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Enterprise development on the margins : Making markets work for the poor?

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Chapter Seven

Lessons for MDA from the BDS Paradigm



The brick-making facility for hire at Mhala Development Centre

1. Introduction

Despite the limitations described, the BDS market development approach posed some important challenges to traditional practice in the sector. In the process, while many of its own assumptions were challenged and changed, it nevertheless had a profound impact on how development in the sector is understood and done, and on the terms of the debate since.

In particular, the approach cast the limitations of 'service delivery as development purpose' into relief. At the time, the sector was in the grip of the logic of cost recovery, with sustainability measured by the extent to which development agencies could cover their own costs from the delivery of services to poor people, and with

access to donor funding dependent on a reasonable prospect of achieving such 'sustainability' in due course.

The BDS approach challenged the accepted notion that development agencies should play this role, arguing that development agents and agencies should not be 'in' the market, and should instead be funded to act as catalysts, playing market facilitation roles aimed at making systemic change in markets, without being interested players in those markets. Rather than measuring sustainability in relation to the sustainability or permanence of a given intervention or organisation within a market, sustainability should be measured by the extent to which systemic change in markets was achieved.

This focus on systemic change as the purpose of development intervention posed a profound challenge to the focus on service delivery and cost recovery in the sector. The notion that sustainability should be understood as the extent to which systemic change is achieved rather than in relation to organisational cost recovery is a key insight with wide implications in the development sector – despite critical questions about organisational sustainability that it leaves unanswered.

Finally, the focus on facilitation as having a catalytic role in development brought the catalytic function back into focus in development praxis – even if through an unexpected door.

So while the paradigm certainly brought challenges to MDA's praxis, it brought opportunities and new insights also. In this section, MDA's Development Centre model will be scrutinised, reaching conclusions that are not always aligned with the intentions or assumptions of the approach, but that are informed by its insights in fundamental ways, and that drew attention to some core contradictions in the development model.

This section will examine the experience of economic services in MDA's Development Centres – focussing on those services that were intended to operate on the basis of full cost recovery; it will look also at the opportunities that a facilitation approach brought to the training sector, despite a wider context of continued subsidies to

training; and finally at the impacts of a focus on cost recovery for the Centres as development agents.

2. Re-examining the Role of Economic Services

MDA's rationale for delivering economic services – or business services - through Development Centres was two-fold. Firstly, they were intended to address gaps in the local market that were strategic for catalysing wider local enterprise development. Secondly, by operating as viable business units, these services were intended to underpin the sustainability of the centres, making them less vulnerable to the ebb and flow of funding for those development services that did require subsidies. So, in the way the centres were conceptualised, a distinction was made between those services that could and should operate on a commercial basis, which were referred to in MDA as economic services, and development services such as training and counselling that were seen as requiring subsidies.

The Business Supply Stores were an economic service common to all MDA's centres. The viability of these stores varied in each local economy, and changed over time, but the textbook case, in the early years, was at Mhala Development Centre (MDC). The role of the poultry centre has been described, as well as Mhala's role in the steel fabrication sector. A similar role played out in relation to the construction sector, as Ted Baumann describes:

> **Building materials**
>
> As with steel fabrication, MDC initially provided training, equipment, materials and space for centre members to begin producing cement blocks on site...the actual production process was gradually transferred to independent micro-enterprises off-site, and MDC became a raw materials and equipment supplier, maintaining stocks of cement and other requisites for easy purchase and/or hire.
>
> For many of its larger clients, MDC is now gradually moving away from this direct wholesale role towards that of a purchasing agent and administrator. Increasingly, MDC facilitates transactions between manufacturers (in Nelspruit and beyond) and local contractors, levying a small surcharge for the service. (Baumann n.d.: 12)

The examples in the poultry, steel fabrication and construction sectors all illustrate the way Mhala's role changed over time in relation to the needs and development of

entrepreneurs in each of these different sectors. Within these change processes, Mhala's role incorporated all the different development roles that are at issue in this debate – with the Centre providing subsidised support in the early stages, then direct delivery of services, moving finally into a facilitation role – in relation to the changing needs and opportunities in a given sector.

Each one of these cycles also illustrates the ways in which the services offered by the Mhala Centre created new opportunities in the local economy, which in turn created new conditions. These new conditions displaced the need for the original services – with increased economies of scale creating the necessary conditions for market mechanisms to kick in on sustainable terms. Once this key point was reached, a form of systemic change in the structure of the local market was achieved – and the access frontier shifted. In the process, the needs of entrepreneurs and the opportunities in the local economy changed also.

