

Seminar Reader

**Developing Commercial Markets
for
Business Development Services**

BDS PRIMER

**Annual BDS Seminar
Turin, Italy**

September 2003

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for the
Small Enterprise Development Programme
of the
International Labour Organization**

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FOREWORD

The ILO works in many developing countries to enhance both the quantity and the quality of employment opportunities. Within the ILO, both the InFocus Programme on Boosting Employment through Small Enterprise Development (IFP/SEED) and the International Training Centre in Turin play central roles in this effort. They work closely with many other agencies and, in this spirit, collaborate to run an annual Seminar on Business Development Services (BDS).

This Seminar has become an important event for BDS practitioners around the world, attracting participants from a vast range of countries. All are engaged in designing and implementing projects to support small enterprise development and all share a keen interest in new ideas and approaches that may increase effectiveness. As well as finding the many presentations interesting, participants seem to find particular value in networking during the breaks, and many continue their discussions by e-mail long after the Seminar ends.

Another facet of the Seminar, which has achieved a reputation of its own, is this background BDS Primer. It has been acclaimed as one of the best overviews of the work done by many agencies in the new and evolving field of BDS. The ILO has translated it into French and Spanish and Swisscontact has translated it into Vietnamese. In addition, many people download it from the Web and a number of other agencies use it in their own events for staff and partner organizations.

Our thanks go to the authors, Mary McVay and Alexandra O. Miehlsbradt, who have managed to update and refresh the Reader each year. We are fortunate to be able to build on their accumulated knowledge and networks in this way. The instrumental roles of Jim Tanburn and Peter Tomlinson in organizing the Seminar each year are also gratefully acknowledged.

We trust that both the Reader and the Seminar will make important contributions to the cause of improving jobs and livelihoods in developing countries in the coming years.

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The authors are grateful to the practitioners, researchers, and donors whose hard work, innovative thinking, and often heart-felt efforts we attempt to capture in the BDS Primer. Their willingness to share information on their programs, innovations, challenges, and lessons learned is greatly appreciated. The Donor Committee on Small Enterprise Development has exerted leadership in bringing these parties together and helping the field break new ground in facing the challenges of increasing impact, reaching scale, and promoting sustainability. We are especially grateful to Jim Tanburn of the International Labour Organization for initiating this reader and for his professional and personal support during its development and annual revision. His colleagues at the ILO provided valuable additional assistance. Thanks to Gail Carter, our editor, who spends hours ensuring that each graphic, text box, footnote, title and sentence is as clear and correct as possible. The authors are also grateful to their spouses for their technical and personal support. This year's edition is dedicated to owners and workers in small enterprises around the world. We hope that the changes in program strategy discussed here help more of them to feed, house, and educate themselves and their families.

Alexandra O. Miehlsbradt
Mary McVay
Small Enterprise Development Consultants

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1. Introduction

Since the year 2000, the ILO has published this annual synthesis of work in the field of Business Development Services (BDS) in conjunction with its annual BDS Seminar in Turin, Italy. This year, in deference to the different experiences and backgrounds of seminar participants and BDS professionals around the world, the “Turin BDS Reader” is divided into two publications:

- **The BDS Primer**¹: Presents the fundamental principles of BDS market development and summarizes key tools. This document is illustrated with examples of how these principles and tools are applied. It is an introductory resource for newcomers to the field and a useful reference for experienced BDS professionals.
- **The BDS Update**: Presents the latest trends, promising innovations, current debates, and challenges as illustrated by examples of programs around the world. This document is more relevant for experienced BDS professionals. It is helpful for tracking pioneering activities, engaging in significant debates, and finding innovative ideas and new approaches to delivering market-based BDS that help SEs stabilize and grow.

This is the BDS Primer.

The purpose of this BDS Primer is to help donors, researchers, and practitioners understand recent thinking in Business Development Services for Small Enterprises and become familiar with the global experience that has contributed to current best practice

1.1 Purpose

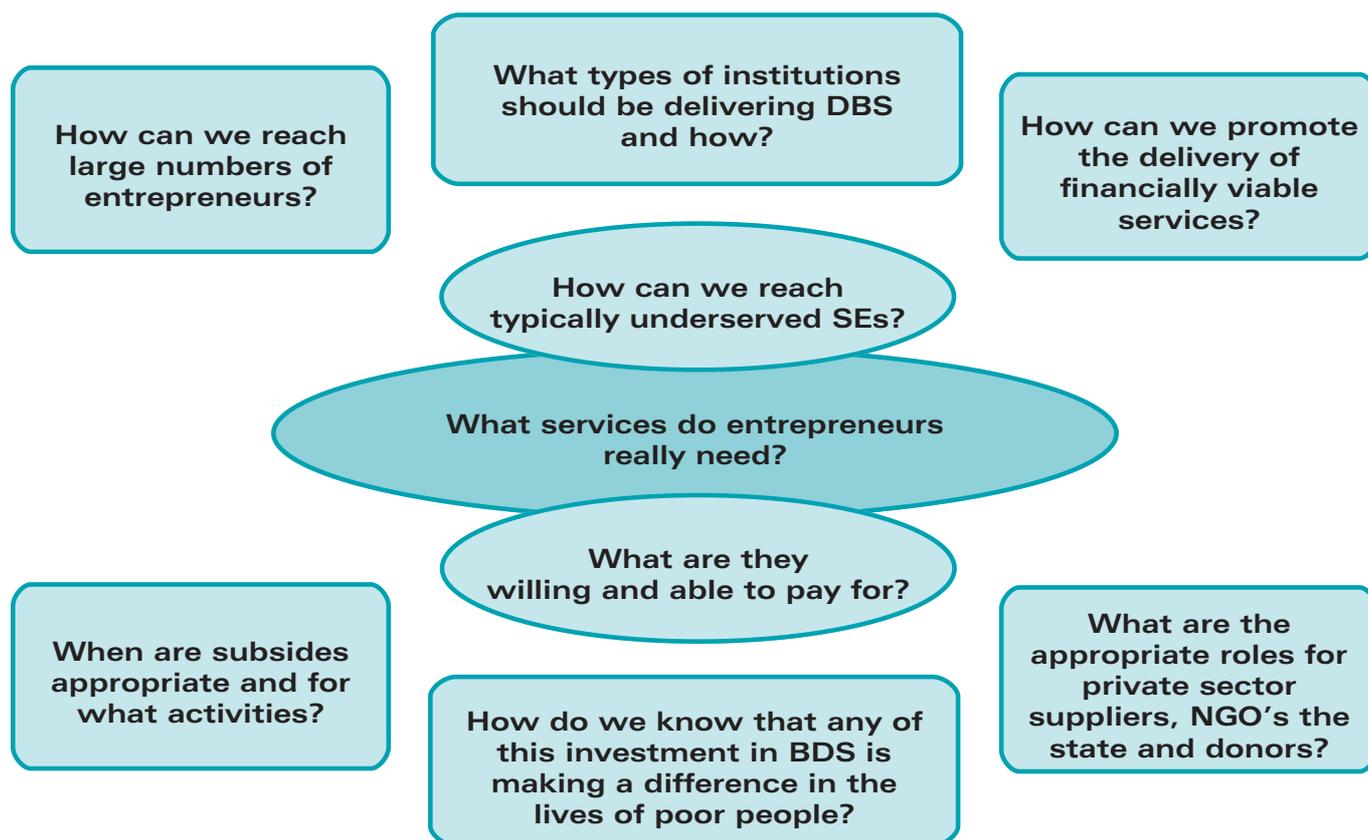
For three decades, governments, development practitioners, and researchers have recognized the importance of small business development in increasing employment and income among poor and low-income people. The success of microfinance programs and institutions has demonstrated that services tailored to meet the needs of very small businesses can be financially viable and effective in reducing poverty. It is equally evident, however, that small businesses are constrained by non-financial factors such as little or no education, inadequate technical skills, poor access to markets, lack of information, and unreliable infrastructure. These factors often prevent businesses from becoming more profitable, despite access to capital.

Business development services are designed to help micro, small, and medium enterprises (SEs) overcome barriers to increased profitability by improving their productivity and access to high value markets. In this way they can realize their potential, work their way out of poverty, create jobs, and grow local economies.

After experimenting for decades with small-scale, subsidized programs having modest impact, the field of Business Development Services (BDS) is now quickly adopting new high-impact strategies that can reach large numbers of businesses in a sustainable manner. The provision of some services – communications and advertising are two – on a fully commercial basis has shown that effective markets for business services offer the opportunity to help many small enterprises develop and compete.² The BDS field is now focused on adapting lessons learned from the field of microfinance, consolidating decades of learning from small enterprise development experience around the globe, and facing the challenging questions that have plagued practitioner for years.

¹ The Primer is available at <http://training.itcilo.it/bdsseminar/>

² Miehlbradt, 1999



The purpose of this BDS Primer is to help donors, researchers, and practitioners understand recent thinking on Business Development Services for Small Enterprises and become familiar with the global experience that has contributed to current best practice.

1.2 What is BDS?

From fair trade marketing to rental of cell phones, from entrepreneurship training to the publication of trade magazines, "Business Development Services" (BDS) refers to the wide range of services used by entrepreneurs to help them operate efficiently and grow their businesses with the broader purpose of contributing to economic growth, employment generation, and poverty alleviation.³ The BDS field focuses on promoting access to and use of these services by micro, small, and medium scale enterprises. In this document the term small enterprise (SE) covers all these categories, unless otherwise stated.

Formerly known as "non-financial services," the field originally concentrated on providing training, consulting, and other services that addressed the internal constraints of enterprises — their lack of education and technical capacity. More recently, it has grown to include marketing services and information resources that help firms gain access to services usually enjoyed only by larger firms. Infrastructure development and policy reform, which address external constraints on firms in these critical areas are also included under the BDS umbrella. When SEs began articulating what they wanted and practitioners listened, the range of services started to expand. The BDS field now comprises many sub-fields⁴ and, because of this diversity; it is challenging to draw conclusions about the field. Although some lessons learned about technology development may be totally irrelevant for marketing services, the operating principles of the entire field have developed so significantly in the last five years that they are now applicable to all BDS, serving any type of enterprise, anywhere in the world.⁵

³ Donor Committee Guiding Principles, 2001; Goldmark, 1997; Tanburn, 2000, McVay, 1996

⁴ McVay, 1996

Table 1: Types of Business Development Services

The SEEP Guide to Business Development Services identifies seven BDS categories: market access, input supply, technology and product development, training and technical assistance, infrastructure, policy/advocacy, and alternative financing mechanisms. Examples of services under each category are provided below.

Market Access:	<ul style="list-style-type: none"> ■ marketing business ■ market linkages ■ trade fairs and product exhibitions ■ development of samples for buyers ■ market information ■ subcontracting and outsourcing 	<ul style="list-style-type: none"> ■ marketing trips and meetings ■ market research ■ market space development ■ showrooms ■ packaging ■ advertising
Infrastructure:	<ul style="list-style-type: none"> ■ storage and warehousing ■ transport and delivery ■ business incubators ■ telecommunications ■ courier 	<ul style="list-style-type: none"> ■ money transfer ■ information through print, radio, TV ■ internet access ■ computer services ■ secretarial services
Policy/Advocacy:	<ul style="list-style-type: none"> ■ training in policy advocacy ■ analysis and communication of policy constraints and opportunities 	<ul style="list-style-type: none"> ■ direct advocacy on behalf of SEs ■ sponsorship of conferences ■ policy studies
Input Supply:	<ul style="list-style-type: none"> ■ linking SEs to input suppliers ■ improving suppliers' capacity to provide regular supply of quality inputs 	<ul style="list-style-type: none"> ■ facilitating the establishment of bulk buying groups ■ information on input supply sources
Training and Technical Assistance:	<ul style="list-style-type: none"> ■ mentoring ■ feasibility studies and business plans ■ exchange visits and business tours ■ franchising ■ management training 	<ul style="list-style-type: none"> ■ technical training ■ counseling/advisory services ■ legal services ■ financial and taxation advice ■ accountancy and bookkeeping
Technology and Product Development:	<ul style="list-style-type: none"> ■ technology transfer/commercialization ■ linking SEs and technology suppliers ■ facilitating technology procurement 	<ul style="list-style-type: none"> ■ quality assurance programs ■ equipment leasing and rental ■ design services
Alternative Financing Mechanisms:	<ul style="list-style-type: none"> ■ factoring companies that provide working capital for confirmed orders ■ equity financing ■ facilitating supplier credit 	

Small Enterprise Education and Promotion Network, "SEEP Guide to Business Development Services and Resources" Website: www.seepnetwork.org/bdsguide.html

Mielhbradt, Alexandra, "Guide to BDS Market Assessment for Program Design." A FIT Manual, International Labour Organization, Geneva, 2001. Website: www.ilo.org/seed

⁵ Committee of Donor Agencies, 1998; Gibson, 2000a; Tanburn 2000

1.3 Outline to this BDS Primer

This BDS Primer explains the current operating principles and approaches to BDS and offers examples of BDS programs that have used them. The first edition of the Primer drew mainly on work from a series of conferences on BDS sponsored by the Committee of Donor Agencies for Small Enterprise Development. These conferences brought together hundreds of leaders in the BDS field — donors, researchers, practitioners, and some representatives of developing country governments. Through case studies and open dialogue, these experts attempted to develop, document, and disseminate best practices in BDS.⁶ The BDS Primer refers to this group as leaders or experts in the field and the conclusions presented emerge primarily from these conferences,

From this global dialogue a new approach to BDS delivery – the *Market Development Paradigm* – emerged. The first Reader defined this approach, explained its emergence, presented its principles, and gave examples of the strategies practitioners could use to develop BDS markets. Subsequent editions of the Reader, including this Primer and the Update, draw on work and dialogue conducted after the conferences, revising and adding sections that address what BDS experts, practitioners, and others continue to learn about market development as the field evolves.

Within the discussions, the Primer addresses some of the key questions in BDS for both market development and more traditional programs:

- How do BDS contribute to development?
- What is the market development approach to BDS?
- How do practitioners decide what services to promote?
- How do practitioners learn about existing markets for BDS?
- How do practitioners choose strategies to develop BDS markets?
- What strategies can develop sustainable access to BDS?
- What strategies can develop BDS markets?
- How can BDS program performance be measured?
- What lessons has the field learned in developing BDS markets?

The Update picks up where the Primer leaves off by describing some of the latest trends, debates and challenges in the BDS field. The annexes to the Primer include definitions of terms, a bibliography, a list of useful reading material, websites and training opportunities, a list of acronyms, and a list of case examples cited throughout the document.

⁶ To see the conference proceeding and papers from Zimbabwe (1998), Brazil (1999) and Hanoi (2000), see website: www.sedonors.org (BDS materials)

2. How Do BDS Reduce Poverty, Generate Economic Growth and Employment, and Contribute To Broad Development Goals?

With the increased global dialogue on Business Development Services has come increased scrutiny and discussion of how BDS contributes to poverty alleviation, economic growth, increased employment, and other development objectives. In general, business development services are aimed at increasing SE sales, or reducing costs so that businesses can grow and become more profitable. This growth and increased productivity leads to increased income for owners, increased employment for people in the community, and economic growth for other businesses in the same market. In addition, many BDS programs aim to achieve supplemental development impacts such as environmental preservation, gender equity, empowerment and democratization, livelihood security and stabilization, or improved health and HIV/AIDS mitigation.

Findings in recent analyses of high performance BDS programs show that BDS can contribute to the development objectives outlined above. The research found that a clear and specific strategy that links business services to well-defined outcomes for SEs in an essential ingredient to achieving high-impact.⁷ The research terms these strategies “high-impact SE development strategies.” Often, BDS programs do not

explicitly state their SE development strategies. Rather, there is an assumption that access to services will enhance business growth and efficiency. Instead, recent research shows that programs that define how services are expected to contribute to development goals can more easily:

- Identify services that are likely to bring significant benefits to SEs;
- Focus services on these benefits;
- Assess progress in achieving impact; and
- Adjust their programs to maximize impact.

By describing a range of high-impact SE development strategies, this chapter addresses the questions:

- What types of impacts have BDS programs achieved and how?
- How do BDS programs contribute to broad development goals?
- How do programs design high-impact strategies?

The rest of the Primer focuses on how new approaches to BDS delivery have significantly enhanced impact by reaching large numbers of SEs sustainably.

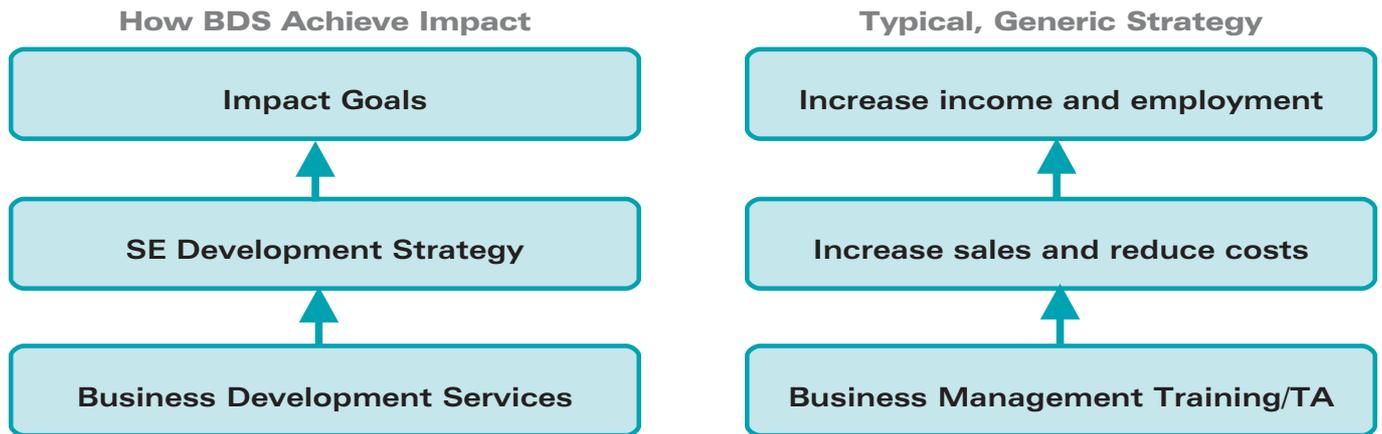
Findings in recent analyses of high performance BDS programs show that BDS can contribute to a range of development goals and that a clear, specific strategy that links business services to well-defined outcomes for SEs is an essential ingredient to achieving high-impact

⁷ Carpenter et al, 2002; Dawson et al, 2001

2.1 What types of impact have BDS programs achieved and how?

Underlying all BDS programs is a strategy that describes how SEs use services and how this contributes to development goals. Figure 1 illustrates how an SE development strategy explains the connection between business development services and impact. The first diagram shows the general relationship and the second illustrates a typical, generic SE development strategy.

