

# Experiences and Results of the DESIDE Program SDC/SWISSCONTACT in Peru

Markus Reichmuth, TULUM S.A.

## 1. Background

In 1994, the Swiss Development Cooperation (SDC) launched a new program to support small enterprise development (SED). Instead of working through one or two selected counterpart institutions, it aimed at promoting market development of small enterprises (SEs), in particular the market of Business Development Services (BDS). As such, it entrusted this task to SWISSCONTACT, which called the program "Support to SE – DESIDE".

The wave of economic liberalization which took place in the early 1990s coincided with a fundamental policy change in Peru, from a state-managed development model to one emphasizing market development and cutting back state intervention in the economy. Three years of austerity measures were followed in 1994 by the highest economic growth rate in the world (over 13%), as Perú's liberalization led to a mushrooming of economic initiatives and activity. An astonishing change of attitude took place among the population: from the belief that the state has to provide the solutions to the problems of the people, to the recognition that everyone has to undertake what he or she can to improve his/her situation.

SDC's small enterprise (SE) sector policy was also influenced by international events. It adopted the goal of promoting the competitiveness of SEs with growth potential (the SE concept was understood as covering micro, small and medium-sized enterprises within specific project contexts). At the same time, SDC stated that as a development agency, it should intervene first at the meso level (support institutions) and second provide support at the macro level (policy, regulation) -- but not to engage directly at the micro level (enterprises). The aim was to promote the demand and supply of both financial and non-financial Business Development Services (BDS), assuming that such market development would help lift SEs to higher levels of productivity, economic growth and job creation, thereby reducing poverty.

This "paradigm" has changed somewhat since the turn of the century. For example, SDC reorganized itself, replacing the sector organization with a thematic one. SED was now subsumed under the heading of "Employment and Income", but other sectors were linked to the newly defined themes: economic development, good governance, social development, natural resources, and conflict prevention. The main preoccupation of international cooperation in economic development shifted from the liberalization of private enterprise to a more strict interpretation of poverty reduction, expressed more and more as the Millennium Development Goals. Projects are now more directly screened from the point of view of how they effectively reduce poverty.

DESIDE will cease to operate in late 2004, after 10 years of activity. It charged the task of systemizing its experiences to the author of this paper, who was involved in designing the original concept of the program for SDC in 1993. In the first half of 2004, he interviewed 30 persons involved in activities supported by DESIDE, participated in, and organized, two workshops, and reviewed DESIDE's wide-ranging literature.

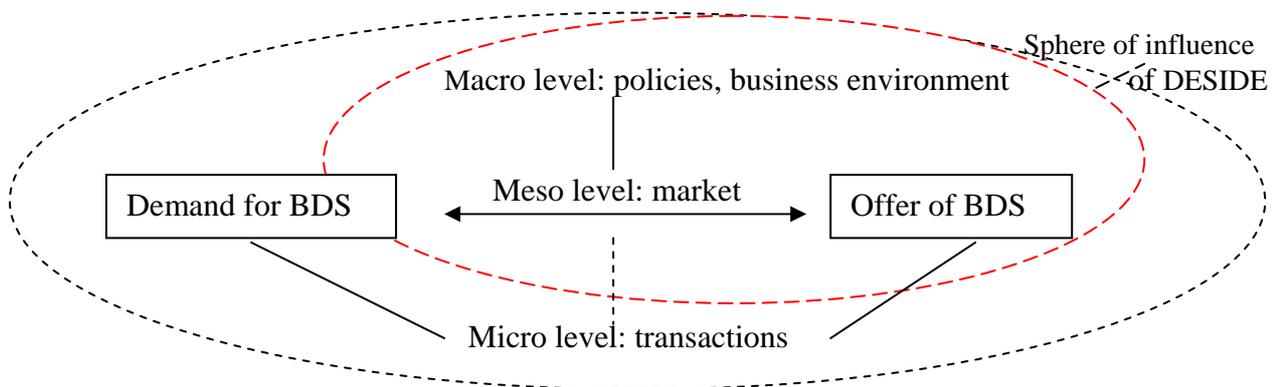
## 2. The DESIDE program

### *Conceptual basis*

DESIDE inscribed itself into the new paradigm in the mid-1990s. Its aim was to contribute to economic growth and to help SEs consolidate and become more competitive by rendering BDS markets for SEs more dynamic. The program defined itself as a second-floor platform to promote the market approach in SED, intervening at the meso level (defined in this case as BDS markets – i.e. essential elements to make them work and facilitating institutions) and at the macro level.

The following chart shows where DESIDE based its intervention:

**Figure 1: Strategic placement of the intervention of DESIDE**



The platform function was understood as a simultaneous facilitation of processes, actors and instruments at the meso and macro level in order to promote BDS market development for SEs.

The rationale behind this approach was that a favourable policy and regulatory framework and a growing number of BDS providers able to maintain themselves in the market would generate SED, selling services which SE clients want and would pay for.

