businesses;
- The farmers living in rural areas are in more difficult situation to offer acceptable collateral for the banks and microfinance institutions;
- Women farmers are less engaged as business partners, and the agro-business environment seems as “a man's world”;

Therefore, for more efficient business development of the farmers and entrepreneurs there are some recommendations:

- Improving the business environment and access to resources for the start-up businesses;
- The state to reduce the burden in the regulating the business environment;
- A dedicated fund could be set up to address lack of collateral constraints in order the access to credit from financial institutions to be enhanced;
- The BDS providers must have right skills and experience for provision of appropriate business support;
- Better monitoring and assessment of the value of outcomes by business support providers;
- The success stories of the farmers must be published in order the positive outcomes to inspire other farmers and business starters;
- Farmers should learn from each other by forming small groups to support each other;
- More business training and development facilities are needed in rural areas.

PORTFOLIO OF BUSINESS DEVELOPMENT SERVICES

Overview

Service delivery organizations show great variation with respect to the range of services that they provide. The most common business services reflected in the case studies include training, advisory services, marketing, business management advice and technology development. A central role, in addition to service provision, is advocacy and political lobbying.

The range of services actually required by farmers, may be very different from those traditionally provided through BDS. What type of services will be provided is dependent by the type of the farm. The BDS providers can be placed on a continuum from lower to higher levels of specialization. The more multi-sectoral development organizations provide a broader range of assistance that could include community development, agriculture, welfare issues, finance and non-financial productive services. In any case, the BDS providers have to concentrate of having in their offers appropriate service package in order to be more competitive in the market. The diversification of their resources and services help them to attain higher levels of financial sustainability. Development of service packages helps the providers to offer innovative cost effective products on the market. Their development should be based on carried out market surveys which will identify the needs for services in areas of training, support of the entrepreneurship and establishment of business to business cooperation.

The most common services are following, but not exclusive:

Technology development

The services comprising technology development and transfer are towards the delivery of relevant, useful technologies for the benefit of farmers and end consumers.

The development of technologies can be carried by external experts who will emphasize the importance of professional technical expertise, enhancing strong marketing skills and development of systems to ensure maximal use of the technology.

In some cases, the BDS services can support the involvement and building capacity of the farmers in developing technologies. In this approach, efforts by BDS providers have focused on:

- Enhancing the ability of farmers to learn from the immediate environment;
- providing access to information on technology and product design.

The overall thrust is towards an incremental and sustainable development of farmers' capacity.

Information

Information is one of the services in highest demand by farmers and rural entrepreneurs. Information services include about production technology, market information and information on market linkages. These provide a variety of information, including selection of market outlets and potential business partners.

Technical information, plus information about pests, diseases and weather conditions, is needed for ensuring timely production of the desired quantity and quality of farm produce.

Other forms of information exchange at the level of the farm community include study tours, the establishment of forums for dialogue exchange, and the development of information flows between farmers.

Veterinary services

The financial feasibility and longer-term success in the provision of commercial livestock services depends not only on the nature of the service, but also on:

- i) the nature of the livestock system (e.g. cattle versus small stock);
- ii) the size of the herd;
- iii) the value of the animal in economic and social terms to its owner;
- iv) the producer concentration in a particular area, and
- v) access by service providers.

The ultimate goal is the rural communities to become capable of undertaking basic veterinary practices by themselves. The availability of veterinary services is well appreciated amongst community members, benefiting them through the provision of animal health services and increased knowledge and skills related to livestock diseases and treatment. The subsidized technical assistance was instrumental in creating a demand for veterinary services in the rural areas and ultimately a willingness to pay for services provided.

Services through commercial linkages

Contract farming is another type of possible service providing, where in this case services are provided by the buyer. Here it is established collaboration between the producers and the large-scale commercial enterprises. This is frequent case when it is issue about provision of agriculture products as raw material for the agro processors, but also for perishable products for the supermarkets and retail chains.

In order to keep the quality requests from the market and to meet the specific need of the commercial buyers, it is agreed the farmers to receive the advices and know-how for production technology and post-harvest techniques from the buyer. In this case the role of the BDS provider is with the buyer.