Figure 1: The relationship between BDS and impact goals



Example 1: High Impact Development Strategy

Appro TEC Irrigation Project in Kenya

Mrs. Jane Ondiek, small-scale farmer, Kenya

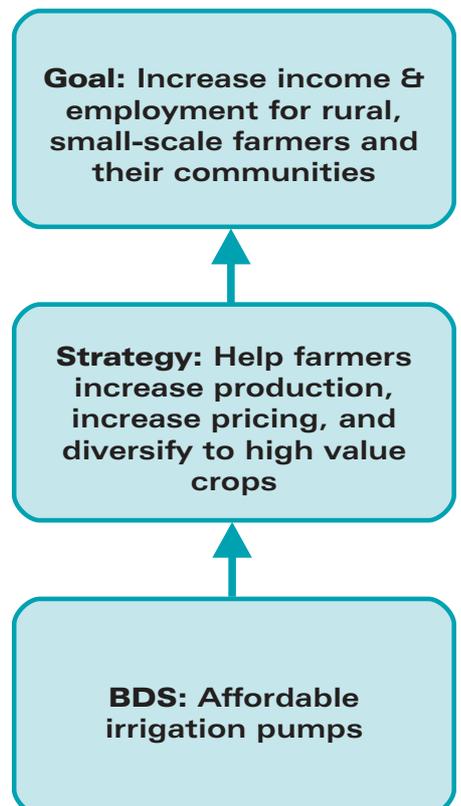
After the death of her husband, Jane's 6 children almost dropped out of school for lack of school fees. Using affordable small-scale irrigation to increase her vegetable crops production, she now makes enough money to send them to college. "I'm making enough money now to support my family fully without begging from relatives since my husband died!"

Mrs. Ondiek purchased a small-scale irrigation pump from a private sector agriculture inputs supplier. The pumps were designed and disseminated by Appro TEC Kenya, with funding from DFID, USAID, and others.

In total, Appro TEC technologies have helped create 20,500 businesses in ten years. Annually, these businesses contribute \$27 million in profits and wages, which represents a growth of .5% in Kenya's Gross Domestic Product.

www.ApproTEC.org

Appro TEC Irrigation in Kenya



Example 2: High Impact Development Strategy

Action for Enterprise Craft Sector Program

Mamadou Traore, export agent in Mali

"I have benefited from Program SEPA in a number of ways. I have been introduced to a number of new producers, and have begun selling their products. SEPA has helped with banking and shipping issues. SEPA has helped increase sales by sourcing and creating new products for my clients. Also, SEPA has helped facilitate communication with their Website and internet services."

Mamadou Traore received market linkage and product development assistance from SEPA, a program of AFE Mali, funded by USAID. In its first 2 years, at a cost of \$700,000 for the total 3-year program, SEPA achieved the following results:

- Producer sales to exporters up 124% (increase of \$400,000)
- Exporter sales to importers up 87% (increase of \$650,00)
- 200 new jobs created

Carpenter et al, "Success Stories," 2002

Website: www.seepnetwork.org/bdsguide.html

AFE - SEPA in Mali

Goal: Increased income and employment for microenterprise craft producers

Strategy: Help craft producers increase sales to international markets

BDS: Strengthen market linkages from producer to exporters to international markets, product design

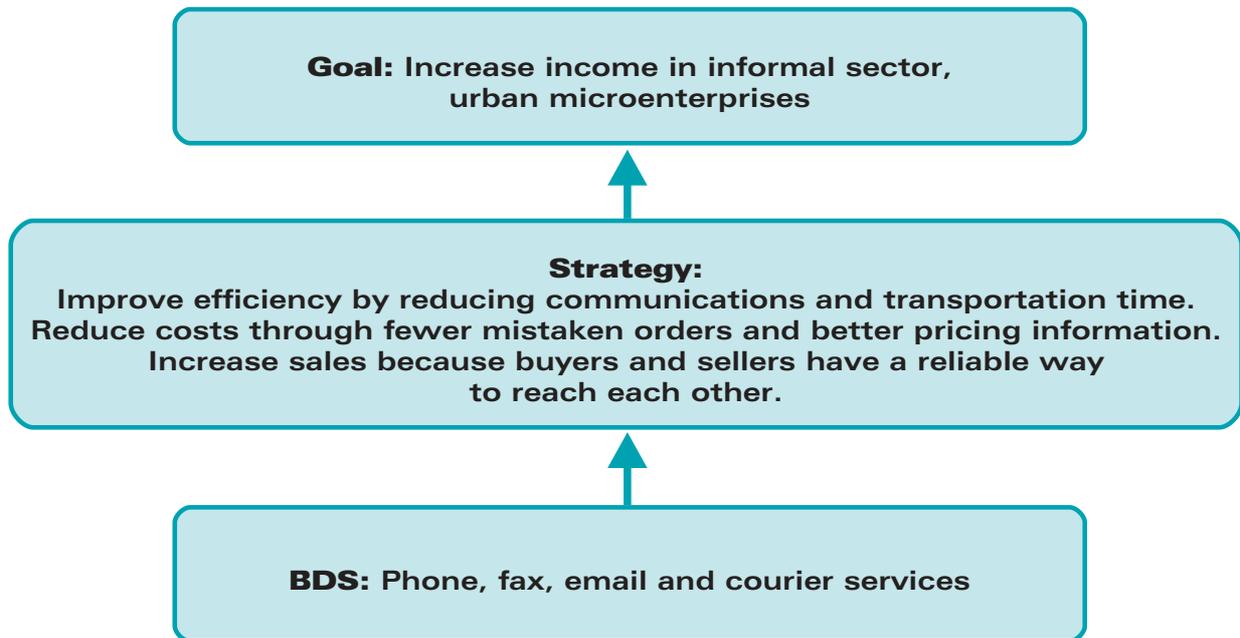
The generic strategy is vague about the links between services and impact. In contrast, the strategy of a high-impact BDS program illustrated in Example 1 is clear about how irrigation technology can help small-scale farmers improve output, get better prices for vegetables, and grow high-value vegetables. The results are substantial increases in income, employment, and economic growth for the poor.

In another example, a BDS program operating in a very poor country was able to significantly increase sales of microenterprise craft producers by developing the industry as a whole. The sales resulted in measurable increases in employment.

These types of high-impact strategies, combined with other aspects of good BDS practice, enhance impact. Many programs with documented high impact are sector specific, but cross-sector services also show potential for having high-impact if they are focused and tailored to achieve impact. Services such as telecommunications, internet access, photocopying, and courier services are in high demand in Asian BDS markets⁸ and there may be significant impact associated with these services that should be explored, as depicted below:

⁸ Miehlbradt, 2002

Figure 2: Telecommunications Strategy



This cross-sector strategy has potential for high impact because it targets a specific group of SEs with services tailored to help their businesses reduce costs and achieve sales objectives. It is thought that these cross-sector services may be more accessible and useful for low-income microenterprises concentrated in retail and service businesses. Although there is less global experience with high-impact, mass marketed services, the potential for them to reach very large numbers of SEs is encouraging the field to take a closer look at programs such as the Grameen Village Phone project in Bangladesh which reached 60,000 users in 2000.

2.2 How Do BDS Programs Contribute to Broad Development Goals?

BDS programs have also had significant impact on broad development goals such as agricultural development, health improvement and HIV/AIDS management, gender equity, democratization, empowerment, and environmental protection. Example 3 shows how Conservation International and its partners in Chiapas, Mexico have helped preserve forests while enhancing farmers' incomes. It is followed by an example of how SEWA in India helps women organize to access financial and business development services and to advocate for their rights in the private and public sectors. These are examples of how high-impact SE development strategies can incorporate and contribute to broad development goals.

Example 3: Contributing to Protecting the Environment Conservation International Coffee in Mexico

**Victorico Valezquez Morales, President
Campesinos Ecologicos de la Sierra Madre de Chiapas,
A.C. (CESMACH), Mexico**

"...what we used to do was cut back the re-growth, let it dry and burn it and then plant corn. When CI came and explained how we could conserve, taught us how to compost to do the terrace to make organic coffee and not to cut down the forest and then after 2-3 years, we began to see that this really does have good results... We've stopped cutting them (trees) down and we noticed during this last season that the areas where there had been lots of forest cutting, there was a great deal of avalanches. We have left the forest – you can see it – for the last 6-7 years...now you can see the forest is big (has returned) and now we just cultivate coffee... Organic coffee is important for me and the members (*sic. of the cooperative*) because it's all we do and we export it and we're getting better prices..."

Conservation International works with local partners as well as the private sector to promote the production of Conservation Coffee™ - coffee grown, processed and marketed in a way that promotes biodiversity conservation while improving the lives of local people. In 5 years, with \$400,000, they achieved the following results:

- Starbucks Coffee Company has purchased coffee directly from farmers for three consecutive years to produce the product Shade Grown Mexico™
- In the year 2001, farmers received a 60% price premium over local prices for their coffee.
- 50% more "conservation" coffee is being exported than last year.
- In 2001, there were 700 farmers and 2000 hectares involved in the program.

www.seepnetwork.org/bdsguide.html – success stories

Conservation International & Coffee in Chiapas, Mexico

Goal: Increase farmer income and enhance forest preservation

Strategy: Help farmers grow environmentally sustainable coffee and access high-value, environmentally concerned markets

BDS: Extension services and input supply to introduce new coffee variety, brand development and market linkages

Example 4: Contributing to Empowerment and Livelihood Security SEWA and the Bidi Workers in India

A Long Struggle: Bidi Workers' Provident Fund Case

Through a combination of legal advocacy, grass roots mobilization, and helping women access alternative markets, SEWA was able to help home-based cigarette workers in Ahmedabad obtain some social benefits along with their wages. On behalf of home-based bidi (cigarette) makers, SEWA launched a campaign to have the major bidi buyers, all of them large-scale firms, contribute to an insurance fund for the women.

The Gujarat High Court ordered Jivraj Bidi Works to pay these "Provident Fund" dues to 154 bidi workers after a fourteen-year struggle, but SEWA and the firms then disagreed about the amount that was owed. Other firms buying cigarettes felt that if Jivraj Bidi Works paid Provident Fund dues, they too would also have to do so and they immediately stopped giving work to the women. After negotiations, they started giving work again but at lower wages.

In response, SEWA and the workers re-launched their legal campaign for better benefits. Just then there was a sudden "recession" in the bidi industry. The bidi buyers spread the word that there was a recession due to the workers' pursuing their Provident Fund case. SEWA workers produced a leaflet explaining the actual facts and distributed it among the bidi workers. When the bidi workers learned the truth, they continued with their struggle. Some of the workers decided to seek alternative markets. They met the largest bidi manufacturer in Madhya Pradesh and managed to get orders. The Madhya Pradesh manufacturer was prepared to pay them the wages they received in Ahmedabad. As soon as workers in Ahmedabad started working for the manufacturer in Madhya Pradesh, the recession in the bidi industry magically disappeared!

SEWA Annual Report 2000, www.sewa.org

SEWA Advocacy for Women Cigarette Workers

Goal: Increase women's
income, security and
power

Strategy: Help women
obtain an insurance fund
from their contractor,
who acts as an
"employer"

BDS: Organizing,
information, advocacy
and market linkages to
strengthen their social,
legal and economic
position

2.3 How Do Programs Develop High-Impact Strategies?

One of the key mistakes of past BDS programs was that they assumed which services SEs wanted. An effective, high-impact program combines a broad strategy – an understanding of how services contribute to impact – with a good understanding of both SE demand for services and the systems that put financial pressure on providers to respond to those demands.⁹ These elements often require programs to respond flexibly to markets and to adjust their strategies as they better understand what SEs want. There are several entry points for developing high-impact strategies:

- **Objective assessment and analysis** of SE market opportunities and constraints, followed by demand assessment and service field tests.¹⁰
- **BDS demand assessment** followed by assessment of SE constraints and opportunities associated with the service and field tests.¹¹
- **Field test** of services that seem to be in high demand, followed up by analysis of market reaction to the services (demand assessment) and an understanding of how services help SEs

achieve impact, and which impacts (through evaluation.)¹²

By aligning the process of service selection with the development of a high-impact strategy, programs are able to combine the strengths of impact-driven programs with those of demand-driven services.¹³

In addition to achieving impact on assisted businesses, the field of BDS has significantly expanded impact in recent years by achieving wide outreach, improved cost-effectiveness, and sustainability. The lessons of more successful programs have been synthesized and this has contributed greatly to the development of a new approach to business development service delivery — the “market development” approach. This method harnesses the power of the private sector to deliver high-impact services to large numbers of SEs sustainably and efficiently and to significantly enhance impact. The rest of this BDS Primer describes this service delivery approach, presents existing evidence of its success, and describes some of the challenges associated with implementing it.



© ILO/J. Maillard

⁹ Carpenter et al, 2002

¹⁰ Appro TEC, 2002

¹¹ Mercy Corps, 2002

¹² ILO FIT Model, Hileman, 2000; McVay 2001

¹³ Carpenter et al, 2002

3. What Does BDS Market Development Mean?

Traditional development programs aimed at providing SEs with access to BDS focused on one institution and provided subsidies that allowed SEs to acquire services free or at very low cost. There is now agreement in the field that this approach has had limited impact because programs were generally short-term, small-scale, and expensive.¹⁴ Some non-profit BDS providers, learning from the success of microfinance institutions (MFIs) that reached large numbers of people sustainably, began charging fees for services and a few have become financially sustainable. However, unlike MFIs, these programs have tended to remain small.¹⁵ This is perhaps because microfinance is a mass-market product whereas the services these organizations offer tend to be tailored to specific “niche” markets. The Market Development Approach is a new approach to BDS design and delivery and has the potential to reach large numbers cost-effectively and sustainably by developing a broad market of BDS suppliers and SEs who access services through mainstream, business-to-business relationships.

The goal of market development interventions is for a large proportion of SEs to buy the BDS of their choice from a wide selection of products offered (primarily) by unsubsidized private sector suppliers in a competitive and evolving market

Early Market Development

Poultry rearing is a traditional income generating activity for millions of rural Bangladeshi, particularly women. BRAC’s poultry program aims to increase the viability of poultry rearing by helping chicken rearers gain access to high yield varieties of chicks and the skills and services necessary to rear them. BRAC has supported the development of private sector markets to reach this goal. With this strategy, BRAC developed the capacity of over 60,000 BDS suppliers and helped almost 2 million rural, low-income people gain access to improved technology in 1999.

BRAC identified the poultry sub-sector as an important, growing market in which large numbers of poor people earned income. Staff studied problems facing the small-scale poultry rearers, and identified low quality chicks as a cause of low-prices. The solution was to assist small-scale poultry rearers to access high yield varieties of chicks and the feed and medical services

3.1 The Market Development Approach

The Market Development Approach proposes a new vision for success, one that looks like a healthy, private-sector business services market — numerous, competitive BDS suppliers who sell a wide range of services to large numbers and types of enterprises. Programs start by understanding both the existing supply of BDS from the private sector, donor-supported programs, and government and the market failures that can lead to a gap between supply and demand for services. The goal of market development interventions is to overcome these market failures and take advantage of opportunities to expand the service market for SEs. The desired result is that numerous SEs buy the BDS of their choice from a wide selection of products offered (primarily) from unsubsidized, private sector suppliers in a competitive and evolving market. “Buying” can mean paying fees for services or procuring them through commercial relationships with other businesses.