### *Intervention modalities*

- *Market approach:* in both the business environment and in SED promotion, the program fosters a market facilitation and development approach; the function of selecting BDS providers to be supported is implemented in a systematic way by a specialized second-floor agency (DESIDE) with market-oriented instruments, selecting those who are interested and qualify; if a program partner does not comply with its obligation, it drops out of the program.
- *Demand-orientation through providers who know BDS demand:* DESIDE investigates an area (sectors, clusters, market sizes), defines the framework for support, and invites interested agents who qualify (for BDS supply, market research, monitoring of business development centers (BDCs), etc.); the program establishes and applies the bidding conditions for pre-selected providers, and monitors closely the development of the selected ones.
- *Impulse to processes:* DESIDE implements few sub-projects on its own; it works through alliances and participates in groups of interested parties (programs, agencies, institutions) set up for specific purposes, facilitating processes and cooperation between participants.
- *Technical assistance:* DESIDE proposes to be a SED competency center, supporting the capacity development of people and institutions in this field.
- *Information sharing:* The program facilitates the elaboration and ample dissemination of relevant information as a means to impulse processes and increase the knowledge in the respective fields.

Certain characteristics of this approach prompt some questioning:

- a) Since the program responded to initiatives and opportunities on several promotion levels, the different interventions by DESIDE appear as being dispersed, generating little articulation among the same target units (SEs) compared, for example, to a project supporting a specific economic sub-sector or a specific local economy. Within the activities supported by DESIDE, there may result few synergies. However, this approach seeks synergies with other initiatives, projects and programs: it defines its area of influence more broadly. A pre-condition for such an approach is an effective coordination and cooperation with other initiatives in the same field.
- b) If a program like DESIDE assumes such a second-floor platform function, the question arises what happens when it ends: Should somebody take over its functions? And if so, who? Answers have been mixed: SDC aims at sustainability on the level of promotion and would like to see a Peruvian institution play, or take over, such a role. Interviewed persons indicate, on the other hand, that DESIDE has played an important role at a historically specific moment, and several of its functions continue with a number of institutions.

#### *Assignment of resources*

Of the approximately CHF 10 million (roughly USD 7 million) assigned to this program during its ten years of operation, 44% was spent on the meso level (see the following table for activities at different levels), around 20% on the macro level, and the rest for technical assistance and follow up of partners together with the management and administration of the program. The support to the EDC (the internationally most visible part of meso level activities), which included the co-financing of initial investment, incentives according to results, technical assistance, and stipends for the enterprise development centers (EDC), reached on average CHF 70,000 or about USD 50,000 for each of the 16 EDC selected and supported through three bidding processes, i.e. in total not more than one quarter of program expenses for the meso level.

Table 1 presents an overview of the main instruments, results and achievements of DESIDE. The following chapter resumes the experiences and results of DESIDE according to the components mentioned in the table.

### **3. Systemizing DESIDE's experiences and results**

#### **A. *The platform approach***

DESIDE's main entry point in Peru was the SE promotion program "Programa de Pequeña y Micro Empresa/PPME" of the Ministry of Industry (Ministerio de Industria, Turismo, Integración y Negociaciones Comerciales Internacionales/MITINCI), created in early 1994. It is significant that this was a program and not a line position in the Ministry, with the corresponding consequences for the budget and personnel.

To understand the then prevailing context in Peru, the following aspects are of interest:

- SE promotion was a political issue since 1991, taken up at the highest level of government, with two Vice-Presidents coming from the small-enterprise sector and politically defending their interests. The President of the Republic subordinated the public-sector entity dealing with international cooperation directly under his command; in particular, funds provided by multilateral agencies for SED – the World Bank in particular – were, to a large extent, channeled according to the instructions from the highest level (e.g. via FONCODES –Fund for Social Compensation- which assigned large contracts for the production of school uniforms, shoes, etc. to microenterprises). Their use was not entirely free from political considerations.