Provision of the services is closely linked with the characteristics of agricultural products. Usually, the cooperation and the agribusiness linkages through contract farming is initiated by the private commercial organizations, who provide a broad range of commercial services to farmers in form of input supplies, technology and finance.

Namely, the buyers can ensure:

- Provision of production services. This means enabling access to a wide range of managerial, technical and extension services. Providing of free training and extension is primarily to ensure that proper crop husbandry practices are followed in order to achieve projected yields and required qualities.
- Access to credit. Contract farming usually allows farmers access to some form of credit to finance production inputs. In most cases it is the buyers who advance credit through their managers. However, arrangements can be made also with commercial banks or government agencies where the farmers can use the contract agreement as collateral to arrange credit.

- Introduction of new appropriate technology, enabling transfer of new skills to the farmers. New techniques are often required to upgrade agricultural commodities for markets that demand high quality and food safety standards. New production techniques are often necessary to increase productivity as well as to ensure that the commodity meets market demands.

Advisory (extension) services

A management training and extension service is the most common form of business services. The farm enterprise development requires skilled and experienced extension workers trained in business management. The results of today's cooperation show that there is a gap between extension workers and market-oriented farmers in the remote rural areas and that the advisory services have been oriented to production technologies and with inadequate attention to market oriented farming. This resulted the production with services focused mainly on technical issues is largely inappropriate and commercial not effective.

Effective business management schemes require counselling, coaching, mentoring and close follow-up. The role of extension service providers should be to assist entrepreneurially-minded farmers to identify their problems, opportunities and resources, define options and select a course of action.

A more innovative way is the extension capacity to be developed within existing membership organizations (cooperative, farmer association of producer's group), or alternatively to create farmer organizations that provide management advice. With this, the extension strategy is focused on capacity building for group members, where the members are charged for the services provided.

Training

Basic literacy is an essential prerequisite to enhance business management skills. Additionally, as the farmers also suffer from a lack of functional skills (basic knowledge of finance and marketing), it is necessary to enable them to deal with financial institutions, civil servants and other commercial organizations. That means, the training should be provided in crop and livestock production techniques, marketing and management, but as well in post-production practices, bookkeeping, farm finance and product development.

Here are some common mistakes which BDS providers made at the trainings:

- too generalized and relying on relatively standardized material;
- too supply-driven, with impractical subject matter far removed from farmer realities;
- delivered in an inappropriate 'top-down' teaching style which failed to understand how farmers learn;
- insufficiently aware of the need to encourage trainee commitment to learning;
- delivered by people who were ill-qualified for the task;
- insufficiently aware of cost-control;
- insufficiently concerned with follow-up;

Consistent observation is that the people offering services have no business experience themselves, that this is frustrating and dilutes the potential value of the services. It is raised the issue if the providers have ever run a business themselves or have the insights about running a small business. The employment of under-experienced and under-skilled staff is clearly a major obstacle to effective small business support. Therefore efforts towards attraction of experienced

people as mentors and trainers are desirable. There are also practices of corporate support and greater use of retired business people to harness their experience, while keeping costs down at the same time.

At the same time, new ways of conducting training need to be developed and to be prepared demand responsive materials, including information on market prices, grades, quality standards, market trends and production techniques.

Beside the trainings tended to be conducted by external trainers and experts, more innovative way is peer learning or “participatory approach”.

FOLLOW UP OF BDS

In the development of BDS, the sustainability has increasingly become a main topic. It is closely linked with creating a system where processes and services by all involved stakeholders are sustainable over a longer period of time. It must be considered 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
- financial sustainability, i.e. ensuring that the funds invested can be recovered.

The development of BDS market must be considered as compact entirety, where are involved the national institutions, local governments, different supports, the public and private BDS providers. All of them have to strength the potential and to work out together for development of quality support services and the BDS market. This means that the BDS market needs to be better integrated and more competitive in order to boost overall competitiveness.

What are action priorities for the public sector?