¹⁴ Committee of Donor Agencies, 2001

¹⁵ Goldmark, 1999a; McVay, 1999b

Example 5: Program BRAC: Poultry Development in Bangladesh

required to rear these improved varieties. BRAC then analyzed the technology and poultry input chain, and identified interventions that would develop a sustainable technology input chain. Interventions included:

- Identifying and strengthening private sector hatcheries, both large and small-scale;
- Identifying entrepreneurs and training them to start mini-hatcheries. (And establishing several sustainable hatcheries, owned by BRAC, that serve remote areas and generate income for the organization.);
- Identifying and training BRAC members to become poultry workers — independent entrepreneurs who provide technical and medical services to poultry rearers;
- Identifying and training skilled poultry farmers to become specialized chick rearers who raise

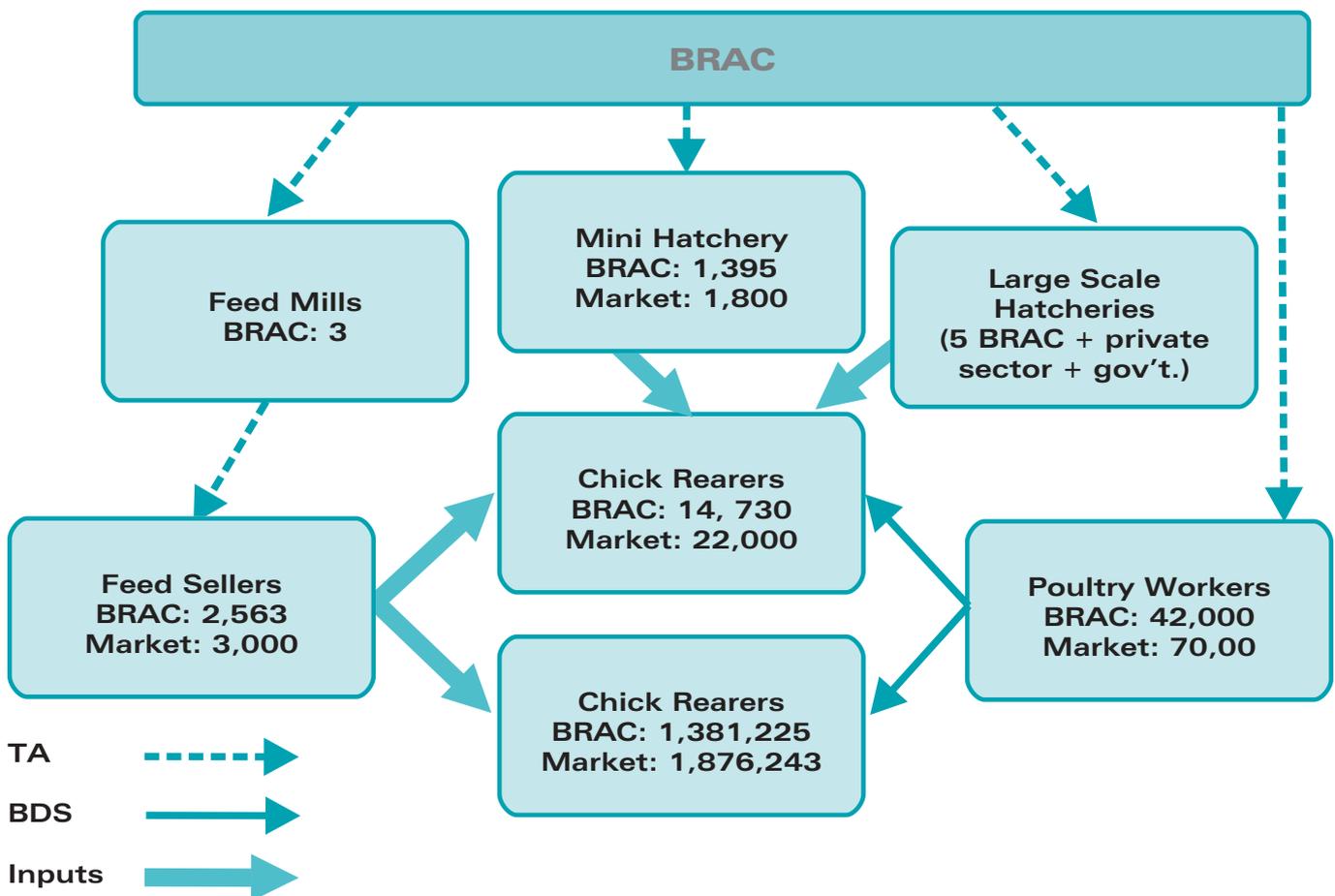
improved varieties of chicks for five weeks and sell them to poultry rearers;

- Starting a sustainable feed mill, owned by BRAC, for a reliable source of improved feed; and
- Identifying and training private sector feed sellers in the distribution of improved feeds.

In addition to establishing this sustainable, private sector technology chain, BRAC charges fees for its services and earns income from its businesses in the sector. BRAC’s cost-recovery in these “facilitation” activities is 50%

Newnham Jack, “BRAC Poultry Program in Bangladesh,” by Jack Newnham, a Performance Measurement Case Study on BDS for SMEs. Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance. April 2000, website: www.sedonors.org

Figure 3: Early Market Development Program, BRAC’s Poultry Development in Bangladesh



3.2 How does BDS Market Development compare with traditional approaches?

The market development perspective recognizes that the provision of operating subsidies to particular suppliers may crowd out other, private sector suppliers who do not receive subsidies. Market development programs tend to promote as many suppliers as the market will bear. Some programs also stimulate demand by providing information about services and marketing, or by temporarily discounting services. The main activity of a subsidized BDS program is not direct service provision. Rather, it is market research, provision of information for consumers, new product development, supplier training, monitoring and evaluation, and activities aimed at “facilitating” market improvement by increasing demand and/or improving supply. These programs promote the following changes in the market:

- Number of differentiated suppliers increases;
- Suppliers earn profits from fees to SEs or other commercial sources — they do not depend on subsidies;
- Suppliers’ costs are appropriate for the SE market, not skewed by donor funding;
- A variety of service products are available in the market;
- Service quality and appropriateness improve with increased competition; and
- Number of transactions between private suppliers and SEs increases.¹⁶

Table 2 summarizes the characteristics of traditional programs compared to market development initiatives.¹⁷ The two approaches differ fundamentally in their vision, objective, point of intervention, duration of involvement, and approach toward subsidies. Experts in the BDS field judged this change in approach so significant that they called it a “paradigm shift.”¹⁸



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¹⁶ Springfield Centre, BDS 2000 Training Course

¹⁷ Adapted from Hallberg and Tanburn, Presentation to the Donor Committee, 1999 and Hileman and Tanburn, 2000

¹⁸ Gibson, 2000a

Table 2: Traditional vs. Market Development Interventions

	Traditional Interventions	Market Development Interventions
Vision	A non-profit or government organization provides quality BDS to SEs	A sustainable, primarily private sector market made up of competing suppliers selling a wide range of quality services to SEs
Objective	Provide quality services that SEs can afford	Encourage others to provide quality services to SEs on a commercial basis
Starting Point	Diagnosis of needs, surveys	Assessment of the market (demand, supply, potential)
Point of Intervention	“First Tier”: direct provision through a single, local institution	“Second Tier”: facilitate, regulate, develop products for and work with more than one supplier
Duration of Involvement	Permanent: donor-funded programs must continue if services are to be available to SEs	Temporary: withdraw as markets develop
Subsidies	Support free or low-cost services to clients. Justified in the long-run: SEs can’t be expected to pay full costs	Support assistance to suppliers or temporary grants to clients. Justified in the short run if market development impact outweighs market distortion

3.3 How did the Market Development Approach evolve?

The Market Development Paradigm emerged from a convergence of innovative practices, research, and pioneering thinking. Isolated BDS practitioners around the globe, determined to reach large numbers of firms through sustainable delivery of BDS, experimented with and developed innovative ways of delivering BDS that would overcome the challenges of “traditional” programs. The shift in approach was fueled by three innovations in the BDS field:

- Practitioners developed “demand-driven” services that met a specific need and SEs were willing to pay for. When firms paid for services, they expected good value and BDS providers had to deliver.
- Non-profit institutions attempted to recover costs through these fees, which resulted in some sustainable institutions, but few on a large scale.
- To reach scale, a few innovative BDS programs began working with several providers who stimulated demand through the distribution of “vouchers” that discounted services for SEs.

While many BDS practitioners used to assume that only non-profit organizations provide services to SEs, it is actually unusual for there not to be an existing private sector market for BDS

These isolated experiences were shared and studied at the Donor Committee conferences, which also commissioned research into what works in the private sector. In well-functioning markets, how do SEs access BDS? While many practitioners assumed that only non-profit organizations provided services to SEs, when they started looking they found that there was almost always an existing private sector market for BDS. These markets remained hidden to BDS experts because they offered different products, were less formal and, importantly, no one

Example 6: The “Hidden” BDS market in Vietnam and Thailand

A study by the International Labour Organization in Thailand and Vietnam found that BDS were delivered to MSEs in four ways:

- fee for service
- commission basis
- through business relationships
- through the business environment

The study focused on services to microenterprises and found that 84% of the sample businesses employed fewer than 7 people. It also found few services provided by service companies on a fee for service basis. Sales services were typically provided on a commission basis and the channel through which the widest variety of services was delivered was business relationships. Services delivered through this channel included training, marketing, product design, and market information. Some types of business information were also offered through the media and customers. The study also shows that even the smallest businesses obtain business services through private sector channels.

Anderson, Gavin “The Hidden MSE Service Sector – Research Into Commercial BDS Provision to Micro and Small Enterprises in Vietnam and Thailand” April 2000. Website: www.sedonors.org (BDS materials).

looked for them. These findings have led to thinking about how to strengthen, expand, and develop existing BDS markets. And, there is a growing sense of obligation to understand the market for BDS before starting any type of project in order to maximize benefits for SEs and minimize distortions in markets that already provide benefits.

Finally, a growing awareness of the power of markets as engines of growth and efficient distributors of goods has contributed to innovative thinking about how they can be channeled to benefit SEs. The Market Development Approach reflects the thinking that integrating poor people and SEs into markets links them to growth and that functioning BDS markets of relevant, differentiated services provide the best environment for SE growth. By purchasing BDS, SEs take another step into markets as discerning and valued customers or business associates, rather than as beneficiaries.

Practitioner innovation, research into private sector markets, and innovative thinking about markets converged around the Donor Committee conferences to produce the Market Development Paradigm. This is summarized and presented in “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention,” issued by the Committee of Donor Agencies on Small Enterprise Development in 2001.¹⁹ The approach is still quite new, but a fast-growing number of new programs are adopting the full approach and older programs that helped formulate the new approach use aspects of it. The Primer describes how existing programs illustrate the principles and strategies that comprise the Market Development Approach, whether they use it all or only aspects of it. Although it needs to be assessed over time to understand its long-term impact, this approach demonstrates the potential for reaching large numbers of SEs, sustainably and cost-effectively.

3.4 Why do BDS markets need development?

The BDS market development approach is rooted in a fundamental faith in private sector markets as engines of growth and efficient suppliers of goods and services. Despite this belief and evidence of existing private sector BDS markets, many SEs, particularly the smallest, poorest, and most remote do not have access to desired services because **there are suppliers who:**

- Serve SEs in urban, but not rural areas;
- Serve medium-sized businesses, but not small or micro enterprises;
- Offer inappropriate or undesirable services;
- Provide appropriate services, but there are so few of them that prices are high and the wait is long;
- Are unskilled in business management and marketing, offer a limited range of services, and use few, if any, promotional strategies;
- Lack market information about the service characteristics that SEs desire; or
- Create a monopoly or cartel resulting in high prices for (often) inappropriate services. In the case of marketing businesses, monopolies may result in exploitative prices for SE products and few alternative market channels.

In addition, SEs often:

- Lack information about available services and their benefits;
- Are risk averse or reluctant to try services because suppliers are unable to convey the quality of their products; or
- Are simply too poor to pay outright for services, or too limited in their business capacity to take advantage of existing BDS.

Continued intervention in BDS markets can contribute to resolving these types of market failures, but the provision of free or highly subsidized services may contribute to market failures and inhibit the availability of services to SEs. While highly subsidized services might benefit the few who have access to them, in the long run they hinder economic growth, employment generation, and poverty alleviation.

¹⁹ Committee of Donor Agencies for Small Enterprise Development, 2001

3.5 Where is the BDS field now in market development?

Since the Guiding Principles first appeared donors, practitioners, and academics in the BDS field have been working to elaborate and test the market development approach. Some are starting new programs that use the approach while others are adapting existing programs to follow some or all of the market development principles.

Example 7: BDS Market Failures in Vietnam, Indonesia and Malaysia

A study for the Donor Committee BDS conference in 2000 documented a variety of market failures common to BDS markets in Vietnam, Indonesia and Malaysia:

Supply-side: The study found that private sector suppliers in all three countries faced competition from government and donor-funded programs. This “crowding out” was most apparent for training, consulting and market research services. Many suppliers lacked good quality control; the specialized expertise necessary to effectively serve the market; and the knowledge or ability to tailor products to consumers’ demands. Suppliers were concentrated in urban areas and there were almost no services in rural areas.

Demand-side: Consumers were unaware of the potential benefits of purchasing services, usually deciding to generate the service in-house without an evaluation of the relative costs and benefits. Consumers were concerned that purchasing services would compromise their confidential business information. Very small firms lacked the human resources to gather and analyze information on alternative sources of business services.

Riddle, Dorothy, “What Do We Know About BDS Markets?” Service Growth Consultants, Inc., Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance. April 2000 website: www.sedonors.org (BDS materials)

Donors and practitioners are beginning to share the lessons they are learning from implementing the market development approach and they are conducting more performance measurement and analysis of existing programs to find the lessons learned and see how these programs might mesh with the approach. A particular area of focus is on how the market development approach can be applied effectively to reach typically underserved SEs and a lot of critical thinking is going into fleshing out ways to implement it.²⁰ A number of agencies are working on ways to monitor and evaluate market development programs.

Recognizing that the BDS field still knows relatively little about existing BDS markets, research in this area is also a focus of recent work. A key finding is that BDS markets often do not look the way donors and practitioners expect.²¹ There are many different types of providers — from individuals working part-time in the informal sector to large, formal sector companies and institutions. Transactions take various forms and fee-for-services is in the minority in SE BDS markets. Transactions embedded in other commercial relationships and BDS paid for by commercial third parties (often interested in advertising to SEs) are more common than expected. Understanding these existing markets is beginning to inform strategies for BDS market development.

Despite the progress made, there are still many questions and debates surrounding the market development approach. Many donors and practitioners are not yet sure how to assess existing BDS markets and how to translate that knowledge into effective market development interventions. They are also struggling with how to determine the appropriate structures, capacity, and funding mechanisms to effectively implement market development programs. More experience in carrying out market development programs and sharing lessons learned will help the field address these issues.

²⁰ See particularly “BDS Market Development: A Guide for Agencies” by A. Gibson, R. Hitchins and M. Bear. USAID Microenterprise Best Practices Project managed by Development Alternatives Inc. 2000. Website: www.mip.org

²¹ Miehlbradt, 2001a

Example 8: Surprising Forms the BDS Market Takes

Market Access and Packaging Services for Bicycle Parts Manufacturing in Vietnam

A European bicycle manufacturer imports bicycle parts from Vietnamese SEs for assembly in the UK. The UK buyer established an Internet link to send SE suppliers designs, delivery box quantities, bar code labels, and production pipeline information. The largest Vietnamese supplier collects the parts from the others and greases and pre-assembles them before packing them according to the assembly plant's requirements using the bar codes. These market access and packaging services for SE suppliers in Vietnam have reduced the assembly plant's quality problems, production disruptions, and lead times. The resulting cost reductions have been passed on to suppliers in the form of higher prices for their parts. The system also allowed suppliers to attract more foreign customers.

Were market analysts looking for a typical BDS delivered by an NGO or business charging a fee for the services, this vital business service would have been missed. It is important to recognize how BDS are delivered in private sector markets so that these vital services are not interfered with by well-meaning development programs.

Duncombe, Richard and Richard Heeks, "Enterprise Development and Information and Communication Technologies (ICTs) in Developing Countries: ICT-Flyers" Institute for Development Policy and Management, The University of Manchester for DFID, March 2001. Website: <http://www.man.ac.uk/idpm>

Example 9: Private Sector BDS Suppliers

A For-profit Trainer in Uganda

Mary operates a peanut-butter production enterprise supplying three local supermarkets and runs a training business — her primary source of income. Mary began training when she was accepted into an ILO Training of Trainers (ToT) course to offer Improve Your Business training to her fellow SEs. Since then, she has also attended two ToT courses sold by FIT Uganda — Rapid Market Appraisal and Grassroots Management Training. For the most part, Mary charges her clients fees that allow her to make a good profit. She reports that the FIT courses are well suited to her clients because they do not require literacy. In fact, Mary says that the poorest clients are often the most eager to pay because they have been excluded from donor-supported training programs, which often require some degree of literacy. Mary says her clients accept her as a trainer because she is a small business person like them. Mary also provides free follow-up business advice to enhance client satisfaction and build her business network and client base. As a sideline, she also prints and sells stock cards and cashbooks for SEs.

Hileman, Milena and Jim Tanburn, *The Wheels of Trade: Developing Markets for Business Services*. Intermediate Technology Publications, 2000. Available from IT Publications and www.amazon.com

4. What Are the Important Principles Of BDS Market Development?

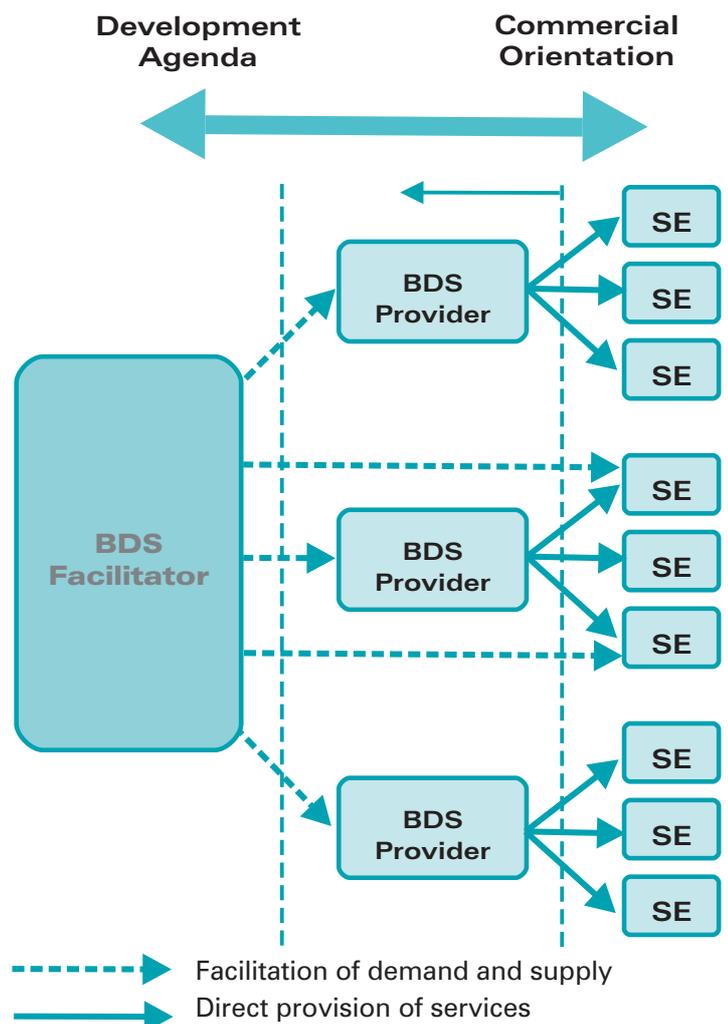
Is there a practical way to intervene in BDS markets that are diverse, offer a variety of services and transactions, have many suppliers and customers, and operate in the informal sector? In traditional programs, donors conducted a needs assessment and developed relationships with the few non-governmental organizations providing SEs with services. The complexity and informality of BDS markets creates challenges not faced by these simple arrangements. New projects are demonstrating that, if donors and practitioners can learn to work more effectively with the private sector and experiment with new mechanisms for assistance, there are ways to carefully and effectively intervene in BDS markets. The following are emerging principles of good practice in BDS market development that have come out of the Donor Committee conferences and related work.²² These principles may be modified as the field gains more experience with the market development approach.