**Table 1: Components, instruments, results and achievements of DESIDE**

Level	Component	Instruments	Results	Achievements
Meso	Development of BDS offer	<ul style="list-style-type: none"> <li>- Bidding out support to EDC</li> <li>- Incentives according to results</li> <li>- Monitoring system</li> <li>- Capacity building of providers (management, product methodologies)</li> <li>- Staff training of DESIDE and partners in gender issues</li> </ul>	<ul style="list-style-type: none"> <li>- Strengthening of providers:                             <ul style="list-style-type: none"> <li>- 19 BDCs (16 through bidding), of which 13 continue functioning and which attended about 30'000 clients</li> </ul> </li> <li>- Publication and dissemination of "Business Plan for BDS providers"</li> <li>- New gender-specific BDS applied (methodology)</li> <li>- Gender-specific studies and monitoring</li> </ul>	<ul style="list-style-type: none"> <li>- Market-orientation among BDS providers for SE generated (SE is a client who has to pay (part of) the service)</li> <li>- Professional management of BDS providers strengthened</li> <li>- BDS provision has become more ample and more professional</li> <li>- Offered BDS more adapted to demand</li> </ul>
	BDS demand – supply linkage, promotion of market transparency	<ul style="list-style-type: none"> <li>- Market studies and analyses</li> <li>- Systematic monitoring incl. for third parties EDC</li> <li>- Monthly dissemination of EDC results to all BDCs</li> <li>- Publications, presentations in seminars</li> </ul>	<ul style="list-style-type: none"> <li>- Meso – macro level interlinked</li> <li>- Sectoral market studies</li> <li>- EDC monitoring system improved and applied during 8 years</li> <li>- National and international seminars</li> </ul>	<ul style="list-style-type: none"> <li>- Acceptance of market research instruments for BDS supply</li> <li>- Comparing EDC performance and corresponding benchmarking (plus contribution to Perf. Meas. Framework)</li> <li>- Recognized contributions to the topic of BDS markets at nat. and internat. level</li> </ul>
	Incentive to BDS demand	<ul style="list-style-type: none"> <li>- Conceptual advice and administration (but no financing) of demand voucher program for government</li> </ul>	<ul style="list-style-type: none"> <li>- Better designed and administrated system of voucher programs.</li> </ul>	<ul style="list-style-type: none"> <li>- Some 200 BDS* providers and 800 BDS registered, sincronized with DESIDE</li> <li>- BDS market has become more transparent</li> <li>- BDS market became more dynamic</li> </ul>
Macro	Support to official counterpart  Concertation  Local development  Environment	<ul style="list-style-type: none"> <li>- Financing (decreasing) of qualified personnel (PPME, environment)</li> <li>- Permanent and active participation in the Mesa de Coordinación</li> <li>- Reengineering of regulatory processes (administrative simplification) at national level (elimination of registry, creation SIEM)</li> <li>- Consortium PROMDE by PPME/DESIDE/ INICAM</li> </ul>	<ul style="list-style-type: none"> <li>- PPME strengthened</li> <li>- National Directorate SE (99 – 01, 04)</li> <li>- Policy proposals (SME law, MSE law), investigations, concerted events at national and international level</li> <li>- Reducing red-tape and facilitating information for SEs</li> <li>- Pilot project for adm. Simplification in municipal administrations</li> <li>- Business devt. promotion in municipal administrations</li> </ul>	<ul style="list-style-type: none"> <li>- SED converted into mainstream in Perú (public and private sector), parallel to its surge in international cooperation</li> <li>- Corresponding capacity built in ministries</li> <li>- Pool of specialists trained along the processes who continue working in this area</li> <li>- Concertation among participants, shared (market) vision, integrated support</li> <li>- Generation of initial awareness of active municipal role to promote local economic development</li> </ul>

\* 73% of the registered BDS providers with the BONOPYME voucher program (1999 – 2001) were NGOs; those registered with the follow-up program Peru Emprendedor (2003 -), make up only a third of the BDS providers.

- A strictly anti-interventionist Finance Ministry was highly sceptical of public-sector involvement in private-sector development except concerning the creation of a favourable business environment and the required social and economic infrastructure. A program like MITINCI's PPME had, initially, no chance to obtain funds from the public treasury. Overall, close to 20 organizations and nine ministries were supposed to support SED some way or another.
- The Peruvian government of the 1990s was highly centralistic and hierarchic, leaving little room for decentralization.
- At the start of the DESIDE program, non-financial BDS promotion was still mainly couched in terms of manufacturing enterprises, leaving commerce and services aside. In 1994, several bilateral cooperation agencies (from Spain, Switzerland, Germany) were ready to support SED technically through the industrial part of MITINCI; they started co-financing the PPME, both the professional personnel as well as their activities.
- The general business context in Peru being one of pervasive informality (including in the formal sector), the promotion of formality in BDS provision was, at that time, self-evident. However, informal providers, or non--profit providers exempt from certain taxes, put formal providers at a fiscal disadvantage. Since 1992, Peru's substantially improved tax authorities tried hard to find solutions on how to formalize and tax informal activities, but the issue continues to be contentious (with no level playing field).

1994 marked the start for a common interest of MITINCI and several bilateral-cooperation agencies in technical SED promotion, quite dissociated from its political use by the higher spheres of government; later, more agencies joined (Italy, the Netherlands, Canada, USAID and a multilateral program financed by the European Union). PPME's mission was the creation of a favourable environment for SE development at the national level as well as providing the services and instruments required for its sectoral and regional development; its objectives included the coordination between private and public sector, and an increase and diversification of the BDS market.

The DESIDE program started by investigating its target sectors and developing instruments to promote BDS providers (the bidding process for EDC, monitoring, etc.) according to its own understanding of how this should be done; namely, a business like approach, strengthening providers able to maintain themselves, and expand in the market. Later on, as these instruments were applied, the program looked for a further strengthening of meso functions and actors, as well as a stronger engagement in macro issues. Among these program phases, it worked at different levels with different partners on a variety of issues of relevance for market development. A preferred way of organizing this was the formation of alliances or consortia for specific tasks and the participation in shared endeavours (see below), acting as a facilitator on many fronts. DESIDE did not have one main counterpart institution but acted as a platform, intervening flexibly where initiatives were taken and opportunities arose.

As of the late 1990s, Peruvian public institutions became petrified by a corrupt government and from 2001 onwards, they were characterized by instability. The creation in 1999 of a SE Directorate in MITINCI – formalized successor to the PPME – came at a time when SE development did not get any more support from within the Ministry; the Directorate was closed in 2001. Following the change of government and Minister in 2001, SED promotion was transferred to the Ministry of Labor and Employment Promotion (MTPE), which tried to give SED new impetus over the past three years. As in other countries, microenterprise development was increasingly viewed as an issue of the labor market rather than one of industrial development couched in terms of larger enterprises (SMEs and large firms).