The public sector can play a vitally important role in the establishment of successful cooperation between small farmers, their SMEs and larger businesses. In any case, this cooperation must be scaled up.

A priority area of intervention by the public sector is creation of the enabling environment. It can be in different forms like the consistent provision of key infrastructure services (roads, water, electricity and communications) and the existence of complementary public investments in services such as agricultural research or improving marketing infrastructure, particularly in regions that are not attractive to downstream agents in the value chain. Relevant public policies to maintain a competitive market, and to oversee the working of contract laws and contractual enforcement are also a central element of an enabling environment.

Follow-up required

There is a need of combination of the training provided by the BDS providers with follow up services and activities. According some researches, there are many complaints that the training carried out are without any follow up and that this diluted the benefits. The training has to be compiled with follow up services which will directly influence farmer's capacity and ability to raise capital from the institution providing it.

It is obvious that the farmers and their organizations have to pay for the BDS services provided. But is also question and gap between affordability and access for small farmers. Therefore, the donor and government programmes have to fill the gap, but without interfering the sustainability on long term.

The desire of the farmers is provision of services in:

- Financial management;
- Marketing;
- Cash flow management;
- Support for feasibility studies.

The providers of training must be focussed on structured business development support to the farmers. It has to fill the information gap generally about what is available, particularly regarding the micro finance opportunities as a tool for empowering farmers economically, when credit is the primary source of support. Therefore, at the trainings:

- Farmers must learn how to utilise the funding options in progressing their farming business i.e. training to enable them to access financial or other support.
- Micro finance institutions and banks have to be integrated with business skills transfer in serious way. The integrated approach will contribute to creation of an enabling environment for the farmers to develop their farming business.

It is raised the issue, the small farmers must be aware about development of micro-entrepreneurship through sustainable business options which have the potential their farming business to grow. Therefore, there is a need for financial and non-financial support to facilitate appropriate business choices and business performance. The farmers also must be aware about their ability to earn an income and the total workload required for their farming.

Many farmers enter in farm businesses without doing any market analysis or feasibility study as well without writing up a business plan. Many farm businesses are carried out based only on a presumption of market need. A feasibility study enhances the farmer's chances of success by ensuring that their business idea has been interrogated in terms suitability, management potential, market and profitability, financial viability, potential pitfall and competition.

The lack of preparation market analysis and feasibility studies appeared to be related to lack of access rather than a lack of awareness of what these documents are. These documents are often neglected by the farmers though they have to be basis for business plan development. The problems likely to occur from this situation are also that unviable business plans are drawn up at considerable expense. This increases the probability the farmers to enter into unsustainable businesses or their business plans to be rejected by the financial institutions and donors.

Training and post-loan support if combined, could address the needs of the small farmers at the planning and implementation stages of their businesses, offering more viable businesses options and implementing farm businesses more successfully. On other side, applying such approach will reduce the risks related to the development of farm business for both, the farmers and financial supporters.

Applications for financing the farm businesses must be assessed on the potential of the business. It has also to be taken into view, the risk of deals on the strength of the business proposition, the farmer's team and not on one individual.

The farmers must be aware and to understand the credit system and the credit system. Therefore the informing of the farmers is very important in order they to be able to develop a better understanding of the factors that influence their ability to raise credit, and seek to positively influence these factors.

BDS providers have to contribute to creation of an integrated credit market, which recognises the validity of different credit granting facilities and which builds up trust and co-operation between the farmers, financing institutions and other business supporters.

Development of "A good credit history", which is a record of how the customers paid past bills is often necessary to get credit in the developed countries. Actually enabling the customers to positively manage their credit reputations could bring benefits for both, the farmers and the credit granters.

SUSTAINABILITY

Services by public sector institutions were often turned over to private suppliers after demand for them had been clearly demonstrated. Further development of providing business services is focused on having more competitive and successful businesses and to develop a more vibrant private sector. The services provided produce expenses and are time consuming, so it is normally the beneficiaries of these services to cover i.e. pay the value for services received. A BDS market and the participants will have sustainability if commercially-generated revenues are at least as great as the full costs of service provision. The costs should include all those associated with the commercial operation of the provider. In addition to the running costs, these should ultimately include market research, product development, customer feedback etc.