4.1 Facilitate market development rather than providing services

In traditional programs, donors and governments intervened in the BDS market at the level of transactions, providing services directly to SEs or permanently subsidizing services from non-government providers. In the market development approach, donors and governments try instead to promote transactions between SEs and primarily private sector suppliers, “facilitating” the expansion of markets rather than “providing services. Rather than offering financial assistance to suppliers, interventions concentrate more on technical assistance and incentives that encourage suppliers to enter new markets; develop new, low-cost products; and expand services to under-served markets.

In Figure 4, “Facilitating BDS Market Development,” the vertical dashed lines represent the divide between public and private funds. The market development paradigm suggest that donors and governments move the line as far to the left as possible, so that the BDS market becomes more commercially oriented and sustainable.²³

Figure 4:
Facilitating BDS Market Development



²² Committee of Donor Agencies, 2001; Gibson, 2000a

4.2 Start with market assessment

To effectively intervene in a market, donors and practitioners must first understand it. What BDS are being offered to targeted SEs? Who is supplying them? Are SEs paying for the service? How else is the service procured? What types of services do SEs demand? What prices can they pay? Who is providing those services in the market, but perhaps not to SEs? What are the market weaknesses and opportunities?

To minimize the market distortion that any subsidy creates, it is helpful to understand BDS markets before starting interventions. Donors and practitioners are increasingly conducting market assessments before designing BDS programs.

4.3 Fit the intervention to the market issue

Because any intervention will change the market, limited and focused interventions are more likely to address a market issue with minimal distortion.²³ Donors and practitioners are beginning to target market problems and opportunities identified during market assessments with interventions aimed at addressing those issues and designed with specific market development objectives.

4.4 Use subsidies primarily for pre- and post-service delivery activities

Subsidies that directly reduce the cost of services are likely to distort markets more than subsidies for pre- or post-service delivery activities. In the market development approach, subsidies for transactions are avoided or limited to a short duration with specific objectives with programs beginning to use

them for pre-delivery activities — product development, test marketing, capacity building, and awareness raising – or for post-delivery activities such as gathering consumer feedback. Subsidies are also being used for monitoring and evaluation.²⁵

4.5 Work toward clear picture of a sustainable market and have an exit strategy

Like traditional programs, market development programs could continue indefinitely unless program managers have a clear vision for a sustainable BDS market and an exit strategy. In a sustainable market, usually competing suppliers offer a wide range of products; frequently innovate to meet changing demand; and capitalize on market opportunities. Sustainable markets should also grow in volume and offer increasing access to under-served groups.

There is growing consensus that development programs are more likely to end successfully if they envision a sustainable market and the challenge is to assess the market objectively to determine when it has reached a sustainable level.

Like traditional programs, market development programs may continue indefinitely unless program managers have a clear vision for both a sustainable BDS market and an exit strategy

²³ Committee of Donor Agencies, 2001

²⁴ For an example of the economic rationale for this principle, see Kristin Hallberg, "A Market Oriented Strategy for Small and Medium Scale Enterprises" IFC Discussion Paper, February 15, 2000. pp. 17-18

²⁵ Committee of Donor Agencies, 2001

4.6 Separate the roles of provider and facilitator

In many BDS programs, the same organization performs both the supplier role of offering services directly to SEs and the facilitator role of encouraging other individuals and firms to supply services to SEs. This could present a conflict of interest for competing suppliers as facilitators usually have a development agenda while suppliers are commercially oriented. Combining roles can lead to ineffective programs and inefficient use of funds. If facilitators are publicly funded, they should disappear as the market develops and suppliers or other permanent market actors take over its functions. The exception is if a facilitator is able to finance its activities by selling services to suppliers, thus becoming a sustainable, permanent market actor.²⁶ This does not rule out a facilitator test marketing a service or aiming to demonstrate the commercial viability of a service, but in this case, the facilitator provides the service for a brief and limited period with a clear exit strategy.

4.7 Promote competition and efficiency in the market

Traditional programs often work with only one supplier, which gives that supplier an unfair advantage over others and suppresses competition in the market. Experts now think that facilitators should promote competition among suppliers, usually by working with many of them. This does not preclude working with one supplier for particular activities at some point — when testing a new product or in a new or very weak market, but a facilitator must always be careful to promote, not stifle competition. Traditional programs often work with not-for-profit or public institutions, but private sector suppliers are usually more efficient and innovative. Programs do not have to exclude organizations with a social mission, but facilitators should encourage these organizations to act as commercial market players and distort the market as

little as possible. All market players should have access to facilitation services, otherwise the facilitator is “picking winners” rather than letting the market determine the best suppliers.

4.8 Develop a transactional relationship with suppliers

Experience to date suggests that facilitators should have a transactional relationship with suppliers. Programs working with commercial suppliers have found it helps to have suppliers invest their own resources in program-promoted initiatives. If suppliers choose to work with the program in the same way they make other investment decisions — weighing costs and benefits — they are more likely to feel ownership and to use program resources wisely. Some also recommend that donors have transactional relationships with facilitators. The emerging message is, the more a program works with market principles, the better.

4.9 Tread lightly in markets

Visible donor involvement in SE programs tends to distort markets because SEs and providers have come to expect subsidies. Large government and donor programs often suppress private BDS markets or crowd out private suppliers and even modest financial inflows can damage a budding market. Donors face particular pressure to disburse funds when poverty alleviation is the program goal, but if markets are to develop and serve low-income clients with the services they desire, they must not be smothered with inappropriate funding. Donors and practitioners must exercise discipline by matching interventions to the level of the market, emphasizing technical assistance over financial inflows, and maintaining a low profile. This may be difficult, but it is important in markets with weak demand, a common characteristic of low-income consumers.²⁷

²⁶ Committee of Donor Agencies, 2001

²⁷ Tomecko, 2000

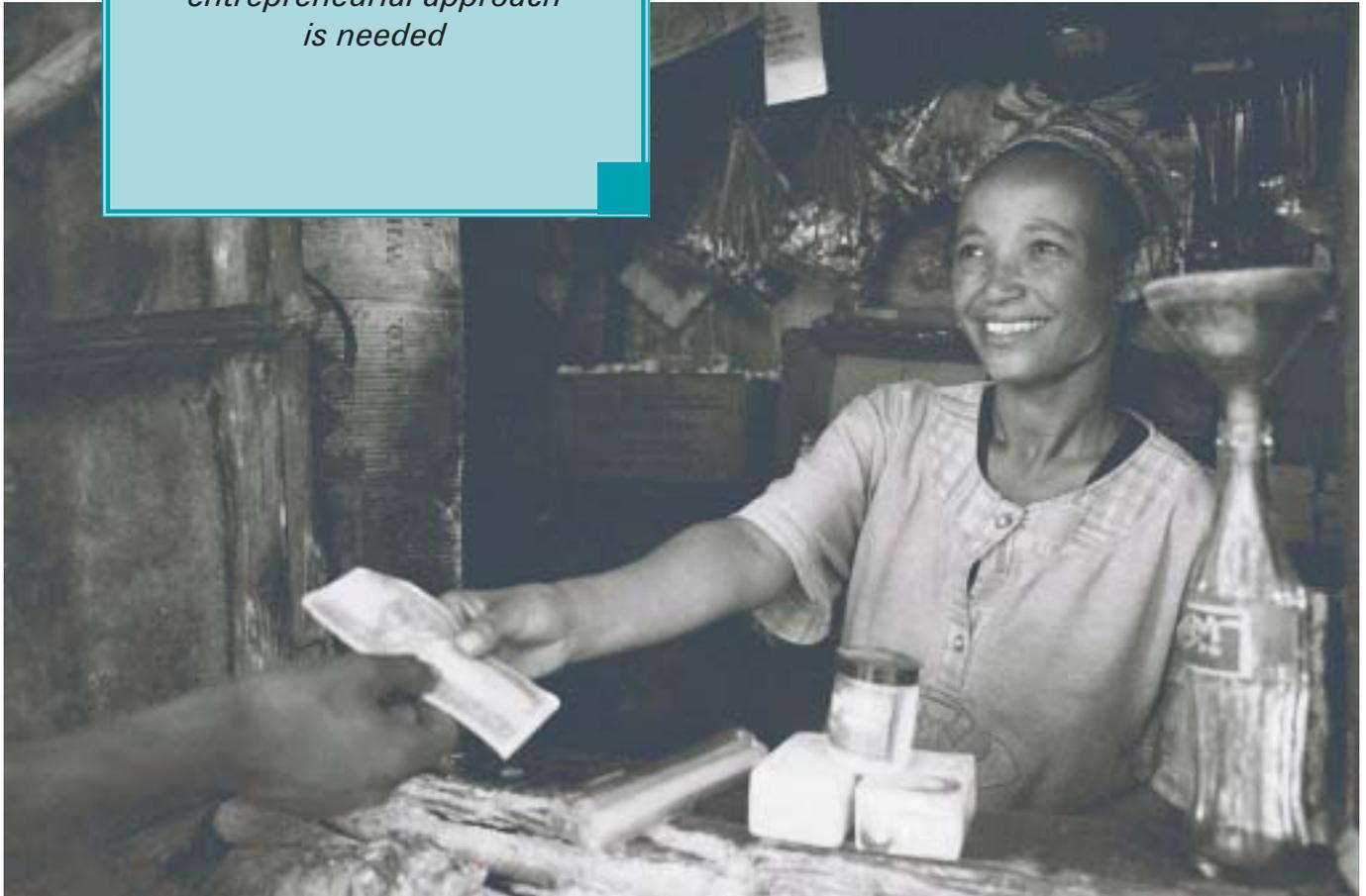
4.10 Make programs flexible and responsive to the market

In traditional programs, managers specify the steps leading to the achievement of program outputs at the outset and then, for the most part, follow them. Market development programs to date show that a more flexible, entrepreneurial approach is needed. Markets can change rapidly and often react to facilitators' efforts in unexpected ways. Experience has shown that facilitators must be free to respond to the market, taking advantage of opportunities and changing strategies as appropriate.²⁸

Market development programs to date show that a flexible, entrepreneurial approach is needed

4.11 Coordinate donor efforts

It is very difficult, and not at all effective, for one donor to pursue a market development approach if others continue to subsidize transactions and offer publicly-funded services in the same market. Suppliers will almost always choose to work with a donor who will subsidize transactions rather than one advocating market development. Free services also dampen SE willingness to pay. Even if all donors pursue a market development approach, coordination is critical. In markets with relatively few suppliers, these suppliers can be overloaded or lose their commercial focus if they receive significant financial resources from several donors.²⁹



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²⁸ Tomecko, 2000; Committee of Donor Agencies, 2001

²⁹ Tomecko, 2000; Committee of Donor Agencies, 2001

5. How Can Practitioners Select Appropriate Services To Help SEs Develop And Grow?

For years, BDS practitioners stated that SEs were not always aware of the benefits of BDS because so few had experienced them. Therefore, the argument went, BDS needed to be subsidized, promoted, and sometimes required in order to have access to financial services — at least until entrepreneurs realized its value. However, in spite of participatory rural planning exercises and expensive surveys assessing needs, too many BDS programs continue to supply services that entrepreneurs do not value and are unwilling to pay for. Additionally, the impact of these services cannot be demonstrated.

In contrast, better performing programs devise high-impact SE development strategies that offer demand-driven services delivered through commercial channels and give SEs an opportunity to express, in financial terms, whether or not the services add immediate value to their businesses.

5.1 What is a High-Impact SE Development Strategy?

A high-impact SE development strategy (described in detail in Chapter 2) defines what programs are trying to help SEs achieve, and answers the question: How do SEs want to improve their businesses? With this strategy in mind, program designers can identify services that help SEs get what they need to improve their businesses and create the impact the program aims to achieve. SE development strategies fall into two broad categories:

- 1) **Sector Strategies:** help specific groups of enterprises access particular product markets. They often involve services such as market links, product development, technology, or input

supply and are characterized by entrepreneurs making significant changes in their businesses to achieve high growth. This strategy often targets the more entrepreneurial and market-ready SEs.

- 2) **Mass Market Strategies:** help diverse enterprises incrementally improve their efficiency and/or sales through “cross-sector” business services – access to telecommunications, computer services, accounting, basic legal services – or by offering a range of specific services such as technical training. This strategy targets a wide range of businesses and is often relevant for those struggling to participate competitively in local markets.

Examples 10 and 11, below, illustrate “sector” and “mass market” strategies. In each case, the link between services and program impact is explicit and clear.

These high-impact strategies drive service selection by honing in on a group of SEs experiencing common constraints and opportunities and assisting them with focused, high-impact services. The ILO/FIT radio program provides information targeted to informal sector SE listeners in the same geographic area and helps them link to mainstream markets and political processes. Although a “mass market” strategy, it is clear who it is trying to help achieve what impact. This helps drive service selection. MBLP in Zimbabwe targets a smaller niche group of businesses in a given sector and particular region and helps make the dominant industry more competitive while increasing SE participation in it. The strategy drives MBLP’s focus on the services SEs need to make these market links effective and sustainable.

Example 10: Sector Specific Strategy

Manicaland Business Linkage Project in Zimbabwe

Goal: Increased growth and jobs in the timber industry and its community

Strategy: For large, vertically integrated firms to more effectively compete globally by increasing efficiency through subcontracting

BDS

- Market linkages to large firms
- Technical assistance to SEs
- Linkage to finance (often through large firms)

Manicaland Business Linkage Project (MBLP) helps rural informal sector businesses sell to large-scale businesses that are restructuring in order to compete in global markets. In its first two years it created 1,000 new jobs. The program has helped the timber industry in Manicaland survive in global markets and in the current economic decline facing Zimbabwe, thus preserving valuable jobs in the large firms and creating new jobs and higher income in small firms.

Carpenter, Janney, et al. "Helping Small Businesses Grow and Create Jobs: Good Practices from Global Experiences." Forthcoming from Shorebank Advisory Services, September 2002. Website: www.shorebankadvisory.com

Example 11: Mass Market Strategy

ILO FIT SE Radio Programs in Africa

Goal: Increased employment and income for informal sector businesses

Strategy: Help informal sector businesses participate in mainstream economic and business service markets and in political processes

BDS: SE Radio shows that:

- Facilitate policy dialogue
- Link SEs to product and input markets
- Strengthen linkages between SEs and business service suppliers

FIT initiated commercial SE radio programs in Africa that investigate and facilitate public dialogue between informal sector businesses and key policy makers and administrators, provide market information and promote interaction among SEs and BDS suppliers. They have been instrumental in eliminating policy bottlenecks and opening markets for milk traders and fishermen, increasing safety and sanitation in physical markets, and reducing electrical and telecommunications costs. They reach over 300,000 listeners.

McVay, Mary, "An Information Revolution for Small Enterprise in Africa: Experience in Interactive Radio Formats in Africa" ILO, 2002. Website: www.ilo.org/seed

High-impact program strategies can help identify high-impact services, but they are not sufficient — there is danger in relying too much on the judgment

of program designers. Strong BDS programs also let SEs drive service selection by delivering demand-driven services.

5.2 What are demand-driven services?

In general, demand-driven services:

- Respond to SE wants and needs
- Are delivered through *business-to-business* transactions
- Put financial pressure on the provider to deliver quality services

The purpose of offering demand-driven services is to identify and deliver those that impact SE businesses. The challenge is in knowing which ones will have an impact. Unfortunately, in spite of their best analyses, program designers are often wrong. The best way to prove that services add sufficient value is when an entrepreneur, or someone who finds them valuable for SEs, pays for them.

Demand-driven services should meet a clearly identified need and SE's should be *willing* and able to pay for them. Payment for services is a good indication of desire and value. If a service adds value to the business and is worth the investment, entrepreneurs pay. If it doesn't, they don't. And, when people pay, they expect quality services. Entrepreneurs are also more likely to give feedback to an organization about their precise wants and needs if they are paying customers and don't have to worry about offending a patron. Although many entrepreneurs are not able to identify complex constraints facing their businesses, evidence suggest that when they gain access to a service that meets an articulated need and are able to solve a business problem, they start to see value in such services and often want to address other problems.³⁰ Demand-driven services are more likely to have an impact on business performance than services that development experts believe will benefit SEs.

Example 12: Embedded Services Can Also Be Demand-Driven

Furniture Manufacturing in Vietnam

In Vietnam, many furniture showrooms in Hanoi sell furniture from rural SE producers. Some of these showrooms provide market information and product designs to their SE suppliers; one of them prepares design drawings when ordering furniture from rural producers. These services help rural producers stay in touch with changing urban market trends and the showrooms embed the cost of this service in the commission and mark-up it receives on sales and orders.

Anderson, Gavin "The Hidden MSE Service Sector – Research Into Commercial BDS Provision to Micro and Small Enterprises in Vietnam and Thailand," Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance. April 2000. Website: www.sedonors.org (BDS materials)

Another type of demand-driven service is acquired through commercial transactions or relationships. These services meet a specific need of SEs, but they may not have to pay for them directly. Those who buy products from SEs often provide them product specifications, market information, or raw materials, or large businesses may pay for advertising in newspapers or radio programs that provide useful information to SEs. Sometimes SEs receive training and advice from friends, relatives, or peers who work in their line of business. These BDS, although not fee-based, are demand-driven in that the sources are commercial or social actors who are accountable to SEs for good services. This is in contrast to traditional BDS programs in which non-profit organizations are accountable to donors for services delivered to SEs.

