

# Editorial: Revisiting the role of business, technical, and financial services in fostering rural entrepreneurship

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Over the past 15 or so years authors in *Enterprise Development and Microfinance* (EDM) have written extensively about the design and implementation of microfinance and its use by the poor, whether to respond to shocks and changing contexts, invest in education, or advance livelihood goals (Figure 1 overleaf). Coverage has ranged from the specifics of designing microfinance schemes, access to them by the poorest, and their impact on wellbeing and poverty. While the debate on microfinance is far from over, it is true that discussions have been more concerned with managing, saving, borrowing, and moving money, than about building viable businesses. Business development involving the poor, which in many cases focuses on rural small and medium enterprises (SMEs), requires us to address the demand for a range of services which, taken together, enhance the capacities of rural SMEs. Such services need to be affordable and reliable, and address the productive and business needs of SMEs, from small-scale processors to multi-tiered agricultural cooperatives. The issues are complex with lingering questions about how different types of service providers, from government agencies and NGOs to various private sector agents, can better design their services; and how, through adequate delivery mechanisms, the capacity and willingness of SMEs to employ such services can be strengthened. In this Editorial, we discuss some of the key issues for advancing rural entrepreneurship via improved services and provide an outlook for future discussions.

Between 2000 and 2005, this journal led debates on how to design and implement interventions to promote markets for business development services (BDS). The challenge addressed in the BDS discussion was the perceived inefficiency and unsustainability of government and NGO-led provision of advisory and input services for SMEs and farmers. Broad consensus emerged that support for the development of viable markets for specialized services formed a critical part of the solution. Authors highlighted the need for supporting the growth of a critical mass of service demanders, mainly SMEs and farmers, who would be willing and able to pay for such services. They pointed at the potential for well-designed interventions to improve the supply of business and technical services to SMEs and options to stimulate

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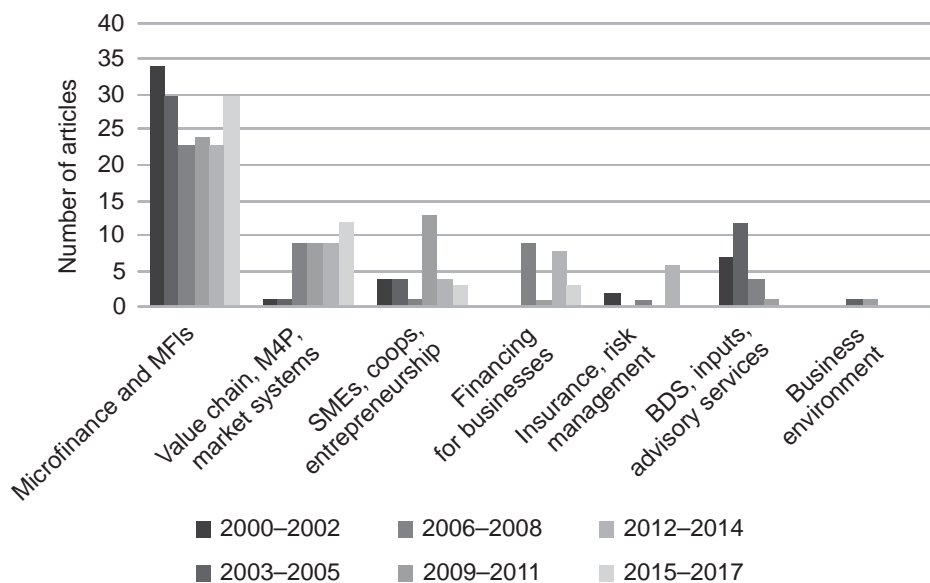


Figure 1 Thematic coverage EDM, 2000–2017

demand for these services through, for example, the provision of vouchers. The short-lived, but lively, BDS debate challenged the development community to address the sustainability problem inherent in project-facilitated service provision and ensure that interventions were available, affordable, and useful for those who needed them. Beginning in 2006, however, BDS discussions diminished rapidly, in large part due to a shift in donor priorities. Critics said that BDS had been too ambitious given afforded timeframes and budgets, but the central tenet of BDS – how to get the right services at the right time to SMEs and smallholders – remains just as relevant today.

By the mid-2000s, donor priorities had shifted to value chain development (VCD). The focus changed from one on building markets for services to strengthening of relations between farmers and businesses engaged in bringing a given agri-food product to market. Within the context of these business relations, large-scale buyers and processors would provide critical services to SMEs and farmers. NGOs and government agencies would still engage, mainly by facilitating the business links and helping to build the capacities of SMEs and smallholders to meet buyer demands. However, the broader focus on VCD has largely failed to address the diverse service needs of poor farmers and emerging SMEs. In many contexts, large-scale buyers have not engaged intensively with smallholders or SMEs, either because they lack the incentives to do so, or because they lack the necessary skills and resources. Cooperatives and producer associations can play a vital role in providing services needed by their members, but they too are often under-resourced and overdependent on donor support. Recent articles in EDM have shed light on the limited engagement of NGOs and government agencies with the private sector and

with other service providers to meet the service needs of SMEs and smallholders, leaving SMEs and farmers with a fragmented and often inconsistent service offer. In short, current approaches to VCD can play an important role in getting some critical services to smallholders and SMEs, but they are unlikely to address all of their diverse service needs.

