Swisscontact’s Strategy on Enabling Environment

May 2006
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1 Introduction

Swisscontact recognizes that its interventions in all core areas need to address systemic barriers to development. Underpinning this recognition is a concern with sustainability, impact and outreach; pointing to a shift away from direct support to individuals and businesses towards stimulating broad-based institutional change with the objective of increasing levels of accessibility and participation by disadvantaged groups. The focus therefore lies on key players in market systems\(^1\) and the factors enhancing or limiting their capacity to act.

In seeking to stimulate more inclusive and systemic market development, Swisscontact therefore appreciates that its interventions need to be as coherent and integrated as possible. This is exemplified by Swisscontact’s strategy on Enabling Environment which relates equally to all of Swisscontact’s core areas: SME Promotion, Financial Services, Skills Development and Urban Ecology. Over the past few years, Swisscontact has integrated into a number of ongoing projects enabling environment components. Therefore valuable experiences exists within our organization on which on one hand this strategy document draws heavily and on the other hand it is the basis for a comprehensive integration of this approach into more Swisscontact projects.

The world of poor people is characterised by lack of access to opportunities and limited capacity to respond to such opportunities. Swisscontact, with its extensive experience in private sector development, focuses explicitly on promoting an environment that includes the poor and offers them opportunities to improve their livelihoods. Economic growth is one of the most significant factors in a poverty-reducing environment\(^2\). Significant poverty reduction requires growth with two inter-related dimensions:

- Income-related angle, i.e. access to employment or opportunities for self employment.
- Non-income dimension, i.e. access to different amenities such as health, education, water and sanitation, law and order and environmental protection, etc.

Governments generally contribute to growth by ensuring the effectiveness of key institutions and infrastructure and finance these activities by taxing households and businesses. The private business sector however is the prime creator of jobs and value-added by combining capital and labour to produce goods and services. This implies for Swisscontact to focusing on why disconnection and exclusion exists in and between different types of markets, institutions, businesses and different parts of society. Therefore it is an emerging concern for Swisscontact to focus also on improving the environment around individuals, institutions, markets and businesses to promote broad-based economic participation and competitiveness. In particular this leads to a focus on the institutions\(^3\) that influence market outcomes.

Market systems – how they work or don’t work – influence both the rate and pattern of growth and determine the extent to which the poor and disadvantaged are provided with opportunities to benefit from growth and their ability to respond to these opportunities. A variety of public and private, formal and informal institutions determine the structures and operations of market systems and the governance exercised over them. By fostering systemic change, market incentives can be altered to encourage greater pro-poor outcomes.

\(^1\) Understood in a broad sense, including markets such as BDS, financial, training, labour, environmental, government services, etc.
\(^3\) Institutions set the framework of rules and incentives that affect how people utilize resources in political and economic decision-making. Institutions may be composed of both formal (laws) and informal (social norms) rules of the game within a society. See Douglass North’s work on Institutional Economics.
As the international trend on market development ("Making Markets work for the Poor") becomes stronger, so a concern with the enabling environment is becoming more important. Activities to improve the environment within which poor people, institutions and businesses operate are seen as not only as enhancing the effectiveness, outreach and sustainable impact of the core project interventions but as an integral part of a sound promotional strategy. Swisscontact explicitly and continuously improves its approaches creating value-added and contributing to best practices and methodologies towards enhancing this trend. It is within this concern for more inclusive market system development that the promotion of an enabling environment must be considered.

This document aims to outline a strategy on how to promote an enabling environment and complement Swisscontact’s core competences to get a coherent organization-wide approach to systemic market development. It seeks to provide guidance on analysis and project design, intervention approaches and implementation strategies and monitoring and evaluation procedures.

2 Rationale

People are poor because their immediate – their environment – does not allow them to rise from poverty. Their world is characterised by lack of opportunities and limited capacity to respond to opportunities. Poverty reduction takes place most effectively in environments that deliver a number of key outputs that allow poor people to get what they need in order to earn income, build assets, learn, be healthy, and deal with shocks and the many other facets of the poverty condition.

Economic growth is one of the most significant factors in a poverty-reducing environment. The pattern and quality of growth are significant in determining the extent of its pro-poor (i.e. poverty-reducing) virtue.

The private business sector is the prime creator of jobs and value-added activities by combining capital and labour to produce goods and services output. The business sector drives economic growth not only by investment and innovation but also by shifting labour from lower value-added activities (such as agriculture) to higher value-added activities in manufacturing and other sectors.