In these examples, the MDC adapts in ways that leverage off the growing scope and scale of local economic activity, and that draw increased added-value into the Mhala local economy. While the Mhala Development Centre plays a pivotal and direct role initially, it plays a declining and increasingly facilitative role as the sector grows. These are good development outcomes.

Yet for the centre as an organisation and a business entity itself, these are at best ambiguous outcomes. While the MDC might have been able to replace revenue from the sale of steel with fees for a linkage service between contractors and suppliers, such transitions are not necessarily equivalent in value or seamless, and they placed the business model of the centre at risk. The declining returns for the role played by the poultry centre were noted early on, and it closed in the end – its functions displaced by the scale and scope of the enterprise activity it certainly catalysed in the local poultry sector.

In practise, there was a tension between the more dynamic facilitative linkage role and the imperatives of running a viable local store. This formed part of an ongoing tension between the wider developmental role and potential of the centres and the narrower imperatives of organizational sustainability, from which the salaries and the

continued employment of staff was derived. These tensions were manifest as contradictions in the incentive framework of the centres at an organisational level.

At a formal level, the business model for the stores was premised on the identification of a particular form of market failure: the distance and disconnection between the local economy and access to a wide range of business inputs, and the high transaction costs this implied. However, far from being incentivised to encourage the emergence of a range of different forms of linkages to suppliers and to competitive sources of supply in the local economy, the business stores had a competitive interest in maintaining their own pivotal role in the process, because the sustainability of the centres and the jobs of centre staff depended on it. Legitimate as these organisational imperatives may be, monopoly control of a service that is strategic for local economic development is not actually a good development outcome.

This may sound harsh, but it is a recognition of an objective tension that existed in the roles expected of Centres, which Centre staff managed in different and often highly creative ways. As the examples above and in Chapter 5 illustrate, the staff at the MDC tended to play the role of local development facilitators even where this may have undermined the immediate interests of the store, to the chagrin of the Institutional Support Manager in MDA Head Office, whose unenviable task it was to optimise the financial performance and sustainability of the centres as business entities.

These contradictions came into focus when competition developed in the local economies in which business services operated – as it always did, over time. At Mhala, for example, Colin Ndlovu, ex-miner from Arnot and one of the original Mhala group, runs a poultry business called Bambanani that now far exceeds Mhala's capacity. Mhala claims this as one of its success stories, and so it is; but the success in the local poultry sector of this and other poultry enterprises supported by the MDC also displaced the need for Mhala's Poultry Supply Centre over time. In a newspaper interview, Ndlovu says:

> Today we breed more than 16,000 a month [by contrast with the MDC's 1,200 – KP]. We have employed 10 workers,' said Ndlovu. He said many more people from nearby locations benefited from the poultry farm. Many of them brought chickens in large numbers so they could sell from their

> homes. In the past, these people could not have started such a business venture because they had to travel to white-owned farms in far places. They had no transport and they simply could not sustain the business. Now they get their chickens in walking distance of their villages around Mkuhlu. (Mamaila, Khathu in City Press, n.d.)

Similarly, while the Business Supply Store played a key role in the early days of the MDC, a review of stores conducted by Sam Vilakazi, MDA's Acting Institutional Support Manager, gave this report on the MDC store in 2002:

> The store is completely dead due to stiff competition in the area. (Vilakazi 2002)

For the business supply stores, competition came both from local entrepreneurs, often trained by the centre, as well as from national operators who were expanding their outreach.

To be viable, it was not possible for the stores to stock only the atypical business inputs intended to promote diversification in the local economy. The turnovers on these were low and erratic, particularly at first – hence the market failure. To be viable, the stores also needed to supply more common and high-volume products such as cement, steel, hardware products, flour, cooking oil and maize meal, for which competition either existed already or followed shortly.

In August 2001, MDA's Legoke Mokgalaka did a review of the stores for MDA's central buying agency, Ethaleni, called 'The Competitive Component of the Operating Environment', that provides further insights into how these dynamics manifested in practice.