³⁰ Chen, 1996

5.3 How can program designers select high-impact, demand-driven services?

The selection of high-impact, demand-driven services goes hand in hand with the development of a high-impact strategy and the identification of target clients. These decisions are iterative, and are made in a different order by different types of organizations.³¹ Several models of decision-making processes are emerging:

- 1) **Sub-sector development programs:** Designers start with a focus on sub-sectors that show promise of high SE growth or employment generation. They conduct a sub-sector analysis (see below) to understand opportunities available to the SEs and the constraints they face in taking advantage of the (primarily) market opportunities. This leads to an overall strategy design, which drives service selection. Usually a broad set of services is identified after which program designers assess demand for them and prioritize those with both high demand and potential impact.³²
- 2) **Demand-led, cross-sector programs:** Here the demand for services leads the program design and designers often start with a broad assessment of SE demand for a wide range of services that show some potential because they are visible in the market, or seem to be growing. Based on which services show high demand potential, the program focuses on several, exploring constraints and opportunities; which group of SEs needs the services; and impact that might be achieved.³³
- 3) **Target Population-Led Programs:** In some circumstances, organizations focus on a particular target population, for example rural, low-income women. They use a combination of needs and demand assessments and, sometimes, sector analysis to identify services that could meet a priority need and be in

demand. The end result can be either cross-sector or sector oriented.

- 4) **Broad economic development programs:** In a cross-sector situation, a general SE needs analysis can provide insight into the opportunities and constraints of particular segments of the SE market. This can drive a demand assessment of specific services that would contribute to a high impact strategy for that group.³⁴
- 5) **Service-led programs:** In some situations, organizations have had success with delivering particular services and would like to replicate the strategy. In this situation, organizations try to identify populations and circumstances in which their services might be in high demand.³⁵
- 6) **Supplier-led programs:** Many programs assume that direct service suppliers are in the best position to determine which services SE clients demand. In these programs, the facilitator helps providers analyze demand for services and develop services in response to the market. A challenge in these programs is to connect the services directly to a common impact on SE businesses.

An increasing number of programs are designed with impact and demand in mind and patterns are beginning to emerge around the services different types of SE typically need and demand. New entrepreneurs often want information about competition and links with other enterprises (suppliers, service providers, buyers.) Owners who want to expand a business often seek advice on product and market development and information on cost-effective ways to modernize their technologies. Entrepreneurs in transition economies often want advice on privatization and its implications for restructuring and market identification training.

There is also a debate in the field about the services poor people demand. Some argue that low-income

³¹ Carpenter et al, 2002

³² AFE, 2002

³³ Swisscontact & GTZ, Vietnam, 2002

³⁴ GTZ study, El Salvador 2002

³⁵ Appro TEC 2002; Hileman, 2000

entrepreneurs need immediate, value-added services. Others say that they are often not aware of the value of services until they have received some basic business skills training to start and stabilize the enterprise and understand how BDS can be used to grow the business. These kinds of analysis and debate help develop guidance around typical patterns found in different situations that may eventually simplify the selection of high-impact services for particular population groups.³⁶

A key lesson learned in BDS program development is — the more focused a program is on a limited range of specialized services, the higher the quality of both services and delivery. However, in most situations there is demand for several services and many demonstrate good impact potential. Having a high-impact strategy and assessing demand can drive programs to select a narrow range of services, which they sequence and align for maximum impact³⁷ and effective programs identify and focus first on services that meet three criteria:

- Will contribute to the high-impact SE development strategy
- Are in high-demand
- Are the most feasible to deliver

In this manner, BDS programs are launched with a service that brings immediate results to an SE's bottom-line. This builds credibility and gives programs the expertise to launch more services. To achieve maximum impact the services should be complementary and enhance the impact of each other, as illustrated in Example 13.

5.4 What tools can help practitioners choose high-impact and demand-driven services?

There are a variety of tools that can help BDS practitioners choose high impact, demand-driven services. A description of each tool follows, along with a case example in which the tool was used to identify services. These tools overlap somewhat with the tools for assessing characteristics of specific services markets in Chapter 6, but they address different questions. Here we ask, "What services do SEs want and need to help their businesses stabilize, grow and create income, economic growth, and jobs?"

Example 13: Services Sequencing & Alignment

Aid to Artisans, Global

ATA helps artisans reach international markets by:

- Launching programs that facilitate international market links to help exporters and producer associations gain market knowledge and connections, primarily by attending trade shows;
- Helping the exporters and associations access product development services to develop products for customers they meet at trade shows; and finally
- Assisting artisans to access technical training to produce products designed specifically for customers.

This service sequencing and alignment results in immediate high sales and contrasts with crafts development programs that focus primarily on one of the three services and/or help with all services, but in an uncoordinated way.

Carpenter, Janney, et al. "Helping Small Businesses Grow and Create Jobs: Good Practices from Global Experiences." Shorebank Advisory Services, 2002.

Website: www.shorebankadvisory.com

³⁶ UNDP, 2001; FFH 2000; Miehlbradt, 2002

³⁷ Carpenter et al, 2002

5.4.1 Sub-sector analysis

Sub-sector analysis combines aspects of national surveys and PRA techniques to identify constraints and opportunities of SEs operating in the same market, for example the wood furniture, silk cloth, or hair care, “sub-sectors.” The main tool in “sub-sector” analysis is a map that describes the links between firms operating in the same industry, but in different market channels. A furniture map might show one set of links from a national forest to wood cutters, sawmills, wood wholesalers, small-scale carpenters and finally to rural and urban low-income consumers. A branch of that marketing chain might lead from the small-scale carpenters to upholsterers, urban shops, and high-income consumers. Yet another channel might lead from the sawmills to a large company that cures the wood and makes furniture for export.

By examining these different market channels, a researcher can identify the role SEs play in the industry, and the lucrative markets where they might benefit from playing a larger role. Then, the program designer can identify BDS that might help SEs move into more lucrative markets, such as a subcontracting service linking SEs to a large-scale exporter to take advantage of higher international prices.

The information for the maps comes from national survey data, interviews with “key informants” including large firms in the sector who know the industry well, and PRA-style discussions with SEs. Sub-sector analysis can be used to assess and compare the viability of different sectors before selecting one to focus on, or to identify key opportunities for intervention and key services that help entrepreneurs take advantage of new market opportunities. The more SEs are involved directly in conducting the sub-sector analysis, the more likely it is that the services identified will be in high demand.³⁸ Depending on the depth and sophistication of the study, sub-sector analysis can be a simple PRA exercise with key sector players, or sophisticated and professional data collection exercise.

Example 14: Sub-sector Analyses and Program Design

Enterprise Works Worldwide (EWW) and the Coffee Sector in El Salvador

EWW, a US-based NGO, chose to focus on the coffee sub-sector in El Salvador. A sub-sector analysis revealed that small scale coffee producers could earn more income if coffee was processed before being sold. The analysis also determined that key problems in the sub-sector were inefficiency and environmental pollution. EWW used the analysis to design a program to assist small-scale coffee producers that promoted several BDS to address these issues.

The program helped link cooperatives so that small coops without processing facilities could use those owned by larger cooperatives. These links also improved efficiency by enabling the cooperatives to collaborate on financing, processing, and marketing coffee. EWW also assisted the cooperatives in computerizing their production and marketing information. To reduce environmental pollution, the organization provided access to better technology and helped the coops provide training and technical assistance to their members on environmentally friendly production techniques that also reduce costs. These services helped small-scale coffee producers increase their profits.

“El Salvador Coffee Project” 1998 from the Enterprise Works Worldwide website: www.enterpriseworks.org

5.4.2 Demand analysis

Some organizations are beginning to use demand assessment as an initial tool in selecting services. A demand assessment asks SEs about a range of services to understand which they most want, but cannot find. These assessments, described in detail in Chapter 6, are complemented by sector analysis or needs assessment to help program designers develop a clear understanding of the potential impact of the services on SEs and on program

³⁸ Hagglblade and Gamser, 1991; Lusby, 1999. Chen, 1996

goals. For a Mercy Corps program in Azerbaijan, program designers conducted a broad consumer research study to identify the high demand services. When veterinary services were identified as having a high potential for development, Mercy Corps conducted a sub-sector analysis to identify how they could help cattle and poultry farmers expand their businesses and identify other roadblocks in the market chain.³⁹

5.4.3 Test marketing or action research

Formal tools for choosing services may not be necessary in all cases, particularly for commercial suppliers and their facilitators. Instead, suppliers and facilitators can try a service out on a small scale and see if it sells. New programs are beginning to develop systematic ways of testing services:⁴⁰

- Starting without a pre-conceived idea of what services might be in demand, staff members listen closely to entrepreneurs about their constraints and services that could help address them.
- Initial service ideas are developed from those discussions, drawing on existing private sector services for ideas.
- New services are test marketed, sometimes with partial subsidies in exchange for customer feedback.
- Services are modified rapidly and re-tested to fit as closely as possible to demand.

This type of test marketing is used frequently in the private sector. Even when formal tools for choosing services have been used, test marketing individual service products is helping programs determine the potential for commercializing new services for SEs.

Example 15: Action Research Program Design

ILO FIT in Africa

The FIT Program has designed and commercialized a range of innovative services using an action research methodology. This methodology tested both the products and commercial delivery channels. Examples include:

Enterprise Visits: Study tours are a recognized and effective tool for networking, developing new markets, and exchanges of technologies and skills for MSEs though they normally require high subsidies. The FIT program identified a demand from small business owners to learn from others and experimented with national enterprise visits of MSE groups to meet their counterparts in other parts of the country. FIT then developed and tested study tours for MSEs in East and Southern Africa to visit other businesses or commercial events in neighboring countries and other regions of Africa. FIT built on the willingness of MSEs to pay for some of the services and began supporting tour agencies to develop and sell such tours on a commercial basis.

Commercial training and facilitation: The FIT program developed and tested two training methodologies to help MSEs undertake practical marketing (Rapid Market Appraisal) and demand-based product development (User-Led Innovation). These products were tested first through traditional, donor-supported training channels and subsequently sold to commercial training businesses through training of trainer courses in East Africa. These two products and another ILO-developed training product (Grassroots Management Training) were eventually sold into the private sector where they were modified and adapted to meet to the demands of the training market.

Hileman, Milena and Jim Tanburn, *Wheels of Trade*, Intermediate Technology Publication, 2000, available from IT or Amazon.com; ILO FIT website at www.ilo.org/seed

³⁹ Mercy Corps, 2002

⁴⁰ Hileman and Tanburn, 2000

5.4.4 General SE surveys

Since the “informal sector” was identified as an important source of employment and income for poor people in developing countries, numerous studies have documented its existence, characteristics, and the contribution it makes to the economy. The USAID-sponsored GEMINI project conducted some of the first statistically valid national surveys of SE informal sectors in developing countries around the world. Although not specific enough for the selection and design of particular services, the surveys provide useful background data.

Some organizations do carry out statistical and economic studies of SE populations and are able to identify opportunities and needs facing particular groups of firms. This information can then be used to develop high impact SE development strategies, as illustrated in Example 16. The studies are expensive and require a high level of technical expertise, but when coupled with a broad consumer survey, they can help identify the services that are both in high demand and likely to have a high impact.

5.4.5. Participatory Rural Appraisal

In stark contrast to national surveys, Participatory Rural Appraisal (PRA) techniques can identify very specific constraints, opportunities, wants, and needs of particular populations of SEs. PRA offers a set of practical tools to help development agents and program participants identify problems and select relevant solutions. Some of the techniques include:

- **Resource Mapping:** Participants draw maps of their community with relevant, available resources
- **Seasonal Mapping:** Participants describe seasonal trends that affect their work and lives
- **Network Mapping:** Participants draw links they have to external individuals and resources
- **Ranking Exercises:** Participants rank their status, the importance of problems, and/or preferred solutions

Example 16: SE Statistical Survey

GTZ in El Salvador

A study of SEs in El Salvador revealed a “growth gap” in the SE population — microenterprises grow rapidly, but there is a high death rate when firms begin to become small enterprises. Further investigation revealed that just at the point when SEs experience significant management burdens brought on by additional employees and production levels, they are faced with a barrage of regulatory and tax issues as they start to become more visible and need to formalize. At this stage, the study recommends a combination of targeted management consulting services and policy reform so that “formalization” and “the transition from micro to small enterprise” do not occur at the same time. The consulting services focus on the challenges of growth and formalization processes. In this situation, cross-sector consulting services would be highly tailored to help a specific population take advantage of growth opportunities and overcome key barriers to growth.

Schmitt-Degenhardt, Stephan, et al. “The Growth Gap: A small enterprise phenomenon” GTZ, El Salvador, July 2002

PRA can be used to identify services in high demand by a population segment; understand how SEs operate in a particular economic environment; or identify significant constraints. They can also help procure information on the features and benefits a service should have; the price customers might be willing to pay; and other detailed information about the potential demand for a BDS. The underlying principle behind PRA is that local people possess more knowledge about their situation than external experts and the role of the researcher is to bring that knowledge to bear in identifying and solving key problems.⁴¹ PRA is the most affordable and simple technique for identifying services SEs demand.

⁴¹ Chambers, 1997

Example 17: PRA Design Techniques

SEWA in India, Women's Sub-sector Development Program

The Self-Employed Women's Association (SEWA) conducts participatory sub-sector development programs with poor, self-employed women. SEWA started its work by organizing self-employed women into groups according to the work they were involved in, such as incense making or dairy production. With these groups, SEWA used PRA techniques to identify immediately felt needs. These needs are the first to be addressed, but with the momentum of success, the groups go on to identify and tackle large issues. This approach led to SEWA's national dairy cooperative support project. The immediate need for women dairy workers was access to vaccinations and veterinary services. SEWA conducted a pilot effort to link women in the program to services provided by the Ministry of Agriculture. Having demonstrated the viability and importance of supplying women with these inputs, SEWA built on that momentum to successfully advocate for women all over India to have access to government dairy support services.

Martha Chen (ed.), *Beyond Credit: A Sub-sector Approach to Promoting Women's Enterprises*, Aga Khan Foundation Canada, 1996.

In reality, most program designers use a combination of these tools as well as consumer surveys to identify services that SEs are most likely to respond to and that are likely to have a high impact on their businesses and lives.



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6. How Can Practitioners Assess BDS Markets and Choose Interventions To Strengthen Them?

The previous chapter focused on the basics of a BDS program: defining the market to be developed and determining which services should be delivered to whom, where, and how. This is when the challenge of market development begins. Experts agree that to develop a BDS market, it is critical to first understand how it currently operates.⁴² A program manager can then choose strategies aimed at reducing specific constraints to market development or taking advantage of existing opportunities for expanding the SE market. Interventions that target specific market problems and opportunities have the best potential for developing a market and minimizing distortion.

Using a market development approach, there are four steps to this process:⁴³

- 1) **Outlining** program design decisions and the market information needed to inform them;
- 2) **Conducting** a market assessment to understand the existing service market;
- 3) **Identifying** opportunities in the service market and pinpointing what constrains it from developing; and
- 4) **Identifying** interventions that address the priority problems/opportunities.

A market assessment focuses on gathering the information needed to inform program design

decisions. The most difficult decision concerns which market problems and opportunities to target with program interventions and the market changes that can be expected. These market changes link back to the goals and SE development strategy discussed in the previous chapter.

For example, a program may aim to increase SE manufacturers' awareness of product design services and at the same time make those services more appropriate, affordable, and desirable. The ultimate aim is for more SE manufacturers to use product designs that help them increase their sales. Once managers have defined the changes the program aims to make in the market, information from the assessment can inform other program design decisions including the intervention strategies that can effectively generate the desired changes in the market and the institutions the program should work with in order to generate the desired change.

6.1 What information about a market is needed to choose interventions?

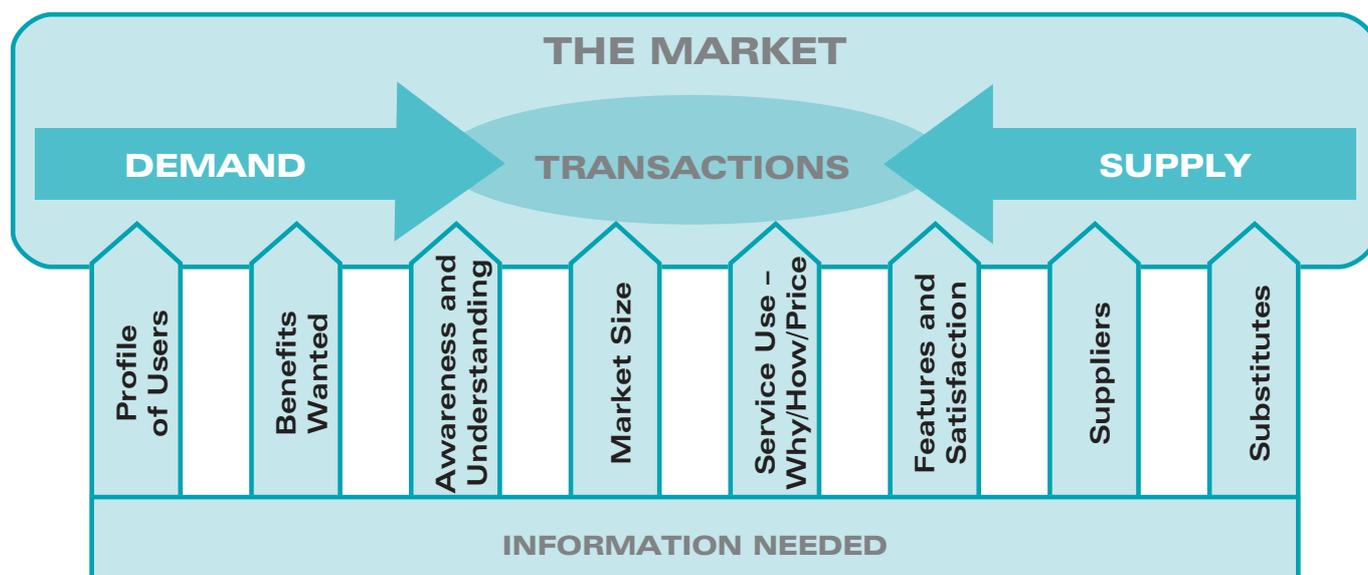
To understand the market, one needs to examine three things: demand, supply and transactions (the interaction between demand and supply). Within each of these components, there are several issues to grasp.⁴⁴

⁴² Committee of Donor Agencies, 2001

⁴³ For more information, see Miehlbradt, Alexandra, "Guide to Market Assessment for Program Design," A FIT Manual, International Labour Organization," 2002. Website www.ilo.org/seed (publications)

⁴⁴ Adapted from Springfield Centre, (BDS 2000 Training Course, module by Bear and Miehlbradt)

Figure 5: Information Needed to Assess the Market

**Demand:**

- What types of SEs are using which service products? What types are not?
- What benefits are SEs looking for from the service?
- How aware are SEs about services? Do they understand the benefits of services?