Market systems – how they work or don’t work – influence both the rate and pattern of growth and determine the extent to which the poor and disadvantaged are provided with opportunities to benefit from growth and their ability to respond to these opportunities. A variety of public and private, formal and informal institutions determine the structures and operations of market systems and the governance exercised over them and so have a major influence on market outcomes and their contribution to pro-poor economic growth.

This implies a comprehensive understanding of market systems and the market players to address enabling environment issues for poverty reduction.
3 Vision

Swisscontact’s project design, implementation and evaluation follows in each field of competence (Skills Development, Financial Services Promotion, SME Promotion and Urban Ecology) a systemic approach in order to contribute efficiently and effectively towards widespread pro-poor growth. In doing this, Swisscontact stimulates the ability of stakeholders to positively influence and modify parameters affecting their operations in order to create a more enabling environment.

As a systemic approach we understand an approach that considers action and reaction between key stakeholders (market players) as well as their interaction with the wider (market) environment. It also takes into account the possibility and capacity for the stakeholders to contribute towards shaping the (market) system and the wider environment.

Interventions in market systems therefore require a comprehensive understanding of how markets operate, how they interface with supporting markets, what are the prevailing incentives for the stakeholders, how the wider environment is shaped and what the relationships of power are in such a system. Widely and mutually accepted understanding of the roles of the key actors is essential. Swisscontact considers itself as a facilitator of change which focuses on enhancing the capacity of partners to modify to their benefit the functioning of the system. Swisscontact’s interventions and presence are limited in time and therefore the roles of the facilitator need to be transferred to local partners or institutions as early as possible.

4 Hypothesis

It is expected that Swisscontact’s EE interventions will strengthen target groups in their capacity to interact with their environment in order to create opportunities for participation and growth.

- Sustainability of change will be enhanced as the target group has been able to participate in changing parameters of the system in such a way that additional incentives to participate in the market has been created for them.

Example: Changing tax structure on fuels in such a way that cleaner fuels are taxed less, will increase demand for those fuels, thus increasing their sales volume and reducing further environmental pollution

- Outreach of core project objectives will increase as environmental conditions will most likely affect even target groups beyond the project areas

Example: Introduction of e-government for issuing business licences can easily be expanded to a computerized system for issuing and controlling licences for bus routes.

- Transactional costs in core markets will be reduced as market institutions will operate at a higher level of efficiency

Example: Establishing a conciliation council in a BMO reduces the cost of contract arbitration for entrepreneurs. Skills certificate reduce the cost of employment as risk to recruit staff with poor performance will be reduced.
5 The Underlying Model: Core Market and Wider Environment

Households, organisations or businesses operate in a system where they exchange materials, products or services. This we call the core market. But markets do not solely function as a result of supply and demand of goods and services; they are governed by informal and formal institutions (such as formal rules or social norms) and interlinked to a range of supporting markets providing access to raw materials, infrastructure, land, labour, capital, information, knowledge, etc. Supporting markets and institutions are considered as the wider environment and enhance or hinder the functioning of the core market. Within this system a diverse range of public and private, formal and informal players are active. Swisscontact builds its strategy for intervention on this basic model.

Figure 1: Market Systems and its environment

Institutions can be either formal or informal and shape market outcomes by governing entry, exit, operations and behaviour of market players depending on existing incentives or disincentives. For example, product standards influence the activities of players within a value chain and certificates for occupational skills enable the skills matching between employers’ needs and workers

4 For Swisscontact, it is clear that institutions are the base on which the market system builds while the supporting functions enables the system to deliver.
capabilities within a labour market. Rules are developed and defined by habit, general policy making processes or by individuals. Depending on the relationship of power and the scope of the area to be ruled, only a few or almost all of the stakeholders will participate in the process. Formal rulemaking is often delegated to a variety of organisations (political, technical, national, or international).

A range of supporting markets determine, together with institutions, the way in which a specific core market works. For example, the establishment of a central credit information bureau providing information regarding the track record of bank clients supports the functioning of a capital market or regular and effective emissions inspections helps enforce clean air standards.

In addition to the core supply and demand side actors of the core market who provide and consume a specific good or service, there are many other players involved in markets. The four categories Swisscontact deals with are the private sector (households, organizations of any size, ranging from formal to informal), government comprising executive, legislative as well as judicative functions and public agencies, representative organizations (including business organizations, consumers’ organizations) and not-for-profit organizations, including relevant NGOs, research foundations, educational institutions.