Morokweng was a small centre in an isolated community in the Northern Cape, where the rationale for a bulk store had seemed compelling. Mokgalaka reports:

> Morokweng Business Supply Store is faced with three retailers; Theunissen Brothers, Mc Carthy Store as well as Margret's Restaurant/Café. The competition amongst the above retailers engrossed cement, bread flour, maize meal and cooking oil. Despite the stagnation of the Business Supply Store, the price of cement is still competitive. (Mokgalaka 2001)

Mokgalaka then lists the comparative prices for the top selling items, and recommends as follows:

> Morokweng situation calls for strategic review to identify deviation and take corrective measures in accordance with the mission of our organisation. There is incompatibility between the actual operation and the organisational philosophy. This might have already damaged the image of the organisation. We shouldn't be competing with entrepreneurs. (Mokgalaka 2001)

The much-noted tendency for copycat entrepreneurship in weak markets means that if a business such as a business supply store is seen to be working, competitors are likely to follow. Such interventions can create a demonstration effect – even if it is unintended. This is what happened with the business supply store in Bathlarus also, which thrived as one of the more successful and profitable stores until local and national competitors entered the market, and Bathlarus was, in the end, unable to compete and closed down: but not without a prolonged fight. The problem is, the fight was fought over cement and cooking oil; but with the demise of Bathlarus went an end to access to the packaging materials and the other 'atypical' business inputs that had driven the strategy.

The Quthing Supply Store in Lesotho, set up as a stand-alone satellite of the Lesotho Centre in Maseru, adds a different insight to the dynamics. MDA had been delivering both training and input supplies from a distance for some years, and worked with networks of farmers and entrepreneurs in the area. Access to input supplies was a constant complaint. While the more typical supplies were available locally, many key business inputs were not. MDA Lesotho saw this as an opportunity, but, as elsewhere, this meant competing on a core set of high-volume products also.

Along with a detailed breakdown in comparative pricing structures, Mokgalaka describes the competitive pressures on Quthing:

> The flotation of Quthing Business Supply Store engendered a fierce competition amongst the key players in the area. In an effort to retain the market share, Metro Cash & Carry has discounted its traditional approach where a card system was used to screen its customers. The chain store is now selling to everyone irrespective of cards.
>
> Rivalry is amongst Metro cash & carry, Michel & Brothers as well as Teboho farm centre.....
>
> Furthermore, Metro allegedly co-operated with the Chinese in their endeavour to eclipse the Business Supply Store. The manager reported that the chain store provided the Chinese with the stock on credit without taking into account taxation. It is abashed to realize that Metro Cash & Carry promotes activities transgressing the law of the Lesotho

> government. This illegitimate operation results in better prices offered by the Chinese. (Mokgalaka 2001)

The arrival of the Quthing store initiated a form of price war that probably benefited consumers and entrepreneurs in Quthing alike for a while, with two existing players 'ganging up' on the newcomer. Although MDA's Quthing Store weathered the storm (and continues unsubsidized to this day, under the watchful managerial eye of Lesotho Centre's Mapota Molefi), the main casualty of the price war was one small locally-owned trading store - certainly an unintended consequence.

As a store capitalised with grant funds, Quthing would no doubt qualify for the accusation that it distorted the local market, with the demise of the local trading store the unfortunate result. In Quthing, however, while the demise of the local store was certainly regrettable, many would see the dominance of South African and Taiwanese-owned stores as the real distortion, and the advent of a store owned by an agency of Basotho ex-miners as a form of market correction – with the grant set-up funds for the Quthing store simply giving this store the same cost advantage as any store funded with equity.

In marginal markets, the difference between a situation of market failure and the point at which business activity becomes viable may sometimes be equivalent to the cost of capital: particularly with the prime rate above 15%, as it was at points in this period. Loan finance raises the threshold at which a given business is viable, and therefore the threshold at which it is possible to overcome market failure on market terms. For local entrepreneurs, the barriers to entry and the threshold of business viability is therefore higher – all else being equal – than for established operators with equity to invest in new markets.

In a context of highly unequal development such as within South Africa (and between it and Lesotho), where the developed sector has high levels of monopoly, national economies of scale and spare cash to invest, local markets close to local entrepreneurs before they even open up, as the national players step in, with this significant cost advantage in relation to their cost of capital. As argued in Chapter Five, the focus on access to credit misses the bigger picture: the more binding

constraint is lack of access to capital. It also begs the question - who exactly is crowding out who in these markets?

While a case is not being made for setting up more grant-funded stores, if MDA had chosen to play a facilitation role and to work with existing market players to improve access to input supply markets in Quthing instead, how should it have gone about doing so? At risk of this sounding like a bad aeroplane joke, who should MDA have partnered with: the South Africans, the Chinese, or the local store?

A market facilitation role can't avoid running the gauntlet of complex issues of local and multi-national power and politics such as these, nor avoid tackling the ways in which existing endowments tend to reproduce inequality of access in markets and to markets, providing a form of market power that keeps the insiders in and the outsiders out; except that here, it is a case of keeping the insiders out of their own market while the outsiders capture the opportunities.