Transactions:

- How big is the market? What percent of SEs have tried a particular service?
- Why do SEs use the service? Why not?
- What percent of SEs acquire services through fee-for-service transactions, services embedded in other commercial transactions, services paid for by a commercial third party, and for free?
- How are the services delivered? How do SEs want services to be delivered?
- What service features do SEs want? How satisfied are they with the currently available supply?
- What prices are SEs paying for services?

Supply:

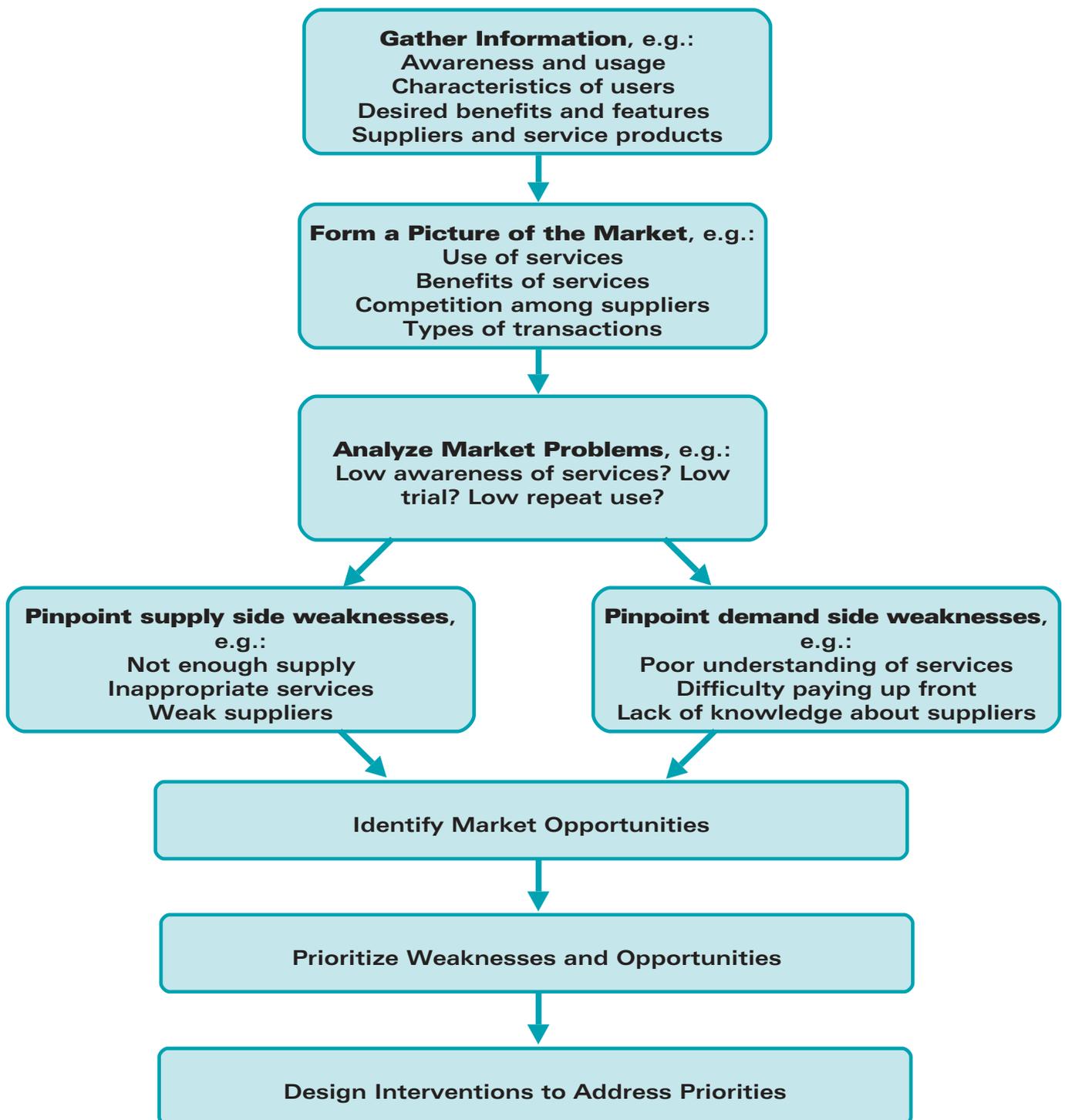
- What types of suppliers exist?
- What range of products is available?
- What are the strengths and weaknesses of current suppliers?
- What substitutes for BDS do SEs use?

To help with their strategy design, some program managers gather information on the links between the use of a particular BDS and benefits SEs may realize in terms of product markets they can access. For example, can access to courier services enable SEs to reach national instead of only local markets? Some researchers are also investigating the link between SE ability to sell products profitably and the demand for particular types of BDS. Does improving SE access to profitable markets increase their demand for BDS and, if so, what types of BDS?

The outcome of analyzing all this information is a picture of a BDS market showing how it works, where the opportunities for growth are, and where significant problems lie. A weakness in the market might be a lack of awareness by SEs of available services or misunderstandings about their benefits. Another weakness may involve suppliers who offer inappropriate products or services that SEs do not want. An opportunity like international demand for particular SE products could fuel demand for services that help SEs produce to international quality standards, or recent relaxation of the government's enterprise registration requirements might fuel demand for legal aid services to help SEs register their businesses. Programs can design appropriate interventions to address these weaknesses and opportunities. Figure 6 outlines the process.⁴⁵

⁴⁵ Adapted from Gibson, Hitchins, Bear "BDS Market Development: A Guide for Agencies," 2000

Figure 6: Overview of Market Assessment Process



6.2 How can market information be used to design effective BDS programs?

Practitioners are finding that one of the greatest challenges in market assessment is analyzing and using market information for program design. Market assessments generally yield a wealth of insights about a particular BDS market. However, clearly identifying the most pressing problems and promising opportunities is not always easy.

A variety of analytical tools are now available to help draw conclusions from market assessment data.⁴⁶ One summarizes market information on a grid showing the strengths and weaknesses of market demand and supply. (Example 18) There also are several experimental tools for identifying gaps between demand and supply, where an assessment indicates that SEs are not getting the type or quantity of services they want.

Similarly, it is challenging to choose appropriate market development strategies to address certain problems or opportunities. Market assessment does not eliminate the need for creativity, intuition, and determination in the program design and implementation process. The BDS field continues to accumulate experience in this area and Table 3 gives examples of BDS market development interventions matched to specific market problems. However, this will no doubt be a key challenge for the foreseeable future.

Example 18: Analysis of BDS Market Assessment Information

GTZ in Nepal

GTZ summarized the information from their BDS markets assessment in Nepal using a grid:

	Demand	Supply
Strengths	<ul style="list-style-type: none"> ■ Consumers are aware of services ■ Economic growth is fueling demand ■ Word of mouth advertising is strong 	<ul style="list-style-type: none"> ■ Suppliers exist ■ Suppliers have the capacity to help businesses solve their problems
Weaknesses	<ul style="list-style-type: none"> ■ Consumers have limited understanding of services ■ Consumers have high expectations ■ Consumers are risk averse ■ Free services are decreasing willingness to pay 	<ul style="list-style-type: none"> ■ Service products are inappropriate ■ Marketing is poor ■ Suppliers lack market information ■ Supplier behavior is distorted by subsidies

This summary helped GTZ choose appropriate interventions. GTZ decided to focus their program on product development and commercialization. The program assists BDS suppliers to develop and launch new service products and also stimulates demand through events and promotions that increase consumer awareness and understanding of new services.

Miehlbradt, Alexandra "Business Development Services in Nepal - Report on BDS Markets Assessment" for the GTZ Private Sector Promotion Project, Nepal 2001.

Rana, Prashant "Joint Ventures with Commercial Suppliers: The Nepal Experience" Presentation for the 2nd annual BDS seminar in Turin, 2001. Website: <http://training.itcilo.it/bdsseminar>

⁴⁶ For more information, see Miehlbradt, "Guide to Market Assessment for BDS Program Design" A FIT Manual for the ILO. For examples, see Miehlbradt, "Assessing Market for Business Development Services: What have we learned so far?" SEED Working Paper No. 28 for the ILO, Chapter 3. Website: www.ilo.org/seed (publications)

Table 3: Matching BDS Market Problems with Interventions⁴⁷

Market Problem	Possible Interventions
Demand-Side Problems	
Consumers lack information about services	<ul style="list-style-type: none"> ■ Develop a BDS yellow pages ■ Open a BDS consumers' bureau or information center ■ Help suppliers improve their marketing ■ Implement a voucher scheme
Consumers are unable to effectively identify their business problems.	<ul style="list-style-type: none"> ■ Develop an awareness-raising campaign about typical business problems and BDS that can help ■ Help suppliers create marketing campaigns that help SEs identify business problems
Consumers do not have the capacity to pay for services up front	<ul style="list-style-type: none"> ■ Assist suppliers in developing payment options ■ Promote embedded services ■ Promote services financed by large firms ■ Help consumers form clusters to purchase services in groups
Consumers are risk averse to trying services.	<ul style="list-style-type: none"> ■ Provide suppliers with technical assistance to improve trial inducing strategies ■ Implement a voucher scheme ■ Promote business linkages for embedded services
Consumers do not see the value of services	<ul style="list-style-type: none"> ■ Help suppliers test, demonstrate, and gather information about the quality of services ■ Assist suppliers in improving advertising ■ Assist suppliers in developing customer referral programs ■ Conduct general advertising for the service
Consumers want services packaged together	<ul style="list-style-type: none"> ■ Broker agreements among suppliers to develop service packages ■ Provide venture capital and technical assistance for suppliers to diversify
Supply-Side Problems	
Service products lack the benefits and features consumers want	<ul style="list-style-type: none"> ■ Assist suppliers in developing and commercializing new products ■ Bring in suppliers from other countries to adapt and franchise appropriate products
Suppliers are risk averse to targeting new consumer segments, such as women or micro enterprises	<ul style="list-style-type: none"> ■ Provide suppliers with information on the viability of selling to SEs ■ Subsidize cost of targeting new consumer segments, e.g., market testing ■ Use market research to identify promising opportunities to serve new consumer segments
Suppliers lack market information	<ul style="list-style-type: none"> ■ Develop or improve marketing research services/suppliers ■ Provide suppliers with market information ■ Teach suppliers how to gather market information

⁴⁷ Miehlsbradt, 2001 with input from Jeanne Downing, Mary McVay and SEEP's Guide to BDS and Resources

Market Problem	Possible Interventions
Suppliers lack business or technical skills	<ul style="list-style-type: none"> ■ Provide training and technical assistance to suppliers ■ Assist training suppliers in developing and selling appropriate products to other BDS suppliers
There is insufficient supply in the market	<ul style="list-style-type: none"> ■ Provide venture capital to suppliers to expand ■ Design a program to assist start-up suppliers
Variable service quality harms supplier reputation	<ul style="list-style-type: none"> ■ Provide quality assurance services ■ Assist supplier to improve consistency in service provision ■ Help suppliers form associations with certification processes
Supplier cannot manage supplier credit or other purchasing mechanisms	<ul style="list-style-type: none"> ■ Build capacity of suppliers to manage supplier credit ■ Link SEs with MFIs or other financial services providers
Transaction Problems	
Consumers cannot afford to purchase services	<ul style="list-style-type: none"> ■ Develop a business model with third party payment such as advertising, or with embedded services
There is a lack of trust between suppliers and consumers; suppliers insist on up-front payment; consumers insist on delivery before payment	<ul style="list-style-type: none"> ■ Support entrepreneurs or social enterprises to establish a guarantee or wholesale system ■ Establish a temporary guarantee system until there is stronger trust in the market
There is no mechanism for exchanging payment or collecting payment due to distance, lack of technology, or banking system	<ul style="list-style-type: none"> ■ Help SEs and others in the supply chain to form an intermediary who is sophisticated enough to access the formal banking system or an international banking system that is functioning ■ Promote Smart Cards — electronic banking cards ■ Develop money transfer services
Consumers are geographically and/or socially isolated from service markets	<ul style="list-style-type: none"> ■ Help SEs form clusters, associations, or cooperatives that can act as intermediaries to reach distant services providers ■ Form a social enterprise to provide services
Market Environment Problems	
Free services are distorting the BDS market	<ul style="list-style-type: none"> ■ Advocate with government and/or other donors to rationalize BDS subsidies
Regulations adversely affect the BDS market	<ul style="list-style-type: none"> ■ Advocate for changes in the regulations ■ Organize SE suppliers to advocate for changes in regulations affecting the BDS market

6.3 What tools can help practitioners assess markets?

The basis for a sound and useful market assessment is a clear description of program decisions it is expected to inform and the information needed to make them. Programs are finding that the greater the detail, the more likely the assessment is to yield information useful to program design.

The available sources of information for BDS market assessments are consumers (SEs), suppliers, business associations (of consumers or suppliers), government agencies, key informants, and secondary sources. Most experts and practitioners agree that an essential information source is the consumer (the SE). When practitioners can see the market through the eyes of SEs, they can make the market work better for them. The extent to which other sources are used depends on program circumstance and available information.⁴⁸

A selection of market assessment tools currently in use is presented below. Most organizations use a combination of tools in order to get a good picture of existing BDS markets. Discussion of how to choose appropriate combinations of tools follows the descriptions.

6.3.1 Market overview

A market overview aims for a basic understanding of one or several BDS markets quickly and often with few resources. It relies on secondary sources of information and interviews with key informants, SEs, and BDS suppliers (individually or in groups). The number of interviews usually ranges between 20 and 60. Programs use a market overview to:

- Select from a wide array of services those that are in high demand and have the best potential to grow, and
- Identify common opportunities or constraints in several service markets.

With this information, programs can begin action research in some markets, or they can engage in a continued, more focused analysis of specific service markets.

The major strengths of this approach are that it is quick, usually inexpensive, and can be integrated into a sub-sector analysis because the methodologies and information sources are similar. The main weaknesses are that it may miss important aspects of the market and it is prone to bias because of the small number of interviews.

Example 19: Market Overview

GTZ in the Philippines

In order to get a basic overview of BDS markets in the Visayas region of the Philippines, GTZ conducted a market overview study. The research, conducted by a local consultant, covered 13 different types of business services and included interviews with 21 SME BDS users, 12 private sector service providers, 3 public sector service providers, 5 business membership organizations, 3 external support agencies, and secondary source research. The findings indicated that there was an existing business services market and a demand for a wide variety of business services from SMEs. The study also indicated that there were a number of problems limiting the growth and effectiveness of BDS markets including SMEs' lack of information about business services, lack of availability or poor quality of some services, lack of competition and providers' lack of information about SME demand for services. The market overview formed the basis for the basic design of a BDS component of a larger, private sector development program. Program plans include more in-depth research to inform intervention choices in specific business service markets.

Gartner, Udo, Prashant Rana and Alexandra Miehlbradt
"Private Sector Development Programme (PSDP) Philippines
– Appraisal Report for the Business Services Component,"
GTZ, May, 2002

⁴⁸ Miehlbradt, 2002

6.3.2 Consumer surveys

As the Market Development Approach has evolved, BDS experts have adapted commercial marketing research tools to the task of identifying demand-driven BDS and determining how to develop BDS markets. Consumer surveys are commonly used in the private sector to get accurate and useful information from consumers to increase sales. The “Usage, Attitude, Image (UAI) Market Study” is a private sector, marketing research tool that generates a broad, quantitative overview of a market and pinpoints specific market constraints and opportunities. In an adapted form, this tool is now commonly used for BDS market assessment.

Consumer surveys can yield information on what services SEs demand and why; how satisfied they are with those currently available; and how to improve the supply. By interviewing a random sample of 100-500 SEs, consumer surveys can offer statistically significant – and reasonably accurate – data on the market. Some programs use larger samples to get accurate data on different types of SEs but the key strength of consumer surveys is that they provide a broad and accurate picture of BDS markets. Weaknesses include the lack of in-depth information that is gathered and the need for expertise in survey design and data analysis to effectively use the tool. Consumer surveys also tend to be less useful in very weak BDS markets where SEs have no experience with purchased business services and little idea of what they are or can do for them.

6.3.3 Qualitative consumer research tools

Qualitative consumer research tools gather in-depth information directly from SEs or other targeted consumers. Focus group discussions (FGDs), another private sector tool, are the most common qualitative consumer research tool now in use for BDS market assessment. An FGD is a targeted discussion with a group of consumers managed by a facilitator. In assessing markets, FGDs commonly yield information on why SEs do or do not use particular services, the benefits they expect, and the service features they want. FGDs are used before consumer surveys to help shape the survey, after a

Example 20: Consumer Surveys and Focus Group Discussions

GTZ and Swisscontact Market Assessment in Vietnam

GTZ and Swisscontact teamed up in Vietnam to conduct a broad market assessment that would inform both their programs. The assessment was done to understand Vietnam’s SE markets; gauge relative demand for a range of services; identify the main constraints to, and opportunities for developing BDS markets in Vietnam; and gather sufficient information to design effective interventions for developing selected markets. The assessment included two components: a consumer survey of 1,211 small and medium enterprises using a “Usage, Attitude, Image Market Study” approach and 20 focus group discussions involving approximately 140 SEs in six locations.