What are the conditions that make a market environment enabling for market development and conducive to pro poor growth? Besides the basic building blocks such as macroeconomic stability, investment in people such as health and education, transparent property rights or infrastructure, there are conditions that improve functioning of markets, increase flexibility, productivity and hence competitiveness. Some key conditions of an enabling market environment are

- Incentives for entrepreneurship and investment (investment climate);
- Bases for productivity such as well functioning support markets, access to science, technology, information and well established linkages in value chains
- National and International linkages shaped by tariff policy and trade infrastructure
- Equitable access to markets, specially capital, labour, natural resources, knowledge

6 Focusing Swisscontact’s Interventions to support an Enabling Environment

Swisscontact works mainly on the subnational (regional, local) level, but might be get engaged on national level, depending on the specific topic and Swisscontact’s strategic position in a country. However, recognizing Swisscontact’s core competencies and limitations, interventions are focused in terms of

- Core Market-specific: As a relatively small, private sector development-focused organization, it makes practical sense for Swisscontact to focus on issues that are closely related to failures in

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6 Organizations can be enterprises, training institutions, service providers, etc. In contrast, the term institutions is used in a wider sense. For example a market is considered an institution as it is a set of organisations interacting according to a number of agreed rules.
the core markets, inadequate access of target groups to products/services provided by support markets and negative effect of institutions on players of the core market, such as for example excessive regulatory burden for businesses.

- **Service-related**: addressing enabling environment issues may require a range of reform measures, including legislative change, institutional development, process improvement, etc. Some areas of reform require high level political engagement and influence. However, many reforms also require operational innovation and improvement if they are to be effective in practice. Such measures are usually about improving the interface between organisations and its environment. This service-related element to enabling environment is an area where Swisscontact has a track record and distinctive competence.

This clear focus defines the *niche* for enabling environment interventions where Swisscontact has demonstrable strengths – by putting the organisations active in core markets and their needs at the centre of its efforts to contribute to better conditions for economic development and poverty reduction. Approaches and instruments for promoting an Enabling Environment are cross-cutting for all fields of competence of Swisscontact.

### 7 Basic principles for Swisscontact’s action in Private Sector Development Projects

The working principles to integrate enabling environment interventions into Swisscontact’s work are:

- **Enabling environment interventions apply to all fields of Swisscontact’s competence**: An enabling environment is critical to all market systems and therefore to Private Sector Development. EE interventions play a supporting function within Swisscontact’s core fields of competence,

- **Understanding systems**: Swisscontact recognizes the complexity and local specificity of market systems and provides analytical tools (see chapter 9 and annex 3) to assess these systems and assist stakeholders in designing appropriate interventions with the objective of enhancing pro-poor growth

- **Needs of the key players of the core market system**: Objectives, opportunities, interests and incentives of the key stakeholders, with special attention to women’s need, are the starting point for Swisscontact’s interventions to improve the framework conditions for economic development and poverty reduction.

- **Local ownership and sustainability**: Swisscontact supports initiatives of local stakeholders and partners who own the local development agenda and are the drivers of change. This is the best way to ensure that changes last beyond project interventions. This implies that Swisscontact has to stimulate change within an agenda not owned by Swisscontact, but by its partners.

- **Services for the poor**: Swisscontact participates in the international thrust on “Making Markets work for the Poor” and is innovative in developing services that address the constraints faced by the poor as entrepreneurs or as consumers. This innovativeness is crucial to enabling environment interventions that need to adapt constantly to changing system parameters, spot opportunities and ensure stakeholder engagement
- **Interface between stakeholders**: Swisscontact seeks to contribute towards the alignment of interests between different stakeholders who want to improve their environment. In the centre of attention stands the facilitation for stakeholders to interact with its wider environment and to change the framework conditions in order to become more competitive and contribute to pro-poor growth.

- **Practical approaches**: Even if the complexity of intervention is increasing by adding an enabling environment angle to traditional project implementation, Swisscontact is permanently searching for practical ways to facilitate stakeholder action, which will produce measurable changes.

- **Risks in supporting EE interventions**: Swisscontact acts as a facilitator and contributes to capacity building of the involved stakeholders. Outcomes are therefore highly dependant on the willingness and capacity to act of the partners and only partly attributable to Swisscontact’s action. In addition, EE interventions many times are bordering with political processes, which are completely outside of Swisscontact’s mandate. Therefore prior to deciding on EE interventions Swisscontact will make a careful assessment of inherent risks to Swisscontact’s institutional standing and image within the country as well as within the donor community.