In answering the question, however, one argument certain to arise is that MDA should have partnered with whichever partner can deliver the best price to local producers, because that would make the biggest contribution to local economic growth. The validity of this argument does not remove the dilemma, however; because it is often through precisely such logic that 'neutral' market mechanisms reproduce and entrench existing patterns of ownership and distribution, with the moratorium on more interventionist approaches keeping things that way.

Part of the challenge, in attempting to make markets work better for poor people, has to be to explore new ways of creating access to capital and to equity, to mobilise economies of scale in different ways, and to explore forms of partnership that lead to different distributional outcomes – or the local economic development game will simply be played with loaded dice as usual, further strengthening the strongest.

3. From Training Service Provision to Facilitation

The attempt by BDS proponents to argue against any form of subsidy for skills development in South Africa in this period was flawed and doomed to failure. With South Africa's particular history of exclusion in education during the apartheid years, and with the skills shortages identified as a significant constraint on growth in the economy, significant incentives and subsidies for skills development remain a political and economic priority. Even outside of South Africa's stark realities, the arguments for social investment in human capital formation are well established; North, for example, identifies such social investment as one of the institutional features of societies that grow.

In addition, one of the common BDS arguments used against the provision of subsidies for business skills development hinged on the issue of affordability – considered a valid concept in this context. The argument was that subsidies will last only as long as a donor is willing to provide them and are not sustainable. This too had little resonance in the South African context, in which the skills development levy provided a sustainable fiscal mechanism for this purpose, and in which the National Skills Fund targeting unemployed people was still significantly undersubscribed.

In practice, this was probably one of the first areas in which the BDS approach had to adapt to the reality that subsidies were likely to remain an ongoing part of the landscape, and the focus of this debate shifted to the development of strategies to use subsidies to stimulate a market response, intended to lead to improvements in the quality and diversity of training. The focus was on putting the choice of service provider into the hands of SME consumers, through mechanisms such as voucher systems, and to avoid supply-driven approaches. In this respect, the BDS focus on the market effects of subsidies could certainly add value in the South African context, where the ways in which subsidies are targeted at unemployed people and small enterprises has often been supply driven, and created incentive frameworks that are not always aligned with what is practical and appropriate for the target clients.

For example, one of the conditions that the Department of Labour introduced for access to skills subsidies was that no course less than ten days long could be funded.

The rationale for this was based on concern to ensure quality skills transfer. However, MDA's introductory business skills development programme at the time was based on a course called the One Up Business Training course, linked to a Start Up loan. Developed by experienced practitioners in the sector, it was simple and appropriate, and had been translated into four vernacular languages.

As was argued in a presentation to the Department of Labour (Philip 2002 (3)), it is often simply unaffordable for the unemployed, the self-employed, and in particular for women, to take two weeks off from their normal livelihood or work-seek activities to attend a training course. While courses could be split up and run over a longer time period in urban areas, this was much harder to do in rural areas, where courses were run at village level, and the costs of running them in multiple sessions increased time and travel costs exponentially – and not necessarily only for the service provider.

This condition remained in place, however. Service providers responded to the new incentive framework, offering courses of a minimum of two weeks, and in the process, access to basic skills arguably became less accessible to some, despite such training being fully subsidised.

The focus in this section is less on a critique of governments skills development framework, however, than in looking at how being in the training services market, dependent on earning fees from clients in the form of donors, government and the mining industry (rather than charging the full cost to the user) created tensions and contradictions for the Centres in relation to their wider development role, and how the exit from this role to more of a facilitation role opened new opportunities for effective impact.

In practice, while offering training on a particular set of technical options may have expanded local development options and opportunities initially, over time, these options became a new framework of limitations. The centres would then have a *de facto* interest in promoting the options they could offer over promoting local access to more diverse opportunities, when, once again, the organisational sustainability of the centres depended significantly on this income. Coupled with this, reliance on in-

house trainers limited outreach, because training numbers were limited to the capacity of centre trainers.