## ***B. Interventions at meso level***

DESIDE mandated several sectoral studies on the BDS market in clothing, agroindustry and metalworking. It discovered that in Lima's large clothing industry, there existed a vibrant BDS market for services like accounting, legal advice (in response to the new legislation concerning minimal formalization of informal enterprises) and machine maintenance. It conceived the BDS to be fostered

through its program not so much in terms of such basic business services but rather those developing the capacities of SEs: training in business matters, technical assistance, market information, and marketing – not precisely easy BDS markets but rather ones quite sensitive to the business cycle (if paid fully by the SE).

#### *Promoting the BDS offer*

In a first round bid, DESIDE selected five BDS providers in Lima, four of them NGOs building up an EDC with the support of DESIDE. In a second round, DESIDE opened up to other Peruvian cities and included younger business providers (3 smaller NGOs, 1 firm). In the third and final bidding round, DESIDE looked exclusively for entrepreneurial individuals in cities outside Lima interested in setting up an EDC, or willing to extend their activities to microenterprises. In total, the program supported 16 EDC with the full package offered: initial investment support, incentives according to results, technical assistance by DESIDE, and stipends for some of the EDC.

The establishment of this promotion package included the building up of a strict monitoring of the EDC, initially for the simple reason that incentives were based on income figures. DESIDE needed to be fully informed on how reported figures were calculated; a lax or incompetent follow-up would open the door for x number of abuses. DESIDE also bid out this function to a local entity which structured and applied the monitoring system during the first years. As of 1999, DESIDE decided to bring back this function into its own program, as it was able to continue doing it less expensively in combination with its own technical assistance to the supported BDCs.

The monitoring system has become an integral part of this meso level component, providing highly interesting information for the BDCs themselves (benchmarking), for DESIDE, and beyond to other actors interested in this modality. DESIDE, in addition, included three BDS centers of SENATI, the National Service for Industrial Worker Training, into its monitoring system. SENATI is supported by contributions from industrial firms. It disposes of large decentralized training centers and offers training and other services to micro- and small enterprises in its training centers. SENATI never believed that DESIDE's approach would work in the longer run, but DESIDE nevertheless agreed to pass on the monitoring data to these SENATI centers as long as they complied with the strict information delivery requirements. SENATI is, together with the state technical schools, a major competitor of the BDCs promoted by DESIDE and other cooperation agencies.

The monitoring system has produced the following results: 80% of the clients of BDCs were both microenterprises<sup>1</sup> (60% employing less than 5 persons) and “pre-enterprises” (young people including professionals interested in starting a microenterprise). 18% were small enterprises and 2% medium-sized ones. However, differentiated by type of client, the latest monitoring report covering the year 2003 shows the following sources of income of the 13 BDCs reporting in this year:

**Table 2: Sources of income of BDCs, 2003**

Source	%	USD
Microenterprises	21	56,603
Small enterprises	9	23,280
Medium-sized enterprises	4	11,862
Large enterprises	9	23,605
Institutions (international coop.)	42	112,727
Professionals	1	2,318
Pre-enterprises	15	40,004
TOTAL	100	270,399

<sup>1</sup> Legally, microenterprises were defined, until 2002, as employing up to 10 persons and generating annual sales up to USD 60,000; small enterprises employed between 11 and 50 persons and generated sales up to USD 750,000.

In 2003, 55% of the income of the EDC was derived from sources other than end-users, and only 45% was paid by the end-users of the BDS. During this year, 51% of clients were microenterprises, and 35% pre-enterprises. This result is due, in part, to the voucher program Peru Emprendedor operated by the Ministry of Labor and Employment Promotion, in which most EDC were supported by DESIDE. A non-representative impact study commissioned in 2001 by DESIDE showed that in the years 2000/1 (years with low BDS demand), 28.5% of BDS were fully paid by the end-user, 30% were partially subsidized, and 42% fully subsidized (mainly by projects of international cooperation via NGOs).

The total income of USD 270,399 in 2003 was less than half of that obtained in the year 2000 (USD 662,488). This decrease is due to the withdrawal of a major EDC which reported an income of USD 300,000 in 2000, a down-turn in the business cycle<sup>2</sup>, and the finalization of the voucher program BONOPYME (1999 – 2001).

Sector-wise, the BDCs attended, in descending order, the clothing industry, services, commerce, and, to a lesser extent, agroindustry, shoemaking, metalworking, etc. In 1999, following an evaluation, DESIDE accepted that BDCs provide, above all, general rather than product-specific services, mainly because these brought higher sales prospectus for small BDCs in markets outside Lima.

As to the type of BDS provided, training has by far been the major one. In 2003, it made up two thirds of all services provided (6,500 attentions, compared to e.g. 242 technical assistances). EDC's yearly income per client in training was between USD 19 and 26 during the past years. This has been the BDS which netted the highest return to the EDC, but was also by far the most subsidized. Overall, the average price of all BDS sold by BDCs has declined sharply over the years, from USD 71 in 1999 to USD 28 in 2003 as a consequence of the entry of new services (i.e., internet access) which are in high demand – a tendency observed also in other countries.

The estimated overall number of repeat clients (20%) is relatively low, which is due to the kind of services provided (e.g. the qualification for a public tender via an EDC depends on further public tenders; if these are not forthcoming in the same sector, the service is not repeated to the same client). The 2001 impact study showed that in the two years investigated (2000/1), of those clients who did buy further BDS after having been attended by an EDC, 42% returned to the same provider, while 58% looked for other providers. The study notes that on the basis of client satisfaction, it was not a lack of quality in BDS provision which caused this result, but rather the absence of a strategy by the providers to develop and sell follow-up services. BDCs remained with the same kind of (mainly training) service which clients do not need twice.