The study found BDS markets on many different levels of development. Key weaknesses on the supply side included frequently low-quality or inappropriate services and regulatory constraints to service supply. On the demand side weaknesses included low valuation of services and a business culture that discouraged outsourcing services. The study also showed that both suppliers and SEs lacked information about each other. Swisscontact is using the assessment in conjunction with a sub-sector analysis and other studies to design a new BDS market development program. GTZ is using it to inform strategy changes and new interventions within an existing BDS program

Miehlbradt, Alexandra with research by Invest Consult Group Vietnam, “Business Development Services in Vietnam” for GTZ and Swisscontact, 2002. Available at www.swisscontact.org.vn/main.htm (download)

survey to gain insight into BDS markets; and as a stand-alone tool for information gathering. Practitioners have found FGDs particularly useful in developing new services for SEs. Other qualitative consumer research tools being experimented with

are in-depth interviews, workshops, and action learning sessions.⁴⁹ The strengths of qualitative consumer research tools are that they can yield specific ideas for marketing and improving existing services or developing new ones and the information is usually easy to apply to program design. The main weakness is that, used alone, qualitative consumer research tools do not provide a broad overview of the market and may be biased due to small sample sizes or respondent selection.

6.3.4 Supplier interviews⁵⁰

Supplier interviews enable a practitioner to examine the supply side of the market and get suppliers' views on it. These interviews are a helpful complement to consumer research because they allow practitioners to fully understand supply problems and identify gaps – areas of disconnection – between supply and demand. Based on this information, a practitioner can determine market opportunities for new products, marketing strategies, or suppliers.

Two types of supplier interviews are in use. Supplier diagnostics – in-depth interviews with, and observations of, individual suppliers – focus on gaining a deeper understanding of a supplier's business based on standard business analysis elements such as product/market mix, market expansion strategies and capacity, and the supplier's views on the market. Generally, exploratory interview techniques are used and the information generated is qualitative.

Supplier surveys gather basic information from a large number of suppliers using a standard questionnaire. This tool aims to generate an accurate overview of supply by gathering quantitative information from a representative sample of suppliers. However, this is often tricky in practice because it is difficult to gather sufficient information on the universe of suppliers in markets where informal suppliers and embedded services are common.

Both tools usually gather information from the different types of suppliers identified during consumer research or a market overview. The key strengths of supplier interviews are that they help explain why suppliers act as they do and they can open a dialogue with them. Their main weaknesses, when used alone, are that they yield little information on SE perceptions of the market and it is difficult to identify a representative selection of suppliers.

Example 21: Supplier Survey

ILO Market Assessment in Lima

In Lima, the ILO conducted a study of BDS suppliers with the aim of gaining an understanding of the sector that would inform SE policies and programs under consideration by donors and national organizations. The study relied on a survey of 130 BDS suppliers followed by group interviews to validate the data. While the study gathered information solely from suppliers, it built on previous studies of various aspects of BDS in Lima including a study by Deside-Swisscontact that relied primarily on consumer research. The study concluded that BDS providers in Lima were as diverse as, and similar to, their SE clients and indicated that BDS supply was insufficient to meet growing demand. In order to improve supply, the study recommended targeting both existing and potential suppliers with assistance in new product development including conducting additional market research and supplier training.

Tueros, Mario and Merten Sievers "Private Provision of Business Development Services in Lima" ILO/FIT. Presentation for the 2nd annual BDS Seminar in Turin, 2001. Website: <http://training.itcilo.it/bdsseminar>

Pejerrey, Gerado and Mario Tueros, "A Study on Private Providers of Business Development Services for Small and Micro Enterprises in Lima" ILO, 2000

⁴⁹ SEEP Practitioner Learning Program, proposals and correspondence from Swisscontact, PKPEK, World Education (Mali)

⁵⁰ Miehlbradt, 2001. Practitioner Learning Program, proposals and correspondence from EDA, MEDA and ITDG

6.3.5 Forward looking tools

A major limitation of market assessment in general is that it provides pictures of the current and past market and some indications of trends in the market, but it cannot predict future demand. Experts and practitioners are experimenting with tools that can help fill this gap by engaging SEs and/or BDS suppliers in discussions of market opportunities, new products, and market development interventions.

There are many tools currently in use or being developed to help determine the market potential of specific services. Product concept and price sensitivity tests are private sector consumer research tools aimed at gauging demand for, and getting feedback on, a new service or product. These tools rely on a survey of consumers concerning their potential interest in a service and their willingness to pay a particular price for it.⁵¹ Several organizations are experimenting with workshops for BDS suppliers and/or BDS consumers to help predict and stimulate future demand for services.⁵² Workshops engage participants in discussions of new products or changes in BDS markets that might be profitable for suppliers and beneficial for consumers. One of the benefits of these workshops is the information sharing between BDS suppliers, consumers and, in some cases, other relevant firms or organizations. In addition to their other uses, Focus Group Discussions are also being used to generate ideas for new service products appropriate for, and demanded by, SEs.

Finally, many organizations now recognize that product testing for new services and pilot testing of market development strategies is an essential complement to up-front market assessments. These tools add depth to a practitioner's understanding of a market that is difficult to get any other way. They can help programs become flexible and incorporate a market testing and program refinement stage prior to large-scale market development efforts.

Example 22: Product Concept and Price Sensitivity Tests

USAID's Study of ICT Services for MSEs in the Philippines

As part of a larger study, USAID conducted product concept and price sensitivity tests on several ICT services for micro and small enterprises in the Philippines. These tools were combined with three consumer surveys of 100 SEs each in different locations. Combining the tools allowed USAID to get a picture of the current market for various ICT services among SEs as well as explore possible new products. The study found, for example, that SEs do not want Internet access through public calling offices. They would rather have someone else do the information search and sell them the information they want. The study concluded that public calling offices should not add Internet access services, but that user-friendly information services had market potential. It also found that MSEs want, and are ready to pay commercial rates for, email services through public calling offices. The study concluded that public calling could profitably add this service.

Miehlbradt, Alexandra "Technical Note: Applying marketing Research to BDS Market Development" and "Information and Communications Services for Micro and Small Enterprises in the Philippines," Development Alternatives, Inc. / USAID, 1999. USAID-Microenterprise Best Practices website: www.usaidmicro.org (knowledge sharing, MBP)

⁵¹ Miehlbradt, 1999

⁵² For example, Swisscontact, the ILO FIT program, Action for Enterprise and PKPEK

6.4 How can a practitioner choose the right combination of tools for market assessment?

Rarely can just one of these tools capture all the market information needed to design and implement an effective BDS market development program. What is the best combination of tools? Practitioners are finding that BDS market assessments are most effective when they are tailored to program circumstances. The most appropriate combination of tools for a donor consortium planning a large market development program for small and medium sized enterprises in urban centers is not the same as that for an NGO planning a smaller program for microenterprises in rural areas. What should program designers keep in mind when choosing and designing tools?

- **Program Size:** In the private sector, firms try to match investment to the size of a particular opportunity. Similarly, the investment in a BDS market assessment should match the potential benefit of a program.
- **Program Complexity:** A program that expects to include a variety of different services for various types of SEs needs to plan a more complex market assessment than one focused on a single service for one type of SE.
- **Level of Market Development:** In many markets, quantitative tools, particularly consumer surveys, can offer a very useful overview of the market and highlight critical issues. However, in very weak markets where less than 5% of the target SEs have used a service in any form (formal or informal), quantitative tools are often less useful.
- **Characteristics of the Market:** If a program wants to focus on BDS markets where formal, fee-for-service transactions are the norm, private sector market research tools are quite relevant with a little adaptation. However, if a program is to focus on BDS markets that are primarily informal, hidden in other business deals, or otherwise embedded, managers need to significantly adapt private sector tools or develop new ones. This is a current area of innovation in the BDS field.⁵³

■ Characteristics of the Researching Organization:

As a general rule, the further away from the market an organization is and the more complex its decision-making process, the more formal and extensive the market assessment should be. Big organizations that are far from the market, like donors and large facilitators, need formal market assessments because they are not in touch with the market and do not get frequent and direct market feedback. Small organization that are close to or in the market, such as commercial facilitators and providers, can rely more on informal market assessment tools and learning by doing because they receive regular feedback in the form of customer comments and willingness to pay for services.

- **Experience of the Researching Organization:** An organization planning a program in an area where they have never worked before needs a more extensive market assessment than one that has been working extensively with the target SEs.

One common combination in use, particularly for larger programs and more formal markets, is that of consumer surveys, focus group discussions, and supplier diagnostics. This combination appears to generate a relatively comprehensive picture and provide sufficient information for program design. For example, a consumer survey might show that there is a lack of appropriate service products for SEs, FGDs might indicate how SEs want services changed, and supplier diagnostic data might show that suppliers do not know what service benefits and features SEs want. In this case, a facilitator might choose to provide suppliers with market information on what SEs want or teach suppliers how to conduct basic consumer research.

An emerging combination of tools, especially with weaker markets and those with a high proportion of embedded services, is Sub-sector Analysis and BDS Market Assessment. By incorporating decisions on which services to promote and how to develop the BDS market, this combination is proving to be particularly useful for programs aimed at helping SEs reach new product markets.

⁵³ One effort to develop innovative market assessment tools appropriate for programs targeting microenterprises and weak BDS markets is the "Practitioner Learning Program in BDS Market Assessment" sponsored by the SEEP Network and funded by USAID. The PLP website can be found at www.seepnetwork.org.

Example 23: Sub-sector Analysis and BDS Market Assessment

Action For Enterprise Study of Fresh Vegetables for Export in Kenya

AFE, on behalf of USAID/Kenya, conducted a joint sub-sector analysis and BDS market assessment targeted at SEs producing vegetables. Beginning with a sub-sector analysis of the Fresh Vegetable for Export sub-sector, the study included 19 interviews with firms and key informants and built on a previous DFID study of the green bean sub-sector. The study identified the major constraints in the sub-sector, the business services that could address those constraints, and any existing providers of those services. The researchers then chose a subset of services with the highest potential to benefit producers to investigate further. Using qualitative interviews with vegetable producers and BDS suppliers, the researchers gained a basic understanding of these markets. AFE then conducted a workshop with sub-sector participants and BDS suppliers to validate the findings and generate ideas for program interventions.

For example, they identified training and extension services in crop husbandry as a priority service. In response to identified weaknesses in this service market, they recommended interventions such as helping exporters improve training to sub-contractors by developing standardized materials; creating an inventory of crop husbandry training courses; and building the capacity of agricultural input suppliers to expand training and demonstrations through their distributors. The study contributed to the development of a large USAID/Kenya program design called the "Kenya Business Development Services Program."

Action for Enterprise "Sub-sector Analysis/Business Service Assessment for USAID Kenya" December 2001

Website: www.actionforenterprise.org

To help choose an appropriate combination of tools, practitioners may find it useful to conduct market assessments in an incremental fashion, starting with an inexpensive tool that can inform choices about other tools that might be useful in the given circumstances. Practitioners implementing market development programs recommend using both up-front market assessment and action research tools⁵⁴ and emphasize the importance of supplementing up-front market knowledge with learning by doing. They also stress that flexibility and the ability to change strategies that are not working in the implementation stage is critical to program success.

6.5 How can market assessment help programs reach poor entrepreneurs?

The market development approach to BDS treats underserved groups as market segments with potential rather than beneficiaries in need of charity or subsidies.⁵⁵ Underserved groups, such as women entrepreneurs in many markets, often have different demands for services and service features than other SEs because they face different constraints to business survival and growth. Market assessment can help identify the service benefits and features that poor or underserved entrepreneurs want. It can also provide evidence to suppliers that these groups are a viable and growing market. Poor entrepreneurs are often unwilling or unable to pay for services up-front and a market assessment can help identify financially sustainable strategies for delivering services to poor SEs by exploring existing and desired payment options and mechanisms with both consumers and suppliers. When programs and suppliers understand the particular needs of underserved groups, they can develop service products that appeal to them. For example, the business tours developed by ILO/FIT in East Africa were popular with women entrepreneurs because they viewed the security of traveling in groups as an important service feature.⁵⁶

⁵⁴ For example, practitioners in ILO (FIT), GTZ and Swisscontact have all made this recommendation

⁵⁵ Gminder, 2001; Gibson, Hitchins, Bear, 2001

⁵⁶ unpublished correspondence with Jim Tanburn, 2001

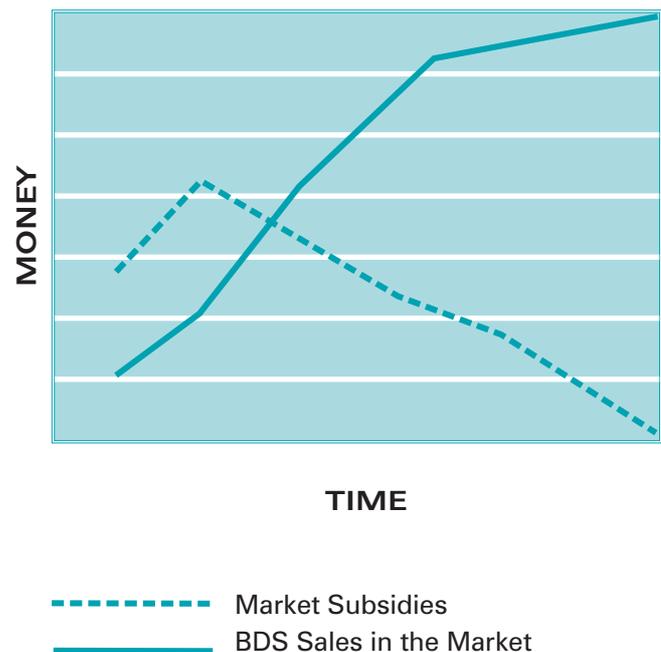
7. How Can Services Be Affordable and Sustainable?

The concept of sustainability in business development has expanded from a traditional focus on the SEs to now include the service markets for those enterprises.⁵⁷ The financial viability of specific services, BDS providers, and facilitation activities are now all part of this sustainability concept. The market development approach defines sustainability as the long-term availability of a category of services in a particular business service market through unsubsidized, commercial channels. Providers may come and go, training courses can also come and go, but the sustainability and development of increasing numbers of SEs can be enhanced by continued access to commercial services long after a program ends. Figure 7 illustrates the vision for sustainability of a market development program:⁵⁸

Over time, as market facilitation funds and subsidies decline, more SEs will continue to purchase an increasing number of services, resulting in sustainable impact on the businesses and the local economy. In the case of embedded services, one might compare program expenses to outreach to SEs or to the sales level of either inputs or SE products.

There are two key questions surrounding the achievement of BDS sustainability, as defined above. Who can deliver BDS sustainably and how can the services be paid for — which kinds of institutions make highly sustainable providers and how can services be paid for through commercial channels over the long run and still reach the poor? Experts in the BDS field have developed a

Figure 7: BDS Sustainability



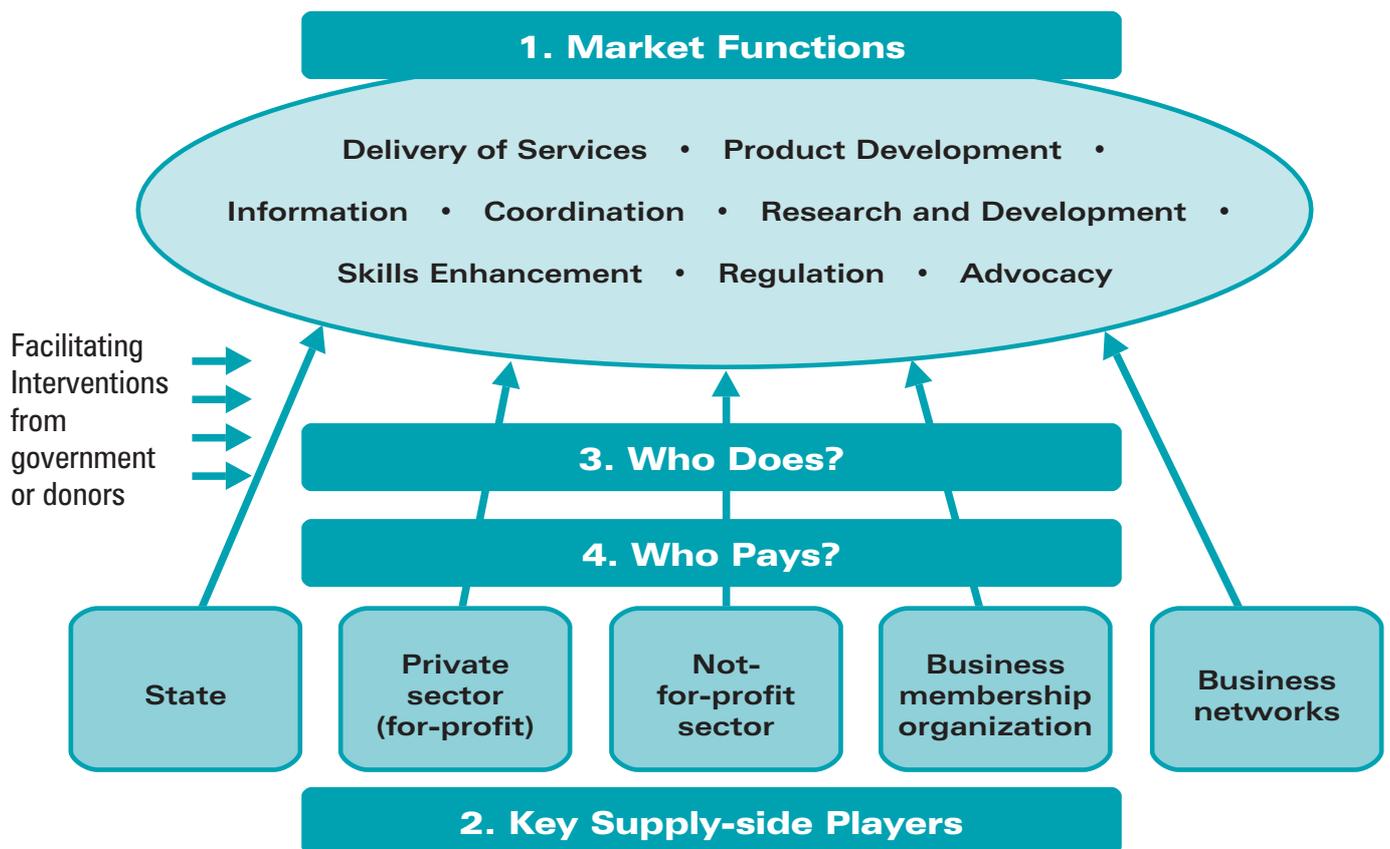
framework for thinking about BDS market sustainability that focuses on determining who can sustainably perform each of the key functions required for a healthy BDS market (Figure 8).⁵⁹ The framework emphasizes not only who will perform each function, but also who will pay for it. This chapter addresses these key questions. An essential element in achieving BDS market sustainability is to develop, at program inception, a future vision for a sustainable BDS market. The program can then be structured around achieving that vision.