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### 8 Implementation Strategy for EE Components

#### 8.1 Overall Strategy

In order to be welcomed and invited as serious facilitator of change towards a more enabling environment, development agencies need a high reputation and acceptance within the host country. Such reputation and acceptance can be based on the size of the program (funding portfolio, e.g. World Bank, ADB) or an excellent track record as development agency. For Swisscontact as a small development agency, reputation based on track record is the only way to be accepted as facilitator of change. This has implications for the overall strategy regarding where to engage and how to develop know-how:

- EE interventions are components of projects in Swisscontact’s core competence areas SME, Finance, Skills Development and Urban Ecology.
- Swisscontact’s EE components are focused on countries, where Swisscontact has gained a high reputation in one or more of its core competencies.
- Swisscontact engages in EE components in countries, where Swisscontact has a long-term commitment.
- Swisscontact improves the capacity of its staff regarding enabling environment issues by collecting key sources of experience from all fields of competence. To do so, resources are dedicated to analysis, relationship-building, knowledge and human resource management.
- Swisscontact participates in local, national and international conferences presenting approaches, experiences and best practices gained through implementation of EE components.
8.2  **STRATEGY FOR DESIGN, IMPLEMENTATION AND MONITORING OF EE COMPONENTS**

8.2.1  **Starting Points**

EE interventions play a supporting function and are embedded within projects in Swisscontact’s core areas. Enabling environment-related issues may emerge via a number of “starting points”, which may determine the scope of interventions:

- **Thematic focus:** A technical project area is predetermined, such as a BDS or Clean Air project, which then encounters enabling environment issues, again broad or specific, eg regulations governing entry and operation in the transport or training sectors.

- **Enabling environment-specific issues defined from the outset:** specific enabling environment issues defined by mandate (after careful need assessment conducted by funding agency), e.g. reform business registration procedures.

- **Geographic focus:** a mandate to work in specific areas or with specific geo-politically defined partners (e.g. in LED), as a result of which enabling environment issues emerge, e.g. regulation of a local market and market traders.

- **Sector focus:** a project is designed to work in a specific priority sector (eg tourism or agro-food processing), within which broad or specific enabling environment issues emerge, eg formalisation procedures, health and safety regulations.

- **Target group:** A defined focus on a priority group, such as women or disabled people in business, where enabling environment issues are encountered.

8.2.2  **Component Design Phase**

The component design phase needs to be broken down into 3 distinctive steps:

1. **Understanding the market system:** This step is composed of mapping the actors, including by gender perspectives, identifying failures of the core market and evaluating the quality and conditions of the interfaces between the key market players and their environment. Special attention shall be devoted to service related issues, e.g. application of law, advocacy, transparency, negotiation, etc. An in-depth understanding needs to be developed on the predominant relationships of power between the key actors of the market system in order to build on such understanding the future interventions. An assessment of the political system (centralized, decentralized, existing instruments for influencing policy decisions etc.) should be included in the assessment for a more realistic picture on the likeliness for achieving changes (for tools and instruments see chapter 9).

2. **Creating a vision of the future.** During this step the key stakeholders develop a shared vision of the functioning of the future market. It will be described how the market and the key players would operate in the case the most important constraints are removed and what opportunities would therefore arise. A hypothesis of how EE interventions will most likely produce what type of output shall be developed.

3. **Component planning.** Outcomes which will conduct to the expected market outcomes are described and planned with the traditional instruments such as LFA and others. Based on the key EE issues identified and the planned instruments to be developed and applied an assessment of knowledge requirements is conducted at the early stage of component planning. To the extent

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8  See also Local Economic Development (LED). General Introduction and Guidelines for Swisscontact. P. Künzi. Swisscontact 2005
possible, priority is given to building up networks of local expertise. For the necessary project internal capacity, staff development plans are developed and implemented.

In addition to above steps of the design phase, Swisscontact conducts a careful assessment of the relevance and risk of an enabling environment component, based on following criteria:

- **Reputation and track record:** Can the component build on a sufficient track record and reputation of Swisscontact as organisation in the host country or be welcomed and accepted as facilitator of change?

- **Time horizon:** Influencing the wider environment requires a mid-term time horizon. It is therefore suggested that a project should have at least a 4-years horizon in order to include enabling environment issues.

- **Relevance of EE issues for the achievement of the project goal:** The core of Swisscontact projects remains the key fields of competence: SME Promotion, Finance, Skills Development and Urban Ecology. Whether the environmental issues shall be addressed explicitly requires the analysis to what extent changes in the wider environment are necessary or even preconditional to achieve the project goal, e.g. increased employment, increased income, reduced health risks, etc.

- **Likelihood of achieving changes:** Even if market system constraints might be relevant for the achievement of goals, the question remains how likely it is to achieve changes in the wider environment. In addition Swisscontact’s “Comparative Edge” – based on its specific position in a country as well as its specific competencies and strengths – to cooperate with local partners needs to be assessed against the option of other organisation addressing the EE issues. If other organizations are regarded as achieving more likely impact, Swisscontact rather envisages cooperation with those organizations than addressing the EE issues directly through a component attached to its project.