Overall, the BDCs included in DESIDE's monitoring system have attended, over eight years up to April 2004, about 30,000 clients. Table 3 presents the corresponding figures; an estimated 20% of repeat clients have to be deduced from the total figure.

**Table 3: Number of clients attended by Enterprise Development Centers supported by DESIDE, 1996 – April 2004**

City	Approximate number of clients attended (including repeat clients)
Lima	15,027 (of which SENATI 5,519)
Chiclayo	12,467 (of which SENATI 7,475)
Trujillo	3,367
Huancayo	2,502
Arequipa	1,708
Piura	724

<sup>2</sup> An impact study made in 2001 noted a substantial decrease in the BDS market: 60% less enterprises bought BDS from the surveyed BDS providers compared to the preceding year, and 40% less BDS were transmitted.

Huánuco	618
Cajamarca	555
TOTAL	36,968

Excluding SENATI, the BDCs supported by DESIDE attended approximately 24,000 clients, of which were 40% in Lima.

The success rate of different kinds of BDS providers gives some interesting clues:

- Of the providers selected in the first bid, the four NGOs closed their EDC, and of the later ones, one NGO and a private provider closed as well. Of 16 EDC supported, 11 continue. The NGOs, apparently, were not able to overcome the difficulties of:
  - constituting a business unit within a NGO working according to other criteria (donor financing, no or little market orientation)
  - responding adequately to significant changes on the BDS demand side
- The last two bids selected smaller agents; the smaller BDCs today – a majority – are microenterprises employing on average three persons; those in cities other than Lima indicate that as a formal EDC, they will hardly be able to maintain themselves in the market if they attend microenterprises only who pay the full price of the BDS (a view shared by most persons interviewed); as long as a voucher program provides subsidies, they may continue. They also deplore unfair competition from informal providers (professional individuals) or not-for-profit institutions (like universities) which are exempt from certain taxes. Most of these smaller BDCs feel, even with the support from DESIDE, quite isolated and are eager to receive further advice on innovative products they could introduce to improve their sales perspectives.
- As to the level of self-financing of the 13 BDCs figuring in DESIDE's monitoring system, five (in 2002) and six (2003) succeeded in covering their costs (this includes income from subsidies). Each EDC being a case *sui generis*, a differentiation is needed. Two BDCs with by far the highest self-financing ratio are those of SENATI in Lima and Chiclayo, which can build on substantial "sunk cost" (of infrastructure). A third one, from the first bidding process, is a successful consulting company making half of its income from services abroad and attending also projects financed by international cooperation agencies. A fourth one, in Chiclayo, existed attending SMEs before it ventured into microenterprises with the support of DESIDE. A fifth case is due more to an accounting effect (of deferred income), and a sixth is an NGO in Arequipa with its own infrastructure. Finally, a small EDC providing technical assistance to a farmer community in a relatively rich agricultural region also succeeded in reaching self-financing.
- Overall, of 16 EDC supported, 11 continue, and maybe half of these have chances to continue after DESIDE closes, a success rate of one third of supported BDCs, mainly those who also attend other market segments next to microenterprises.

### *Methodologies for microenterprise development*

DESIDE, becoming increasingly aware of the weakness of BDCs to develop services which keep them in the market, started to promote the transfer of methodologies promoting the start-up and growth of microenterprises. It agreed with FUNDES to apply the FUNDES Multimedia training packages, sold under a franchise arrangement to clients. Furthermore, it developed in-house the gender-sensitive training methodology PROGESTION, and it operated the product PACA for the organizational strengthening of institutions. 23 operators acquired the FUNDES franchise, of which 45% operated it with vouchers from BONOPYME (i.e. the clients did not pay, or not entirely pay, the franchise). The franchise method proved not to be a feasible dissemination method: it was far too easy to copy the material or to change it slightly and apply it under another name. DESIDE transferred its further use directly to operators accredited with FUNDES.

PROGESTION, developed by the consortium PPME/GTZ/DESIDE, was transferred in five processes to 44 institutions and enterprises; 92 facilitators were trained, and the operators applied the

methodology to about 3000 clients. Its further operation is in the process of being transferred to two national bodies: one university and the roof organization of SED NGOs COPEME.

As the number of operators of these methodologies indicate, it is much higher than the number of BDCs supported by DESIDE. This is a typical example of the platform function of DESIDE: it left it at the discretion of each EDC to acquire such methodologies and offered it more broadly to the 30 (there were 50 based on a broader definition) BDCs promoting SED in Peru. It was not possible, nor desirable, to impose their use on the promoted BDCs; DESIDE preferred the providers who showed interest and the commitment to use it. Thus, only three of DESIDE's BDCs acquired and applied PROGESTION.

Another methodology which was developed on the basis of the EDC assessment work of DESIDE has been the Business Plan instruction for BDCs, which meets a growing demand.