This limitation became acute in the mining towns, and it was the Klerksdorp Centre that responded with a simple solution: entering into partnerships with other service providers locally, and outsourcing training services for a fee, allowing for a much more diverse set of options to be offered:

> 'We need more space!' says Derek Nyanisa, MDA Centre Manager at Klerksdorp. Nyanisa met recently with NUM and HR managers in Klerksdorp to work out how miners coming off shift can attend courses. "We have waiting lists of miners signing up for courses!" The centre has added plumbing and motor mechanics to its list, and has introduced courses accredited in the hospitality industry, such as waiter, bar attendant and food preparation courses. "This course is very interesting, and it will help us get jobs." Said Vuyani Kom, an ex-miner on the Food Preparation Course. "It gives us a perspective of the food industry," said Phindile Anthyosi, another ex-miner. As part of the Bar Attendants Course, trainees identify jobs advertised in local newspapers, write their CV's and apply for jobs. They are waiting for the outcome!
>
> Each Centre is identifying business opportunities in the local economy, and MDA delivers training that responds to these opportunities. MDA is forming partnerships with a wide range of accredited service providers. One of these is NECSA, the National Electronics Council of South Africa. MDA and NECSA have developed a six month course in electronics, in response to a need identified by the Taverners' Association. The taverners complain that they cannot find skilled people to fix their TV's, fridges, and videos. ['Building Tomorrow Today': MDA Newsletter April 2001]

By 2002, the hard decision had been made to exit from direct training service provision, and for Centres to act instead as facilitators between demand and supply in the training market. However, this facilitation was expected to earn a fee and to be an ongoing 'facilitation service' in the market – a kind of transitional role somewhere between a service role, a brokerage function and a facilitation role that highlights some of the definitional ambiguity in the use of these terms.

The Lesotho MDA office also provided an illustration of the potential of a facilitation role in the context of a Social Plan implemented in partnership with Placer Dome Mine and Teba, as part of the retrenchment agreement negotiated by NUM with the mine. This process shifted towards a more demand-driven approach, in which workers had a wider choice of skills options and service providers.

The process included an ‘Open Day’ at the Lesotho Centre, at which all training service providers in Lesotho, and several targeted from SA as well were invited to display the training options they could offer. The role of the MDA office in this context was as a ‘pure’ facilitator, with no direct interest in the outcomes of the process other than that demand and supply were matched as effectively as possible. While the facilitation role had to be funded, it was at significantly less cost and risk than running a training institution, with significantly expanded scope, scale and flexibility in the training opportunities that could be offered – and hence the service to ex-miners.

Despite the ambiguities of definition over the facilitation role that MDA began to explore, the point remains that for MDA, playing the role of a direct service provider in the training market created an analogous set of tensions between its competitive interests in the training market, and its wider mandate as have been described in relation to the other economic services.

4. Cost recovery: another anti-politics machine

As the examples in this Chapter have illustrated, a central tension emerged between the need for centres to achieve economic sustainability by operating as service providers, and their role as change agents in the local economy. The primacy of cost recovery introduced a tension that went to the heart of the development rationale for the centres. This was foregrounded when the 2001 Gibson/Bear OPR recommended that the Development Centres be fully commercialised, and that those that could not compete on these terms should close.

In the debate that followed, the question was less whether the centres could achieve this - some could and some couldn’t - than at what cost this would be in relation to their development roles.

In practice, the business performance of the centres varied widely, and it also fluctuated at each centre over time, with management capacity a critical and challenging issue. Already, trends in the SA labour market meant that the kinds of management skills required to run complex business entities such as the centres

were at a premium nationally, and the chances of getting or retaining such skills at the margins was a constraint. MDA's Institutional Support Unit invested significant time and energy in upgrading management capacity and governance at the Centres, and MDA's Finance Department played a direct role in overseeing and auditing of Centre finances.

However, while the performance of different centres was variable, in practice, all business units did well simply to cover their own costs. They were operating in what the BDS market approach would call 'weak markets,' and so even where commercial supply of services was feasible on a sustainable basis, margins were low. Nowhere – not even at the fully-self-sufficient Lesotho Centre - were the 'economic services' able to cross-subsidise and fund development activities other than their own core business on an ongoing basis. The reverse flow was a more likely one – with development funds underpinning the competitiveness of commercial activities. In addition, these activities absorbed significant management time at the Centres and from MDA Head Office. Instead of the business units being a means to a wider developmental end, cost recovery increasingly became an end in itself.

Where full financial sustainability was achieved, as at the Lesotho Centre, it came at a price, as Lesotho Centre Manager Mapota Molefi describes:

> You know when that sustainability thinking came about, we were under a very heavy pressure, we didn't even know what to do. We thought the management (MDA) will say, no, we have failed, we should just close this centre because it is not sustainable. At the same time, we said, what are we going to do if this centre is closed? Because of that, the relationship between MDA and the centre was not good, because of that pressure, it was a very heavy pressure. When someone comes to us and says, 'Let's see how is the centre – what is the performance of the centre?' Well it was hell, it was heartbreaking just to hear that.
>
> It took us some time to realise that, no, these people are right. I still remember Connie [Connie Shumba, Institutional Support Manager]. Really, truly speaking I was a little bit frustrated when she came, because you know, Connie would just demand so many things. 'Can I have the report that's talking about that and that and the financial report and what and what...' Just because of that sustainability element, but in the end we realised that well, MDA was right, the centres were supposed to show that they are there to stay, they are there to support the target group, there to see to it the people who are working for the centre are getting something. So once we realised that – well our lives changed completely. We said, no, they are right, we must pull up the socks. What I do as a centre manger, MDA pushes me, I push you. But it was tough, you know, really it was tough. (Interview with Mapota Molefi: 2004)

Molefi was asked whether the pressure to achieve sustainability targets affected the business strategy of the centre and its ability to target ex-mineworkers. He responded as follows:

> *Whistles*….. It affected us a lot! We didn't even think of the mineworkers, once that came about; we thought we'll do whatever we do to anybody who comes to us and buy, we don't care whether it's an ex-mineworker, and the charges that we gave to the people were very high, we had to change everything.
>
> We targeted the people from the government, as far as the accommodation block was concerned; the people from the sports, people from private organisations, we didn't even think of the poor people from the villages, who would just come and say, 'I want one bag of wax, the price is very high'. We knew that the prices were high. We would just say, no, it's no more R200, its R400. Ja, it affected us a lot, because, let me say, the target group - you forget absolutely about the target group. So that means our strategy changed completely. (Interview with Mapota Molefi: 2004)

The primacy of cost-recovery pitted the survival of the Centres against their purpose – in just the same way, in fact, that the critique of a market driven approach to BDS anticipated such a focus would do. As each centre approached the end of its initial three-year period of operating subsidy, and faced a context in which the organisational survival of the centre depended on the business units, and in which staff salaries differed quite substantially across centres on the basis of their business performance, these tensions intensified and so did the tendency to target away from ex-miners and the poor.

The kinds of grassroots networking, organising and facilitation of economic activity in rural local economies that had characterised the early village-based support processes – and that MDA's staff were particularly skilled at – was time-consuming and did not yield fee-based returns. These were neglected. The development role of the centres was impoverished. While MDA and Centre Boards exhorted centre managers to find a balance between the development agenda and cost recovery concerns, the imperatives of achieving financial sustainability continuously trumped a wider development focus – because no market-based incentives recognises these roles, and in the absence of funding to support such roles, these are the only incentives left on the table.

Susan Barton was the manager of the Mhala Centre in 2000-2001. When asked about this tension, she said:

> There was no tension. Chasing turnover targets was all-consuming – how else would we pay salaries at the end of the month? There was no time for anything else. (Interview with Barton: 2005)

This in turn created an explicit and growing tension with NUM, which expected MDA's centres to provide a range of development support functions, and to give priority to the NUM constituency. But returns from servicing the NUM constituency were often highly erratic, linked to unpredictable retrenchment processes and tended to yield poorer impact 'returns' than other constituencies. Proof of impact was an important criterion in a competitive market-place; and MDA's centres were starting to target away from this constituency to achieve better performance outcomes.

In this context, the full commercialisation of the centres would exacerbate the mission drift away from NUM, and away from MDA's target constituency. After consideration of many different variants on the centre model, MDA rejected the recommendation that the Centres be fully commercialised, and that those that could not achieve this should close. Instead, the MDA Board approved a resolution to convert the Centres into branches of MDA, with a mandate to act as local development facilitators, and to exit from direct service delivery (MDA Board Minutes, 26 February 2002). The centre infrastructure would continue to provide a development hub at local levels, with the intention of reducing transaction costs for local entrepreneurs, but the aim was to outsource the delivery of services to a mix of private and non-profit partners at each centre, with MDA providing the core infrastructure, and focussing on the development facilitator role – with significantly reduced costs and risk as a consequence. As explained in MDA's 2002 AGM Report:

> At the same time, with bills to pay and costs to cover, centre managers were more inclined to concentrate on the sale of cement than on identifying new business opportunities for clients in the area, or attending local development forums. They were also likely to promote their own training options rather than to encourage a more diverse range of opportunities for ex-miners. By setting the centres up as businesses, we created an incentive framework that potentially undermined the delivery of our core mandate; and created conflicts of interest between the interests of the centre as a business and the interests of our constituency. (MDA Annual Report 2002)

This experience of the quest for organisational sustainability leading to upward targeting in Business Centres was not unique to MDA. During the 1990's, Business Centres were set up on a widespread basis, in the developing world and in the transition economies of Eastern Europe. Many were set up with very similar sets of

aims as MDA's Centres, except that they positioned themselves as part of the BDS paradigm from the start – aiming for full cost recovery on all service delivery (Sievers et al). They experienced a set of trends closely aligned with MDA's experience, with a set of assumptions that similarly locked their strategic goals and their organisational sustainability into mortal combat.