Providing services on subsidy basis is not development engine for long term operations. Even the supporting projects after the establishment of market linkages abandon subsidies and stimulate delivery of services on a cost-fee basis. In each instance, the service providers could have commercial stake in service delivery and the uptake of services by clients affected their profitability. However, the issue of sustainability is challenging, particularly with the private sector providers. The questions about sustainability as “How to continue and develop with the provision of services, and how to provide funds for these actions?” become one of the top issues.

The BDS providers in order to improve their performance and financial sustainability must measure the profitability of their organization, as well as the cost recovery rate for the services offered. These activities are closely linked with the BDS strategy, if it is offered a single service or integrated package of services (the single service is likely to be less effective than a package of services).

At the same time, lot of attention needs to be paid to both the development of human resources and the growth of institutional capacity to sustain the impact of service providing.

The growth of a farm business depends on the entrepreneurial spirit and qualifications of the farmer, and upon the quality of the business services that can be accessed. In rural areas where markets are weak, the business enterprises promoted tended to be relatively simple and low-cost, with little scope to add value. Often the most critical external support needed is rural finance to ensure enterprise development and growth and to realize economies of scale in buying inputs and marketing produce. However, in many situations rural finance for enterprise expansion is not available. Having in mind the difficulties of the farmers to pay the price of services provided by private sector in the rural areas, considerable effort is invested by various projects, as well in building the capacity of cooperatives or farmers' associations, to minimize the cost of service delivery.

Revenues received from the public sector

Here, it must be taken into account that the revenues received from the public sector (donors or governments) or the subsidies received should be not included. In the short term, however, funders may choose to help with some of these costs, for example where risks are particularly high, to demonstrate the merits of product innovation, or to strengthen a group of service providers.

1. Traditionally, donors and governments have directly intervened in BDS markets at the level of the BDS transaction through the approach known as “Substitute for the market” through:

- a. directly providing services to SEs via public BDS providers as Government institutions or agencies;
- b. permanently subsidizing services delivered by other BDS providers as:
 - Donor programs;
 - NGO-s;
 - Various associations;

This approach was typical for underdeveloped BDS markets, but has failed to achieve high outreach since the numbers of providers served is limited by the amount of subsidies available. In addition, institutional sustainability has been low, since programs often cease when funds are exhausted or projects are ended.

2. Facilitate Market Development approach is driven by the belief that the objectives of outreach and sustainability can only be achieved in well-developed markets for BDS, and not by direct provision by donors and governments. This approach is characterized with:
 - putting public and donor intervention away from direct provision and subsidies at the level of the BDS transaction;
 - focus on improving the facilitation of a sustained increase in the demand and supply of services.

In the practise of provision the BDS to small farmers and their organizations, the issue of subsidies play significant role. However, it must be known that the subsidies are not always positive for sustainability neither of the BDS providers nor for the small farmers, particularly on long-term. They can distort BDS markets and crowd out the commercial provision of services. For the BDS market, the services must properly reflect the objectives of impact, outreach, cost effectiveness, and sustainability.

National governments, donors, NGOs and others are often too generous with subsidies. The subsidies are generally incompatible with efforts to develop sustainable business farming. They can provide unfair advantages to selected farmers or businesses, to the detriment of others. Direct service provision, such as marketing services, can squeeze out existing commercial services. Therefore, the available funds should be allocated on development of market linkages, trainings and markets assessments instead on farm inputs like raw materials, equipment, payment of certification and control costs, issuing various certificates, and etc.

- Therefore, national governments and donors must exercise care in the application and duration of subsidies:
- Specificity. Subsidies in BDS markets should be designed to achieve specific market development objectives. The starting point is the BDS market assessment, which can identify points of intervention to address specific market.
- Duration: It is not possible to state a specific duration for temporary subsidies for BDS market development, but however the subsidies should be time-bound with specific criteria for their reduction and elimination when the market development objectives are achieved.
- Point of application. Subsidies applied at the level of the BDS transaction (i.e., direct subsidies to reduce the cost or price of services) are likely to be more distortionary than developmental.