#### *Making BDS markets more transparent*

Increasingly, DESIDE fostered BDS market transparency. It commissioned several market studies (not known so far in this field), thereby promoting the development of supply capacities in the private sector (new service line). It also supported the development of the BDS market-information system InfoSiem which the PPME set up for Lima and five cities. It included enterprise directories, sectoral statistics, data on foreign trade, and business opportunities. It also offered tailor-made services for individual clients and administered the Centre for Business Information and Documentation. Opening in 1997, it reached a culmination of service provision in March 2001 with around 38,000 information requests in one month, compared to some 10,000 per month before. However, with the change of SED promotion to another Ministry, InfoSiem was de-activated. Learning the lessons from InfoSiem, DESIDE supported, in its last phase, another initiative for setting up a private sector managed interactive market information system called SISDE (with a price tag of nearly to USD 0.5 million, of which DESIDE contributes three fifths). This effort builds on a consortium of the state agency PROMPYME (support in informatics), the SED NGO roof organization COPEME (data base) and the consulting company IFS, which operates the system. SISDE has prioritized three components: positioning and assuring the sustainability of the magazine Solo Buenos Negocios (Good Business Only), of which nine editions have come out so far; its web portal with 280 BDS providers and 35 business organizations registered; and a radio program. Initial experiences point to several risks for such a private-sector led information system in the Peruvian context, what suggested a different public-private sector set-up to provide better sustainability perspectives.

#### *Dynamizing BDS demand*

Finally, DESIDE conceived and supported measures to stimulate BDS demand. By itself, DESIDE did not have the resources to enter with its own voucher program. But it provided conceptual advice to, and was contracted for the administration of, the first state-funded voucher program BONOPYME of the PPME, which offered subsidies of between 20% and 80% of the cost of training. It was directed at manufacturing SEs, excluding services and commerce. Close to 20,000 vouchers were distributed from 1999 to 2001. Approximately 20% were used, stimulating BDS demand. A follow-up program, Peru Emprendedor, with funds available from a SED promotion project of the European Union, was started in 2003 by the Ministry of Labor and Employment Promotion, of which advice was provided by DESIDE.

### **C. Interventions at the macro level**

SDC/DESIDE, together with the economic-development cooperation agencies from Spain and Germany, supported the personnel and activities of PPME from the start. For the official counterpart agency (Viceministry of Industry), this support had a major impact allowing it to build up professional

capacity and obtain budget funds on the basis of the initiatives of the PPME as well, and to form a group of professionals which continued promoting SED even after leaving the PPME.

For SDC, DESIDE formed a kind of technical Secretariat for SDC's policy dialogue in the SED field and participated intensively in the discussions and elaboration of norms and regulations in the framework of the PPME and a coordination roundtable (Mesa de Coordinación).

#### *Coordination Roundtable*

With the support of the above-mentioned cooperation agencies, the PPME became the major technical-driving force for SED of the Peruvian government and private sector. The cooperation in the framework of the PPME led, in January 1997, to the establishment of a coordination roundtable (CR), in which MITINCI, PPME, PROMPYME participated as well as the cooperation agencies working with PPME including two of their projects, and, from the private sector, the SED NGO roof organization COPEME and one enterprise association of the National Industry Society. CR was a voluntary group without formal structure nor its own budget. It formed working groups (on policy, decentralization, research, human resources, BDS market, sustainability and impact, and programming) and offered a structured mechanism for continuous, open-minded technical discussions. DESIDE was one of the most active and persistent participants. CR's members believe that without CR, SE policy would not be what it is today; the SE promotion laws of 1999 and of 2003, e.g., provide proof for this. CR created a shared vision and an integral view of the topic, achieving a good level of synergy in proposals and complementation of activities of the participating agencies. Unfortunately, at a regional level, the drive and continuity were lacking to achieve the same unity and results. CR treated a wide spectrum of topics both on the macro and meso levels.

#### *Promotion of SED at municipal level*

Early on, PPME tried to facilitate the business environment for SE development not only at the national level but at the municipal level. Investigations showed that for SEs, municipal regulations presented the heaviest regulatory barriers. The consortium PPME/DESID/INICAM (an NGO specializing in municipal development) tried to raise an awareness for economic promotion in municipalities. The consortium published various booklets on topics like strategies for regional competition, intervention model for municipal promotion of local economies, etc. The centralistic environment of the 1990s was, however, not fertile ground for such initiatives, and many municipalities showed no interest in these topics. The consortium succeeded in establishing 50 Municipal Economic Promotion Units, but most remained inactive. Guidelines worked out by the consortium are available now for initiatives in the considerably improved prospects for decentralization in Peru (regional governments exist since autumn 2003, but still have little funds).

#### *Transversal issues: gender and environment*

As a matter of policy, SDC expected DESIDE to include these issues in its program. In the gender field, DESIDE showed considerable achievements: in their employment policy, in making the monitoring system for BDCs gender-specific, in creating a gender-specific microenterprise methodology, and in publishing research on microenterprises headed by women. In the field of environment (creating awareness among SE), DESIDE's support to MITINCI did not achieve any noticeable results.

#### ***D. DESIDE's target groups, and the influence of macro and meso levels on the micro level***

Since DESIDE intervened mainly at the meso and macro level, its program-target groups were

- BDS providers
- SED support institutions at the meso and macro levels

However, in its third program phase, DESIDE transformed the dynamics of BDS markets, focusing its objectives on microentrepreneurs and pre-enterprises, in accordance with the guidelines of the Donor Group for SED.