- **Potential for Acquisition:** Specifically for projects financed under the development programme (DP), the assessment shall also provide a judgment on the potential for acquisition of projects from other donors in the field of EE. An EE component of a DP-financed project should result in a successful acquisition for a follow-up project after an appropriate period of time.

Above mentioned points are part of a comprehensive risk assessment, which takes into account risks and opportunities created by the EE component for the project, as well as risks and opportunities for Swisscontact as an independent global organisation. Furthermore it is emphasised that not all Swisscontact projects need to incorporate EE components, but seek to do this on the basis of the above assessment, competence, risks and opportunities.

### 8.2.3 Project Implementation Phase

The implementation strategy aims to assure a proper implementation of enabling environment issues along the project cycle. The key issues for consideration for project implementation are:

- **Local ownership and sustainability:** Swisscontact acts as a facilitator and supports initiatives of local stakeholders and partners who own the enabling environment agenda and are the drivers of change. This implies that Swisscontact has to stimulate change within an agenda owned by its partners. Market analysis, stakeholder mapping, development of a shared vision of changes as well as the use of instruments for stakeholder participation and capacity building shall assure local ownership (see also Swisscontact LED Guidelines, chapter 8.3.).

- **Ressource allocation:** Within projects, resources are allocated in a balanced way to core project activities and to Enabling Environment components. Project managers might allocate more time
for EE issues such as strategic research, networking and opportunity spotting and less for operational management. Exchange of experience among projects through networking is encouraged and facilitated through Swisscontact Head Office.

- **Cooperation with other partners and donors:** Changes in market systems require strong lobbying from various stakeholders. Cooperation and building of strategic alliances with other partners and donors is therefore of high priority for all projects. Swisscontact builds upon a network of international experts with specific competencies in EE issues. This network is available to all Swisscontact projects.

8.2.4 **Monitoring and Evaluation phase**

- Project design is summarized in the Logical Framework Project Matrix. Stakeholder mapping, market assessments, documentation of participatory processes, such as developing a vision of the future prepared during the design phase are baseline documents which are the benchmark against which progress will be measured. EE components are reflected at output level.

- A crucial concern for EE activities is related to the difficulties in measuring performance of such activities. Swisscontact emphasizes the definition of clear performance indicators; the measuring on *purpose level* specific changes achieved and on *output level* the achievements of key milestones in terms of process and stakeholder contributions.

- EE components are evaluated according to the evaluation cycle of the project. In order to improve Swisscontact internal learning, it is suggested to include the subject coordinator EE in external or internal evaluations. The lessons learnt of such evaluations are consolidated and disseminated among all projects working on EE issues.

9 **Tools and Instruments**

9.1 **Questions to be analysed for identifying EE issues:**

- How is the accessibility of the target group to the core and support market?
- How are women specifically affected by poor environments?
- Why is a market not functioning efficiently?
- Why is a core market not responding to clients’ requirements?
- Why is a market not improving its efficiency?
- Does the target group have access to alternative markets?
- Who determines the rules of the market?
- What is the cost of the institutions governing the market for the target group?
### 9.2 Analysis and Understanding Systems

<table>
<thead>
<tr>
<th>Description of Tool/Issues</th>
<th>Where to access experience. (Organisation, country)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Failures</td>
<td>World Development Report 2004</td>
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<tr>
<td>Market assessment</td>
<td>KATALYST, A. Miehlbradt</td>
</tr>
<tr>
<td>Market Mapping</td>
<td>Practical Action (formerly ITDG)</td>
</tr>
<tr>
<td>Investment Climate, Cost of Doing Business</td>
<td>World Bank, IFC</td>
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### 9.3 Project Implementation

<table>
<thead>
<tr>
<th>Description of Tool</th>
<th>Where to access experience. (Organisation, country)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PACA, Participatory Appraisal of Competitive Advantage</td>
<td>Mesopartners, SCS Nicaragua, DED</td>
</tr>
<tr>
<td>RIA, Regulatory Impact Assessment</td>
<td>SC Indonesia, TA ADB, Project Zentraljava</td>
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<tr>
<td>SHARE</td>
<td>SC Indonesia, Asia Foundation</td>
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<td>Administrative Deregulation</td>
<td>SC Peru PPYME, Fundes, IFC</td>
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<td>e-government</td>
<td>KATALYST, Rajshahi</td>
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### 9.4 Monitoring and Evaluation