Actually, the subsidies can be classified as:

- transactional subsidies;
- Pre-transactional subsidies include, for example, those used for R&D and the development of service products, test marketing and product adaptation, capacity building, and

- raising awareness;
- Post-transactional subsidies could be used for monitoring and evaluation of the impact of interventions on BDS market development or social/economic development, which may be outside the scope of evaluations conducted by BDS providers as part of good management practice.

Achieving sustainability

BDS facilitation is a function normally carried out by development-oriented institutions having the objective of BDS market development, which may include NGOs, industry and employers' associations, government agencies and others. Here it is pushed the commercial orientation of the BDS market as sustainable development option.

Therefore it is important the capacity of the service providers to be assured and to ensure that local and national authorities are fully supportive.

This means also that the subsidization of transactions should be replaced by private payment for services. Similarly, donor and government support should be shifted away from direct support to particular BDS providers toward facilitation functions that develop the market in a sustainable way. Here the cooperation is focused on BDS facilitators who support BDS providers.

Efficient settlement of the following issues can contribute to sustainable provision of services:

- Are the providers of the BDS in touch with the needs of small farmers and their businesses?
- Do they respect the farmer's time? Farmers want to be able to minimise the amount of time it takes to get advice from business support providers. In this view, the farmers have a desire for the service to come to them if possible.
- What is the situation with the price of the BDS?
- Is the business support too expensive?
- How does the price of the BDS impact on the margins of farm businesses trying to have sustainability?

The BDS providers don't have to load the farmers with filling in too many forms and demand too much information, which takes up their time. The necessity for detailed information needs to be better explained to farmers as their clients.

Focussing the BDS

As it was mentioned above, today the focus with BDS providers is on achieving their sustainability through generating income from services provided. This means the BDS providers must restructure their strategy and to become client oriented and market driven. Operating in this way, they will meet their mission of employment creation and poverty alleviation effectively, whilst being commercially run organizations.

- This restructuring also understands that the BDS providers should concentrate towards:
- Adjusting resource allocation to improve farmers' access to skills that can enhance technical diversity, as well as business and financial proficiency.
- Development of financial products and programmes that are market-driven and that enhance growth of farm businesses.
- Development of response system for specific needs of farmers/businessmen and farm enterprises in terms of business size and cycle of activities.

- Increased visibility and market themselves more broadly, particularly to the small farmers in the rural areas.
- Efforts to identify and harness business experience when offering business support and mentorship, i.e. the advisor/mentor should have business experience superior to that of the person that they are trying to help.
- Feasibility studies, wherever possible, should precede the development of business plans and should offer the prospective farmer an insight into whether or not to take up the business they have decided on. Training programmes need to be offered that help SMEs do their own feasibility studies.
- Promotion far more efficient turn- around times at all levels within these organisations. While business development support does require substantive information from clients in order to assist them, consideration should be taken of the time factor.
- A loan fund for business support, which could be paid back once the business is up.
- Setting up appropriate and integrated risk mitigation arrangements between service providers and farmers in order to help achieve the farmer's goals.

Additionally, the further development of sustainable BDS market must be considered under:

- developing new service products, promoting good practice, and building provider capacity;
- educating farmers and small businesses about the potential benefits of services or providing incentives to try them;
- external evaluation of the impact of BDS providers, quality assurance, and advocacy for a better policy environment for the local BDS market.

BDS providers and facilitators are going to concentrate on strengthening management resources, including human resources, technology, know-how management, market information, capital and infrastructure of farmers and related partners. The services for the farmers and the related businesses should be provided within the market economy framework because of problems of sustainability and the range of services.

The stakeholders must have in mind that the BDS market development paradigm leads to the improved performance of farmers entrepreneurs and their SME-s, which in turn leads to poverty reduction, economic growth, and achievement of other social objectives. They must cooperate under a systematic framework and to reach direct the private sector.

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