As illustrated above (e.g. composition of CR), small-business associations were drawn only marginally into the DESIDE sphere of influence. This has been due to a lack of initial response from them (see modalities of intervention above). Even in CR, the association participating in it did so at the start but lost impetus afterwards. Small business associations had agendas different from the technical BDS approach of the CR. Also, there was scepticism as to the representation of these associations (small membership). DESIDE preferred to establish alliances with institutions which promised a stronger commitment to the program's propositions rather than to these associations.

At the micro level, the target group which most responded to DESIDE's offer were microenterprises. This was due to the following reasons:

- the enterprise universe in Peru consists of 90% micro, 9% small and the rest medium-sized and large enterprises (some 1,600); according to official figures, the small enterprise sector shows the smallest employment volume compared to the micro, medium-sized and large enterprise sectors.
- the type of BDS providers selected also biased the orientation in the direction of microenterprises, consisting of NGOs attending this segment and of small new providers in secondary cities where the enterprise universe consists mostly of microenterprises.
- BDCs interviewed indicated that BDS for SMEs require a higher degree of specialization than those attending microenterprises. The former consider the type of BDS promoted by DESIDE more as a social-support program, subsidized and with little business orientation. Even between the more successful EDC within the DESIDE program, on the one hand, and the rest of them on the other, there seems to exist a mentality difference: the former consider that those attending exclusively microenterprises do not know how to develop products, manage and increase sales, and create client loyalty -- but are more motivated by helping a specific target group.
- Between 1999 and 2001, BONOPYME stimulated the demand mainly of microenterprises.

Although DESIDE did not pretend to be active at the micro level nor to measure its exact impact on this target group, it did carry out, independently of the EDC, two large surveys of client satisfaction with the BDS, as well as an impact study. In general, there was a high degree of satisfaction with the quality and type of BDS provided, and most clients indicated that they were interested in taking other BDS when needed. However, most indicated "not to have the time" for this, which may be an indication concerning the priority assigned to such BDS in the relatively depressed economic situation of the years 2001 and 2002.

One of the studies mandated by DESIDE looked at the impact of BDS provision on the establishment of microenterprises by pre-entrepreneurs. Of 33 individuals who used BDS in 1999, nine started a microenterprise, of which seven continued at the time of the study (two years later). Compare this to a recent statement from the Ministry of Labour and Employment Promotion noting that around 80% of microenterprises in Peru either close, change, or shift activities within three years of having been established.

Finally, one important aspect is the decision by the BDCs to form their own consortium in order to strengthen themselves. It is a relatively new initiative whose activities still depend to a good extent on DESIDE. Its survival prospects are not clear after DESIDE closes.

The influence of the meso-level activities at the micro level have been summarized above. To assess the one from the macro level (policies, laws, regulations) on the micro level, the following factors of the business environment have to be taken into account:

- in a centralized environment like the Peruvian
- with so much informality in the behaviour not only of enterprises but also of the state
- with a legalistic tradition which makes legal services largely inaccessible to microenterprises, and

- with so few public resources available for a task like SED (compared to, e.g. Chile, Colombia, Argentina, Brasil, etc.)

The influence of promotional norms like those stated in the SED promotion laws of both 1999 and 2003, let alone lower-level norms, are hardly felt at the level of microenterprises. What they do feel are the barriers set up mainly at the municipal level as well as the tax requirements. So the work of DESIDE at the macro level, while it has influenced law-making in the central concerned entities have so far had little effect at the micro level; it did, however, open oportunities for market-oriented SED.

#### 4. Lessons learned

Some of the major lessons learned from the DESIDE program are:

- Is it useful to exert a platform function as an external project? Among a large part of the interviewed persons, the pro-active and persistent role of promoter of the market approach played by DESIDE, backed up by action (projects as well as other initiatives), has been a positive experience and a recommendable sector approach (a precursor to the World Bank's new SWAP – sector-wide approach). It accelerated the introduction of the market approach in SED up to the point of being mainstreamed. The multiple facilitations of DESIDE at the meso and macro level created learning processes quite intensively shared by interested persons, programs and institutions. The breadth of intervention – at different levels, with different actors – has built up a reputation useful for the promotion of the market approach in SED. As far as counterparts are concerned, the public sector (MITINCI) considered the support to PPME, including its personnel, as a major contribution of DESIDE and other cooperation agencies, allowing it to build up expertise and then obtain funds from the national budget. One (DESIDE as a platform) did not exclude the other (PPME build up, which was, unfortunately, not turned and formalized into a permanent national platform because of political and institutional instability).

- DESIDE applied novel intervention modalities in SED such as:
  - being able and willing to support oportunities and initiatives of qualified actors during the course of the program
  - stop working with partners who do not respond
  - introducing bidding processes for the selection of BDS providers

This last modality is considered useful and replicable, although its application is work intensive and requires the capacity to design bidding processes.

Responding to oportunities and initiatives has led to program activities which among themselves may show little synergy and are not directed at the same target group; they can appear as disperse. DESIDE defined its role as a facilitating platform emphasizing alliances and effects which transcended a specific target group (e.g. BDCs or their clients). Properly executed, such modalities can foster several processes as they arise, at the same time. This is an interesting alternative to narrower approaches (e.g. sectoral, or local economy promotion), depending on the SED-relevant institutional set-up in a country.