<table>
<thead>
<tr>
<th>Description of Tool</th>
<th>Where to access experience. (Organisation, country)</th>
</tr>
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<tr>
<td>Auditoria Social de la Participación Ciudadana en las Iniciativas Públicas para el</td>
<td>SCS Nicaragua, DED</td>
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<tr>
<td>Desarrollo ¿Qué es y cómo se realiza?</td>
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### 9.5 Participatory Processes

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<tr>
<th>Description of Tool</th>
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<td>PACA</td>
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<td>DACUM</td>
<td>TITI Nepal</td>
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## 10 Glossary

<p>| <strong>Core Markets</strong> | Physical or virtual place where products/services are exchanged. For Swisscontact core markets are closely related to the core project activities, i.e. a skills development project’s core market is the market where skills are produced by VET organisations and demanded by enterprises. |
| <strong>Facilitation</strong> | A facilitator has no direct interest in the issues, except for contributing to fair and sound outcomes of the interaction between stakeholders. His contributions are in providing information, tools, instruments, etc. In the context of development work, the presence of a facilitator is limited in time and the role needs to be transferred to local permanent institutions. |
| <strong>Institutions</strong> | Institutions set the framework of rules and incentives that affect how people utilize resources in political and economic decision-making. Institutions may be composed of both formal (laws) and informal (social norms) rules of the game within a society. See Douglass North’s work on Institutional Economics. |
| <strong>Organizations</strong> | Organizations can be enterprises, training institutions, service providers, etc. In contrast, the term institution is used in a wider sense. For example a market is considered an institution as it is a set of organisations interacting according to a number of agreed rules. |
| <strong>Rule making</strong> | Rules are developed and defined by habit, general policy making processes or by individuals. Depending on the relationship of power and the scope of the area to be ruled, only a few or almost all of the stakeholders will participate in the process. Formal rulemaking is often delegated to a variety of institutions (political, technical, national, or international). |
| <strong>Rules</strong> | Can be either formal or informal and shape market outcomes by governing entry, exit, operations and behaviour of market players depending on existing incentives or disincentives; i.e. product standards influence the activities of players within a value chain and certificates for occupational skills enable the skills matching between employers needs and workers capabilities within a labour market. |
| <strong>SC core areas</strong> | SME Promotion, Financial Services, Skills Development and Urban Ecology. |
| <strong>Service related interventions</strong> | Such measures are usually about improving the interface between organisations and their environment. For example improvement of government services, establishment of one-stop-shops, skills testing, increasing capacity for advocacy of target groups, public-private or private-private dialogue platforms, application of law, transparency, negotiations, etc. |
| <strong>Supporting Markets</strong> | Markets which are linked via supply or demand to core markets. These can be product markets such as markets for raw materials which are vital for the processing industries or service markets dealing with business services. |
| <strong>Systemic approach</strong> | As a systemic approach we understand an approach that considers action and reaction between key stakeholders (market players) as well as their interaction with the wider (market) environment. It also takes into account the possibility and capacity for the stakeholders to contribute. |</p>
<table>
<thead>
<tr>
<th>towards shaping the (market) system and the wider environment</th>
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<tr>
<td><strong>Transaction costs</strong></td>
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<td>Costs depend on level of market development. Well functioning,</td>
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<td>transparent markets are characterised by low transactional</td>
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<td>costs for the individual market player. For example,</td>
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<tr>
<td>information regarding market parameters such as prices,</td>
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<td>quantity, quality are easily accessible for all market</td>
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<tr>
<td>participants.</td>
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<tr>
<td><strong>Wider environment</strong></td>
</tr>
<tr>
<td>Is composed of supporting markets and governing institutions</td>
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<td>(formal or informal rules, social norms)</td>
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Annex 1: A sample of Swisscontact’s activities, demonstrating emerging systemic approaches