An ILO report reviews the performance of 16 centres set up by UNIDO in Romania, centres set up by Swisscontact in Peru, the Philippines and Indonesia; 8 centres set up by USAID in the Russian Federation, centres set up by the Inter American Bank in Argentina, Colombia, Costa Rica and El Salvador, and 136 centres set up across Europe by the EU's Phare programme. (Sievers et al). Across the board, the quest for organisational sustainability went hand in hand with upward targeting, and resulted in centres competing with private sector providers in these market segments. Examples are given from each set of centres. A characteristic comment applied to the case of UNIDO's Business Centres:

> After the sponsors reduced their financial support, the three BC's responded by offering more diversified services and targeting larger companies. This meant that sustainability was achieved by targeting larger enterprises and not the MSE clientele. As long as the centres focus solely on providing business development services to SME's, full cost recovery is recognized by UNIDO to be impossible. (Sievers et al: 5)

In the ILO's conclusions, they note the following:

> BCs (Business Centres) differ from traditional donor interventions in that they tend to be market-led institutions. They put more emphasis on working under market conditions and on developing services that can be self-sustaining. As in micro-finance, this has also led to a stronger emphasis on BC institutional sustainability than on the ultimate impact on the client…. (Sievers et al: 39).

For development agencies, the focus on cost recovery can serve to pit the organisation against its purpose, leaving no space for the kinds of 'change agent' roles required to effect systemic change. This is a new kind of 'anti-politics machine' in development. While Ferguson's critique was aimed at bureaucratic state-driven development, the market-driven development processes that followed have similarly by-passed poor people – with the 'development from below' that Ferguson anticipated still tenuous and elusive.

5. Implications for Development

5.1 Key lessons

The BDS paradigm focussed attention on the market effects of development intervention in a way that was new. It was this focus on the market effects of Development Centres in their local economies, coupled with the effects of market pressures on the centres that helped clarify contradictions in the core development rationale of the Centres. While the issue placed on MDA's agenda by the market development approach was the extent to which the Centres, as development interventions, were distorting local markets, it inadvertently highlighted the extent to which the market-driven imperatives of cost recovery were distorting MDA's development agenda.

The starting assumptions on which the Centre model was based were that the Centres would contribute to local economic development by offering economic services that addressed areas of market failure, and would in the process secure their own sustainability, underpinning a wider development role. In practice, there was a tension between these aims, if not a direct conflict.

To take the strategic rationale first: if the service can indeed be provided on a commercial basis by the centre, then there is no objective reason why it cannot be provided by the private sector within a given market, even if this takes a bit of risk mitigation and facilitation – or a more innovative approach to mobilising equity. There may be a cost to this, but it is unlikely to be as costly as directly capitalising a business to deliver the service, and it can be a time-bound and targeted intervention to catalyse change – allowing the development agency to move on to the next challenge, instead of having scarce managerial and development capacity tied up indefinitely in tasks such as buying cement or overseeing stock control systems for chicken feed.

Secondly, if the service can indeed be provided commercially, then there are likely to be several ways of achieving this aim. By opting to deliver the service directly, the centre develops an organisational interest in doing so through one particular channel – its own. Rather than supporting and facilitating a range of different potential linkages, as opportunities arise, and being able always to promote those that most

effectively reduce costs for local enterprise, or best position local enterprise in supply chains, or add value locally, the centre itself is in the market, and has an interest in staying there. As a result, alternatives represent competition, and the risk of gate-keeping is real.

Thirdly, direct service delivery entails high set-up costs and business risk. The rationale might be linked to sustainability, but in marginal contexts, risks are high, and viability will be a challenge for even the best-performing businesses. In this context, the potential to cross-subsidise other forms of development activity will be rare. Not only that, it is in fact just as likely that business losses will place more than just the business service at risk, reversing the direction in which cross-subsidies flow, with the consequent diversion of development resources into chicken feed.

In addition, the Centres are at risk of being victims of their own success. To the extent that they, along with other complementary factors, are able to catalyse change in the local economy, the conditions that created market failure and a gap for the delivery of particular services will change. Like at Mhala, Bathlarus and Morokweng, there may well be contexts in which there is a compelling initial development rationale for an intervention that catalyses new economies of scale, access to services or market linkages; but this is a different rationale from one that sees the development agency providing such services on an ongoing basis.