EDM coverage of services to reduce vulnerability to production and commercial risks has grown recently, with the discussion focused mostly on insurance against production risks. In general, micro-insurance and similar initiatives have fallen short in terms of financial sustainability and impact on poverty reduction. However, the context around agricultural insurance is changing, potentially offering new opportunities. Technologies such as mobile phones can help to expand insurance coverage in low-income markets by reducing transaction costs along the value chain. Weather index-based or parametric insurances have been set up with the specific goal of reducing transaction costs. The design of weather index insurance requires long-term, location-specific yield and weather data – a major challenge in many rural contexts. More recently, interest has grown in picture-based crop insurance, sometimes linked with ICT, as an alternative or complementary approach to parametric insurances. It can be a challenge, however, for insurance providers to transition to more complex products and business models. Parametric insurance, for example, may be associated with lower transaction costs, but its design requires the availability and analysis of complex data and is therefore costly before being market-ready. In addition, its functioning may be difficult for smallholder farmers to understand as risk is insured at aggregate and not individual level. This may lead to paradoxical situations where farmers are being indemnified without having suffered a damage on their farm or vice versa. In response, there are growing examples worldwide where insurance providers combine their product with a group of products and services such as loans for seed, fertilizer, credit, or other productivity-enhancing inputs. Stimulation of the entire value chain creates a demand for diverse service providers.

Initially largely confined to microcredit for consumers and entrepreneurs otherwise deprived of access to loans, debates in EDM have expanded to cover financial inclusion and include other types of financial services, such as savings and insurance. At the same time, financial services have continued to evolve, with important implications for rural SMEs. Responsible finance has emerged whereby lenders not only seek return on investments in businesses in the Global South, but also sound environmental and social performance. Environment, social, and governance (ESG) and similar sets of criteria are becoming mainstream in certain sectors of the finance industry, particularly as regards impact investing. Currently, impact investments largely focus on the energy, transport, and waste sectors, while investments in agriculture and forestry amount only to about 1 per cent of total investments. Still, an estimated US\$6 bn of investments flow to the agricultural and forest sectors, mainly in the Global North but increasingly also in the Global South. Alternative financial service providers, several of whom fall under the umbrella of the Finance Alliance of Sustainable Trade (FAST), have

tailored their financial services to agricultural cooperatives, with credit volumes often ranging from a few hundred thousand dollars up to one or two million. However, such lending tends to be short-term, with the next harvest often used as collateral, leaving cooperatives with few options for long-term finance for infrastructure expansion and other strategic investments. The responsible finance and impact investment sectors are dynamic and it remains to be seen how financial products and services will adapt to the realities and needs of smallholders and SMEs over the next years.

## Looking ahead

In this Editorial, we briefly reviewed the recent thematic coverage of EDM, suggesting that EDM has made important contributions to the debate on microfinance covering multiple dimensions, but that gaps exist when we turn to the issue of services for SMEs and, in particular, rural SMEs. Few journals are better positioned than EDM to lead future debates on options to support the provision of a range of critical services needed by SMEs and smallholders in the Global South. This includes new insights into the needs of resource-poor actors for services and innovations in public–private partnerships to improve the quality and reach of business, technical, and financial services. The recent growth in responsible finance and impact investing suggests new opportunities for EDM to influence international practice through evidence on what works, and what doesn't, in different contexts. We need multi-dimensional strategies involving government agencies and NGOs and private-sector agents for expanding the offer of services, under modalities that range from free or partial cost recovery to full-cost recovery. Such strategies will foster integrated service offers, whereby providers combine specialized advisory and input services with financial services, either credit or insurance. Addressing the gaps around service provision is critical in light of renewed policy, research, and development interest and investment in agri-food systems, as well as for finding options to increase the sustainability and scale of interventions in value chains where smallholders play a critical role in primary production.

In early 2018, EDM will launch a call for papers focusing on the design and implementation of services for smallholders and SMEs. The special edition will address themes within the context of agri-food systems and value chains. It will cover the following themes: 1) finance for rural SMEs, 2) investment options for SMEs, including impact investing, 3) public–private partnerships for improved service quality and reach, 4) insurance services, 5) private-sector provision of inputs (e.g. seeds and fertilizer), 6) role of cooperatives in technical service provision, and 7) experiences in the integration of and coordination of services. Please stay tuned to the EDM website (<https://practicalactionpublishing.org/enterprise-development-microfinance>) for details.