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<tr>
<th>Focal Area</th>
<th>Project</th>
<th>Historical approach</th>
<th>Present/future approach</th>
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| BDS/SME development | Indonesia     | • Support of business centres through a voucher program  
• Improve the business environment through policy dialogue and advocacy (SHARE)  
• Information platform for BDS providers  
• BDS quality improvement                                                                                                                   | Market system development through:  
• sector development, including access to finance (Link BDS – finance) and potentially skill development  
• Enabling environment: improved stakeholder dialogue, support in policy and regulatory framework development, support in implementation of policy and regulatory framework.  
Both components are interlinked.                                                                                                                                                                |
| Trends              |               |                                                                                                                                                                                                                      |                                                                                                                                                                                                                         |
| Financial services  | Ecuador       | CREAR: Technical assistance to financial institutions (saving and credit cooperatives, financial NGOs)  
• Contribute to legal reforms on regulation of financial institutions  
• Support selected financial institutions to improve their offer to their clients                                                                 | CREAM:  
• Promote financial sector development through: policy dialogue (contract for collaboration with banking commission), self-regulation of rural FIs, Revolving fund and local trust fund, refinancing BlueOrchard  
SERFI:  
• Complementarily to CREAR → promote financial sector development through Centre for Risk Analysis, rating, refinancing fund, CAMIF, training for loan officers and auditors |
| Trends              |               |                                                                                                                                                                                                                      |                                                                                                                                                                                                                         |
| VET                 | Mali          | Project started as an SME promotion project with a strong focus on the development of BMOs (associations) and then switched to a VET project (Programme d’Appui à la Formation Professionnelle par Apprentissage dans l’Artisanat).  | The project works in different areas:  
• Development of a training system for apprentices and master craftsmen.  
• Development of occupational training programs  
• Support of a national fund created by the government of Mali, with the task to finance occupational and apprenticeship training  
• Creation of a division within the Ministry of Technical Training with the responsibility to assure quality aspects of the training  
• In 2004, the government officially recognized the training programs                                                                                                                                                  |
| Trends              |               |                                                                                                                                                                                                                      |                                                                                                                                                                                                                         |
| Ecology             | Clean Air Peru| ProEco (Centralamerica)  
• Training of mechanics for engine tuning to reduce pollution (maintenance)  
• Support to establish inspection mechanism                                                                                              | PRAL Peru  
• Support the national council of environment in its clean air initiative  
• Work with Ministry of Energy on defining fuel quality and fuel taxing system  
• Strengthen municipal capacity to manage clean air issues in their locality (capacity to establish dialogue with stakeholders, capacity to manage technical issues, such as air quality monitoring)  
• Support the installation of necessary hardware for air quality monitoring (incl. develop local capacity to produce needed consumables)  
• Strengthen advocacy groups via media campaigns, training of reporters, etc. participate and organize public events to improve general understanding of issues and possibilities for citizens to redress pollution  
• Participate in international exchange of experience with SDC funded clean air projects in the region (Bolivia, Ecuador, Chile)                                                                                   |
| Trends              |               |                                                                                                                                                                                                                      |                                                                                                                                                                                                                         |
Annex 2: Documentation

- The 2005 Reader. From BDS to Making Markets work for the Poor. ILO. A. Miehlbradt, M. McVay, J. Tanburn. 2005
- Bringing Knowledge to Vegetable Farmers. Improving embedded information in the distribution system. Case Study Number 1. Alan Gibson. KATALYST, Bangladesh Sept. 2005
- BDS market Development in Indonesia. Swisscontact. 2001
Annex 3: Web pages and Conferences

- SME Donor Committee conference on EE, Cairo Nov/Dec 2005: http://www.sedonors.org/events/

- Interactive web page for enabling business environment issues www.businessenvironment.org

- Interactive web page on BDS www.bdsknowledge.org


- Mesopartner Partnerschaft (www.mesopartner.com), (www.paca-online.de)

- GTZ (www.gtz.de), www.wiram.de/toolkit/

- GTZ Assets for Asia – library on enabling environment and business climate www2.gtz.de/assets-asia

- Making Markets Work for the Poor – ADB-DFID pilot project www.markets4poor.org

- Committee of Donor Agencies www.sedonors.org

Annex 4: Definitions of Facilitator

From KATALYST: A market facilitator is an individual, or organization, that: understands how a market should work, has no stake (commercial or non-commercial) in the market other than its efficient operation and intervenes to improve the sustainable functioning of the market.

From WIKIPEDIA: A facilitator is someone who skillfully helps a group achieve its objectives without personally taking any side of the argument. The facilitator will try to assist the group in achieving a consensus on any disagreements that preexist or emerge in the meeting so that it has a strong basis for future action. The role has been likened to that of a midwife who assists in the process of creation but is not the producer of the end result. The basic skills of a facilitator are about following good meeting practices: timekeeping, following an agreed-upon agenda, and keeping a clear record. The higher-order skills involve watching the group, its individuals, and their process, and knowing the art of intervening in a way that adds to the group's creativity rather than taking away from it. A successful facilitator embodies respect for others and a watchful awareness of the many layers of reality in a human group. In the event that a consensus cannot be reached then the facilitator would assist the group in understanding the differences that divide it.
Examples for Improving the Enabling Environment

Example 1:

SHARE: An instrument for SME Policy Dialogue

SHARE is a component of the Small and Medium Enterprise Promotion Program implemented by Swisscontact in Indonesia. The main objective is to strengthen the voice of SME in policy dialogue.