- Is promoting the BDS offer a correct approach to promote SED? DESIDE's basic hypothesis was a stronger SED through BDS market development. Looking at DESIDE's results and taking into account its specificity (type of BDS provided, microenterprises as main target group, and this in smaller markets outside Lima), the program's results have not yet been able to verify this hypothesis. Given the high level of subsidy in the main BDS (training), it cannot be stated what percentage and what kind of BDS providers continue attending microenterprises in the absence of (mainly demand) subsidies, which continue to be offered in Peru. DESIDE argues that international cooperation as a payer of BDS is also part of this market and that subsidies contribute to support many markets. But in its pure form – self-generated provision of DESIDE-type BDS for microenterprises which pay the full price to providers so that they survive on their own – the hypothesis remains unverified (not necessarily falsified).

- The BDCs supported by DESIDE were heterogenous in size, origin and orientation. DESIDE looked for those with the best business-development prospects. It learned that:
  - NGOs which proposed to operate an EDC within its own structure, almost all failed because the two require different mentalities and management orientation (support versus market).
  - Small individual BDS providers in regional markets remained microenterprises (with on average three persons employed); they felt strongly exposed to unfair competition by either informal providers or non-profit providers exempt from certain taxes, hampering their development perspectives.
  
- In BDS promotion, should sectoral specialization rather than general BDS provision be encouraged? For a start, no general answer can be given to this question, which depends on purpose and circumstances. For BDCs in smaller markets and the type of BDS promoted by DESIDE (training, advisory services, information, marketing), DESIDE was forced in 1999 to abandon its sectoral orientation (garments, metal work, agro-industry) in favor of general BDS as a consequence of the need of such BDCs to generate more sales. They need to sell larger quantities of low-cost services affordable for microenterprises rather than the more expensive technical advice (see the low number of technical assistance services sold by BDCs included in DESIDE's monitoring system). On the other hand, a few small regional BDCs figure that today they need to hook into specific supply chains to build up their existence (but maybe as informal providers, once DESIDE closes its door).  
 Moving up the firm size, the package that SMEs require to bring about substantial business growth (combination of in-house capacity building, relatively longer-term (expensive) technical advice from outside, investment often requiring external financing) is different compared to the BDS markets promoted by DESIDE. The latter generates breadth rather than depth and did little to overcome the traditional isolation of microenterprises (including BDCs).
  
- Has the BDS market become more dynamic as a result of DESIDE's intervention? Combined with other programs (like demand vouchers), yes, if one looks at the number of clients attended by BDCs supported by DESIDE (over 30,000), which in the most part started their EDC with DESIDE support. But this market has been strongly subsidized; in fact, around 40% of clients were 100% subsidized. In 2003, 55% of BDS sold were paid by third parties, not the end-users (80% of which micro- and pre-enterprises). As long as subsidies are forthcoming, this offer may well continue, but this is hardly a long-term perspective.  
 Is, therefore, BDS market development oriented at microenterprises a proposition with sustainability perspectives? Most interviewees reacted with scepticism, including BDCs, except for basic business services (accounting, etc.) in large markets like Lima.
  
- Has it been useful to provide instruments to BDS providers, such as methodologies, performance monitoring, market information? Methodologies are useful if they leave room for further development and if sufficient facilitators are trained. A fixed-franchise system with fixed content did not work in Peru. Such instruments should, furthermore, promote the mentality to develop new services for the same clients, creating client loyalty, i.e., repeat clients.  
 DESIDE's monitoring system has been considered heavy in information requirements for the amount of incentives obtained, particularly by smaller BDCs. But the benchmarking it provided was highly appreciated – an instrument to be replicated elsewhere.  
 As to BDS market information systems, the experiences of DESIDE (with the state and the private sector) are inconclusive and point to further learning from other examples abroad – namely, public-private partnerships, possibly privately managed but partly paid by public funds linked to market performance of the private operator.
  
- What is the impact of BDS provision on microenterprises? DESIDE did not pretend to measure the quantitative and qualitative impact of promoted BDS on clients, having intervened mainly at the meso and macro levels. But client satisfaction surveys showed a high satisfaction with the BDS received. Nevertheless, a majority of those who like to acquire further BDS would not return to the

same provider because they do not need the same service again (in the case of training). Moreover, most (smaller) BDS providers felt weak in developing follow-up services.

- At the macro level, the coordination roundtable has been a positive experience despite its informal character. The high degree of transparency and cooperation among the participants, rather than competition, was felt by many to have exemplary character which should be repeated where possible (i.e., competition in allocating resources, but cooperation among donors and promoters in deciding what to make resources available for). The World Bank's new SWAP (sector-wide approach) advocates a similar modality.
- Efforts at the policy-making level have resulted in ample discussions of SE issues. But in the Peruvian environment, the impact of national SED promotion laws are hardly felt by microenterprises, basically because of a lack of instrumentalization (for SMEs, however, several interesting instruments have been created by the state, e.g., export insurance and credit).
- Municipal SED, too, needs the political will, capacities and resources to improve the regulatory framework and to take promotional measures. Only in the last two years of the DESIDE project did a change take place in this direction. Much of what DESIDE, in a consortium with PPME and a specialized NGO did, was, therefore, preparatory in nature (the idea of local economic development had, politically, not yet crystalized, compared to market development when DESIDE started).

\*\*\*\*\*