Rather than requiring an ongoing role in the supply chain, it is a rationale for playing a 'market development' function, in which, for example, the emergence of a diverse range of suppliers in the local market is an indicator of success, rather than a threat to the MDC store, and in which the MDC is able to tackle a changing set of economic development challenges in the local economy, rather than relying on a fixed set of service delivery roles.

By pegging their sustainability and success to the ongoing viability of services such as business supply stores and poultry centres, the centres were locked into an incentive structure based on a permanent place in local supply chains, for which changes in the local economy and in the nature of market failures within it were potentially threatening. As a result of the dynamics outlined above, both Mhala's store and its poultry centre declined in viability. Was this a sign of failure? It all

depends on whether the success criterion was the sustainability of the centre as an organisation, or was related instead to its success in catalysing shifts in the local economy that removed the market failure identified.

Finally, coupled with these dynamics, the imperative of financial sustainability also created an entirely rational, market-driven tendency to target away from the poorer segments of the community, and to disinvest in playing the wider development or change-agent roles necessary to achieve systemic change – an anti-politics effect.

5.2 Unanswered questions

Despite this recognition of the limitations of a service delivery role, however, a number of questions remain unanswered in relation to the alternative 'facilitation' role presented by the BDS MDP.

Facilitation is defined as a catalytic function, focussed at achieving change at a systemic level (the concept of 'systemic change' will be explored in more depth in the next Chapter). Facilitation – defined in this way – is a much more interesting developmental role than that of ongoing service provision, particularly if it can move beyond the confines of business service markets to embrace a wider political economy of markets and market systems.

The question, however, is how this role should be played, how these outcomes can be achieved, and to what extent a successful facilitation role is contingent on a wider political economy context to achieve change. The key issue here is how this concept of facilitation as a 'catalytic function' relates to wider theories of economic and institutional change – and in particular, to the function of organisation and to forms of association in markets and society. These questions bring us back to the wider questions explored in Chapter Two, of how economic and institutional change take place.

Key theories of economic and institutional change across a spectrum from North to Chang place emphasis on the extent to which change processes are a function of contestation within markets and within societies, and on the crucial role of forms of organisation and association in such change processes. Hand in hand with that goes the long-term and incremental nature of the processes that yield institutional change.

This being the case, the existence of sustainable forms of organisation and association that are able to represent and advocate on behalf of diverse sets of interests within 'the poor' seem to be a critical factor in achieving sustainable and systemic change in the terms on which markets work and in whose interests they work. What are the forms of organisation in markets through which such interests are expressed and asserted, and to what extent can change be 'facilitated' where a political economy context conducive to such change is absent within the markets being targeted?

The concept of facilitation is presented in the BDS and M4P literature as a change function role that is played from outside of markets: a kind of 'honest broker' function, in which the facilitator is an external agent, representing the interests of 'the poor' in markets as a matter of purpose - in a context in which that purpose is sometimes defined by a donor logframe rather than by agents of change or by organised constituencies of poor people within markets or within the society itself.

'Facilitation' is also defined as a transient role in any given context, with a great deal of focus placed on exit strategies. This transient 'silver bullet' facilitation role is considered a legitimate focus for donor funding, while the core costs of organisations in society or in markets are not. Yet it is the ability of forms of organisation and association representing the diverse and sometimes contradictory sets of interests of poor people on a sustained basis that is most likely to underpin systemic change in markets.

Once again, the role of trade unions in labour markets illustrates the point. The extent to which trade unions have been able to influence the structure of the global labour market in significant respects derives at least in part from the fact that trade unions are a permanent feature of the organisational landscape, that have been able to stay the course, and to adapt in response to the changing strategies of other players as well. One of the key factors that has made this possible is that trade unions have often been able to mobilise sufficient membership to be self-funding, making them a sustainable form of organisation able to escape the grip of dependency on external funding. The importance of such financial sustainability is well recognised within the labour movement, and has been a critical factor

underpinning the ability of trade unions to influence the rules of the game in labour markets over time.

Other forms of organisation, representation and advocacy promoting the interests of various constituencies of poor peoples have largely been less successful in this respect, dependent instead on external donors – with cost recovery through service delivery seen as a potential alternative to such dependency. This Chapter has presented cost recovery through service delivery as a poisoned chalice for development interventions targeting poor people. The critical problem of organisational sustainability has been left unanswered – leaving the generic 'poor' to rely too often on consultants contracted without their knowledge or consent to facilitate change on their behalf – the *de facto* model through which much facilitation is currently funded.