Often SME policy issues are addressed from a rather abstract and academic point of view excluding the most directly concerned. In 1999 Swisscontact has therefore designed together with The Asia Foundation (TAF) an SME Environment Rating System as an instrument for policy dialogue. Swisscontact and TAF act as facilitators with the main objective of capacity building of SME groups and providing them appropriate tools for a successful participation in policy dialogue. With this instrument group of entrepreneurs assess 5 different factors affecting their business environment: bureaucracy, access to credit, access to input and output markets, infrastructure and SME specific BDS. For each of these factors indicators for evaluating the condition of the factor has been defined in such a way that the responses from the groups of about 25 to 30 entrepreneurs from each of the 10 location would become comparable. The responses were compiled and results presented and discussed with the groups of entrepreneurs in the different cities. The results were analysed from a variety of angles, such as “relative perception of the importance of the 5 factors affecting the business environment in each location compared to the average of all locations”, or “assessment of the business environment by market orientation”, or depending on the “gender of the entrepreneur”, etc. Based on these presentations the participants would identify one factor with highest priority for further action through policy dialogue.

Through the process of involving the entrepreneurs in assessing from their perspective the conditions of their environment with a standardised instrument and the devolution of the results to the groups of entrepreneurs and other stakeholders, has resulted in a considerable higher level of recognition of the SME groupings in Indonesia. Furthermore self-help groups have emerged who have developed own initiatives to improve their access to new markets. In a number of locations bureaucratic red tape is been removed and On-Stop Services are introduced for issuing business licences.

The Environment Rating Instrument is nowadays widely accepted in Indonesia by BMOs, donors and government institutions. The Asia Foundation together with business associations continuous to apply it as a basic instrument for developing the policy dialogue agenda for an enabling environment.

Taken from: BDS Market Development in Indonesia. Swisscontact. 2001
Example 2:

**Bringing Knowledge to Vegetable Farmers: Improving embedded information in the distribution system**

The performance of Bangladesh’s important vegetable sector is undermined by very low productivity. Early evidence from this 2-year pilot project in Rangpur suggests that improving knowledge and information services embedded within the supply chain offers one means of addressing this problem. Focusing on training retailers of agricultural inputs, the results from the project - instigated by KATALYST in collaboration with Syngenta, an input supplier - hold the promise of improvements in the competitiveness and poverty reducing benefits of the sector.

In undertaking the project, KATALYST followed its market development approach to business services characterised by:

- Identification of the underlying cause: low levels of knowledge and information in the market (a key cause of poor productivity) can be attributed to weak private sector capacities.
- A clear strategic focus: developing the capacities of retailers – with whom farmers interact regularly - and input suppliers (retailers’ main source of information) within the market system was therefore the main project goal
- Operational flexibility: within these strategic boundaries, engaging with appropriate players in an entrepreneurial manner that builds ownership with them. Indeed, the idea of retailer training emerged from such discussions.
- Scaling up with other players: in order to promote change throughout the market system, encouraging other input providers to invest in knowledge and information.

Under KATALYST’s agreement with Syngenta, costs were shared for the development and delivery of a 3-day residential training programme for retailers on a range of generic and product-specific issues, reflecting both wider development as well as narrow commercial goals. In addition, KATALYST made significant technical inputs on training content and process. However, the organisation and delivery of training – the main part of the project – was managed directly by Syngenta.

480 retailers, 20% of all Rangpur retailers and serving approximately 200-350,000 farmers, were trained over the 2-year period. Taking account of both direct financial costs and staff time, overall cost per (retailer) trainee was $90-100, with the effective Syngenta: KATALYST share of costs estimated around 60:40.

Early results from the project show positive impacts on each of the market players:

- Farmers’ perception of their experience with retailers’ service has improved
- Retailers have greater self-confidence, place more emphasis on advice and information, have better customer relations and, in most cases, increased sales.
- Syngenta’s sales have grown 3-4 times faster than in other regions. The strategic importance of knowledge and information in the supply-chain has been re-emphasised.
- Other input suppliers, who have often lost out competitively in the short-term, are now showing positive signs of interest in retailer training. This is the critical issue – “crowding in” - in determining wider market change.

The case highlights the importance of knowledge and information in improving agriculture performance - and the opportunity presented by this – and poses challenges for agencies in how to intervene effectively to stimulate more effective and large-scale market development.

*Taken from: Bringing Knowledge to Vegetable Farmers. Improving embedded information in the distribution system Case Study Number 1. Alan Gibson. KATALYST, Bangladesh 2005*