⁵⁷ Committee of Donor Agencies on Small Enterprise Development Conferences, 1999-2000

⁵⁸ McVay, et al, PMF 2001

⁵⁹ Gibson, Hitchens, Bear, 2001

Figure 8: Framework for BDS Market Sustainability



7.1 Who does? Institutional sustainability strategies

7.1.1 Who can provide sustainable services?

The BDS market development approach defines two key roles in delivering services to SEs — facilitator and provider/supplier.

- **Provider/Supplier:** Delivers services directly to SEs.
- **Facilitator:** Supports service delivery to SEs by developing a vibrant, competitive market for them.

At the heart of these definitions is an attempt to separate the functions of on-going service delivery — the costs of which should be covered by the markets — from the temporary function of developing markets — which are considered appropriate to subsidize. Activities such as assessing demand, developing new services, training suppliers, and measuring program impact

are all seen as facilitation activities. It is thought that markets serving disadvantaged businesses are usually unable to pay all costs for these functions. However, in BDS market development programs, the costs of delivering on-going services are borne by the market. The vision is that functions performed by facilitators will either not be needed in sustainably growing markets, or they will be commercialized — new product development taken over by private providers and consumer information provided by private providers, associations, and business networks.

The BDS market development approach suggests that private sector businesses are the most appropriate suppliers of sustainable business services to SEs. However, in many situations, these suppliers may not be readily apparent, may not be engaged in commercial transactions, or do not yet exist. In some situations, new businesses will have to be established to serve SEs. Still, the vision remains to develop a vibrant, competitive BDS market of private sector suppliers. Why?

BDS experts considered the strengths and weaknesses of existing BDS providers; took lessons from successful programs; and examined functioning BDS markets. In the process, researchers identified many “hidden” service providers existing even in very informal markets. This expanded the range of potential BDS providers from the typical, publicly funded institutions – NGOs, technical schools, and government agencies – to include a whole range of private sector businesses, both formal and informal. Table 4 lists traditional BDS providers and private sector providers that are often “hidden” from BDS program designers.

Table 4: Existing and Potential BDS Providers

Traditional Publicly Funded Providers	“Hidden” Private Sector Providers
<ul style="list-style-type: none"> ■ National government programs ■ Local government programs ■ Parastatal business development programs ■ Technical training institutes & universities ■ NGOs (international, national and community-based) ■ Business associations & cooperatives ■ Consulting firms serving SEs on contract from donors, government, and NGOs (international, national and community-based) ■ Microfinance institutions 	<ul style="list-style-type: none"> ■ Large firms supplying inputs to SEs ■ Large firms buying SE products ■ SEs supplying inputs or buying SE products ■ Advanced SEs in the same industry as target SEs ■ Large service suppliers like telecommunications firms for whom SEs make up a substantial part of their market ■ Informal full-time or part-time BDS providers ■ SE service suppliers

From this analysis, a set of criteria has emerged for appropriate BDS providers:

- **Capacity to deliver services**
- **Close to SEs in culture, operating environment, geography**
- **Low cost structure**
- **Commercial focus, business culture, and accounting and management systems**
- **Organizational independence, especially from donor funds**
- **Organizational stability**
- **Focus on services, SEs, or BDS**

Using this set of criteria, program designers can assess the capacity of both existing suppliers to expand and/or improve service delivery and potential providers to transform into viable private sector providers. The trick is to identify providers with sufficient expertise, but low enough costs, to service the target population. If the target population is highly sophisticated and lucrative exporting firms, then consulting firms, parastatals, and high capacity NGOs may have the potential to transform into effective and sustainable providers. If the target population is isolated, low-income microenterprises, informal sector business may be more appropriate options. In some situations, the dearth of suppliers may require facilitators to work with community-based entrepreneurs and groups to launch new supplier businesses.

Example 24: SE Service Suppliers

Small Enterprises in the Indian Software Industry

The Indian software industry – worth approximately US \$3.9 million in 1998/99 – is increasingly global, affluent, and concentrated in large enterprises. Recent research shows, however, that there is a hidden industry of SEs underlying the sector that provides ICT services to other businesses. These “hidden” software companies fall mainly into three categories: internet/email bureaus, data entry and processing services, and software customization services. Start-up costs for these businesses are relatively low and they can offer significant price-competitiveness and personalized, flexible services.

Duncome, Richard and Richard Heeks “Enterprise Development and Information and Communications Technologies in Developing Countries: ICT – Flyers” IDPM University of Manchester for DFID. Website: <http://www.man.ac.uk/idpm>

For institutions that have historically been funded by donors, there are significant barriers to serving low-income entrepreneurs sustainably:

- Overhead costs, including salaries, are too high to be covered by fees low-income SEs can afford;
- The internal image of many organizations is one in which staff want to help the poor rather than operate a business; and
- The external image that many organizations have generated emphasizes donor funding which decreases SE willingness to pay for their services.⁶⁰

The market development approach does not require a program to work exclusively with existing private sector businesses, but it does recommend that:

- The program identify and assess the potential for existing providers and suppliers to serve SE clients sustainably;
- Not-for-profit providers transform into businesses if they are to continue providing services over the long run; and
- Program strategies strengthen existing private suppliers and invite additional such activity, rather than crowding out existing and potential private businesses.

The exception to these guidelines is services that are clearly public goods, such as large infrastructure project (roads, ports, etc.), which the market development approach regards as appropriate for governments to provide.

7.1.2 *What institutions are appropriate facilitators?*

Of all the types of BDS organizations – private sector providers, local/international NGOs, consulting firms, governments and funders – which are best placed to facilitate BDS markets? This is an outstanding question. Each organizational type has the potential to play a role in BDS market facilitation, especially since the activity itself is still being defined.

- Donors are generally not direct providers though many see challenges in becoming engaged in facilitation activities. However, these activities require more flexibility, market responsiveness, and proximity to the private sector than most donors possess and many are now contracting this role out to the consulting firms and NGOs that have traditionally acted as providers.
- Generally, sophisticated NGOs with high overheads and levels of expertise in attracting donor funds, and the ability to provide technical assistance are taking on facilitation roles.⁶¹

⁶⁰ Unpublished correspondence with Jim Tanburn, ILO, 2002

⁶¹ USAID/Kenya and DFID/Kenya, 2002

- More community-based NGOs, or those with lower overheads and an extensive SE client base, are transforming into providers.⁶² However, many are also looking to generate revenue from facilitation activities, where appropriate. For example, many business associations are organizing trade fairs and selling market information to members while also developing competitive markets for fee-based services such as consulting.⁶³
- There are even examples of private sector firms facilitating markets. For example, Africa On-Line

Example 25: Large Firm BDS Provider and Facilitator

MTN and Telecommunications in Uganda

MTN, a South African telecommunications firm, markets cell phone services in urban and rural Uganda. 45% of MTN customers are SE owners or employees and 55% of these are in businesses with fewer than 4 employees. In addition to selling services to individual firms, they have an explicit marketing strategy of selling cell phone services to help individuals in rural areas establish telecommunications services that they sell to area individuals and businesses.

Van Veen, Eric, "MTN Uganda Case Study: Telecommunications for the Small Business Market in Uganda," Presentation at the ILO SEED Seminar "Developing Commercial Markets for BDS," 2000

Website: <http://training.itcilo.it/bdsseminar>

provides internet services to internet cafes and helps them develop and deliver packages for their SE clients.⁶⁴ This is part of their profit-seeking business strategy.

The role and appropriate institutions to engage in facilitation is in flux, but it is beginning to take shape.

7.1.3 What is the role of Government in BDS Market Development?

Historically, governments have played a number of different roles in BDS programs — from policy maker to infrastructure developer, from facilitator to direct provider. In many developed countries, governments provide free or highly subsidized services to SEs, a fact that generates controversy when Western donors suggest an opposite approach in developing countries. In a recent study of SE initiatives in developing and more developed economies, Shorebank Advisory Services confirmed the relevance of the BDS market development approach in the U.S. environment, raising significant challenges to the traditional role of the U.S. government in providing free, generic services to SEs.⁶⁵ There is an emerging consensus that governments are not appropriate providers of business services though the Donor Guidelines do not speak to the role of developing country governments in BDS market development. This issue, a significant and emerging topic in the field, is explored more fully in the BDS Update.

7.2 Who Pays? Financial sustainability strategies

The second component of developing sustainable markets is finding ways to pay for business services. Chapter 2 on BDS impact described the importance of demand-driven services having a fee component and putting financial pressure on suppliers to respond to SE wants and needs for services. Services delivered through business transactions are more responsive to SE wants and needs and are likely to have a high impact. The Donor Committee Guiding Principles emphasize that continuing provision of services is sustainable only if is paid for by commercially motivated revenues, not donor or government subsidies.⁶⁶ The discovery of demand-driven services suggests an opportunity for

⁶² Experience for facilitating "State of the Art in BDS," SEEP Training, 2001, 2002

⁶³ Aid to Artisans, 2002

⁶⁴ Njoroge, 2000

⁶⁵ Carpenter et al, 2002

⁶⁶ Committee of Donor Agencies, 2001

services to become sustainable, but it is also a challenge — how can the poor be reached with more commercially delivered services. This section elaborates on a range of financing strategies demonstrating sustainability and discusses ways they are being applied to reach the poor.

There are specific challenges to financial viability in BDS that are fundamental to the nature of BDS for SEs. First, in contrast to a loan paid back with interest, entrepreneurs often have to pay up-front for BDS, with the financial return realized later.

This characteristic points to key program issues, particularly how:

- SEs, especially low-income SEs, can finance BDS investments
- Payment mechanisms can be designed to fit SE capacity
- To design services with a very clear and fast payoff

Second, effective BDS are tailor-made to meet the specific demands of target markets.⁶⁷ As a result, up-front research and development costs are higher than those of microfinance programs, whose methodologies at this point are fairly standard around the globe. In addition, the scale of services is usually smaller because the markets for certain services are smaller.⁶⁸ Some programs may work their way around this by developing mass services that nevertheless have a significant impact on many SEs, but most BDS programs face this issue.

One effect of long-term subsidies of BDS is that in some markets entrepreneurs are unwilling to pay even for very useful services because they feel they have a right to subsidies

Third, many BDS services have developed in the context of donor-funded institutions. One effect of long-term subsidies of BDS is that in some markets, entrepreneurs are unwilling to pay even for very useful services because they feel they have a right to subsidies. Despite these challenges, both traditional and market development programs are pushing to develop sustainable services and some are achieving this goal. There are several emerging strategies for achieving sustainability:

- **Fee-for Services:** Delivering financially viable services from the outset, particularly through private sector suppliers
- **Facilitating embedded services**
- **Cross-subsidizing** from one set of customers to another, or across different services
- **Third Party Payment** in which large firms pay for services for SEs in exchange for advertising or other value-added services
- **Piggy-backing** on microfinance institutions

Each of these strategies is illustrated by an example and described in more detail below.

7.2.1 Fee for services

The first strategy is the most direct route to sustainability: delivering financially viable services from the outset. This strategy is the one most in line with the market development approach. Commercial or non-profit suppliers sell services at full-cost or profitable prices. Without subsidizing the delivery of services, donors or facilitators build on existing markets by promoting innovation, providing market information, or helping with other product development costs.

How do suppliers overcome the significant constraints to sustainability listed above?

- **Suppliers offer services** that are low-cost and often have a short-term payback period of a few months or less.
- **Costs are reduced** by dividing activities — facilitators perform much of the BDS service development and testing, and suppliers provide standard services on a regular basis.

⁶⁷ Committee of Donor Agencies, 1998

⁶⁸ Goldmark, 1999a

Example 26: Sustainable, Fee-based BDS Suppliers

Swisscontact in Ecuador

Swisscontact established and developed 18 Business Development Centers (BDCs) in 12 cities in Ecuador. 15 are operational with a self-financing ratio of more than 100%. These BDCs generate annual sales of more than US\$1 million from small enterprises; employ 70 staff and a pool of 500 consultants; and have an average annual outreach of 5,000 enterprises.

Swisscontact, Prospects No 1, 2002

- **Costs are further reduced** by the facilitator playing a liaison role between suppliers and donors — suppliers become expert at serving SEs and facilitators specialize in negotiating and managing donor funds and developing supplier capacity.
- **Market research costs may be subsidized** by facilitators who help with technical assistance or conduct research for many suppliers.
- **BDS marketing costs may be subsidized** by BDS facilitators who promote awareness of services.
- **Suppliers are primarily private sector businesses** — donor funding is not used to subsidize direct transactions and the presence of donor funding is not publicized, thus minimizing SE expectations of subsidies. Full prices are charged as soon as service design is complete.⁶⁹

Not all examples of sustainable BDS services follow all of these principles, but the principles are increasingly in use with a wide variety of financially viable BDS. Programs are finding that delivering financially viable services from the outset is easiest when working with suppliers who have never received subsidies for transactions. These suppliers, particularly if they are SEs themselves, tend to have structures and overhead costs that allow them to keep costs low enough to profitably serve SEs.

How can fee-based services reach the poor?

Many suppliers use one or more of the following promotional, packaging, and payment mechanisms to reach low-income markets.⁷⁰

- Lower costs by delivering services through other SEs.
- Package services in small pieces or “sachets” — instead of a two-week workshop, offer several shorter seminars.

Example 27: Sustainable Veterinary Services

CECI/MARD in Nepal

CECI/MARD, a program funded by CIDA, trains entrepreneurs to supply veterinary services to farmers in remote villages accessible only on foot. The veterinarians were selected from experienced cattle farmers with some education. They sell veterinarian services including advice and hard services such as vaccines and medicine to farmers who pay a fee for the service. When the three-year program ended, there were 40 village veterinarians earning profits of 40–50% despite low fees. This is due to:

- Low cost of vaccines and medicine,
- Low cost of transportation — they live in the area,
- As self-employed rural people, they have low overheads and expect a modest return, and
- Non-financial benefits such as influence in the community, payment in kind, and information gathering and sharing due to exposure to numerous farmers and other veterinarians.

McVay et al, PMF 2001 Website: www.seepnetwork.org

⁶⁹ Hileman and Tanburn, 2000; Goldmark 1999

⁷⁰ SEEP, 2002

- Offer introductory services with immediate value-added for a small fee. Once SEs benefit from these services, they may have improved cash-flow to purchase more services.
- Offer gradual payment mechanisms such as installment payments.
- Offer financing to allow the poor to pay for services.
- Collect payments “on commission” if services help the business make a profit.
- Group purchase — help SEs purchase as a group and receive a discount.

7.2.2 Embedded Services

Many low-income SEs are reluctant or unable to pay up-front for valuable services. However, they can manufacture products if a buyer supplies raw

Example 28: Embedded Services through Input Suppliers

SDC and Tree Nurseries in Bangladesh

SDC in Bangladesh helped farmers access the asset development and income generating opportunity to invest in trees. SDC assisted tree nursery owners in improving their businesses and “making a business out of poverty reduction.” SDC, working through 114 NGO facilitators, assisted 2,500 nurseries in Bangladesh to produce 100 million saplings per year, all of which were purchased by 650,000 farmers. Sales totaled \$5 million per year (NPV \$90 million). The trees offer farmers an affordable long-term investment – an insurance safety net – and they are environmentally sound and don’t consume extra resources. Amina Begum, a tree nursery owner, was once poor, but now earns \$14,000 on one acre growing 120,000 saplings. She embeds advice about growing and maintaining the trees to her farmer customers so they will be successful tree growers and return to purchase more.

Urs Heierli, “Activities of SDC in Private Sector Promotion,” Presentation at the SEED ILO Conference “Building Commercial Markets for BDS,” Turin, Italy, 2000

material, market information, product specifications, or other services. In the private sector, many large, wholesale businesses purchase from SEs and sell to distant urban or export markets. Sometimes they supply services – quality control, packaging, promotion – and costs are paid by through product mark-ups. Similarly, companies that supply inputs or technology to SEs sometimes provide training or advice as part of the sale. These are called “embedded” services.

How can embedded services reach the poor?

Embedded services have excellent potential to reach the poor because they are not fee-based. Services provided by buyers of SE products are more likely to reach the poor as are services embedded in essential inputs that the poor already purchase. To reach the poor, the services have to be delivered through markets they can access.

7.2.3 Cross-subsidies

In some cases, cost structures are too high and the service pay-off time too long for full cost-recovery of a particular BDS, but providers and donors believe the service is valuable for entrepreneurs who pay some kind of fee and continue to use it. In cases where services are demand-driven and valuable, but not financially viable, some non-profit BDS providers choose to cross-subsidize them with other revenue generating activities. There are several kinds of these sustainability strategies:

- **Supplying** BDS to larger businesses that can pay profitable rates and then using profits to supply smaller businesses with services;
- **Operating** a completely unrelated business and using those profits to subsidize BDS activities; and
- **Using** income from a viable BDS to cover the cost of a non-viable BDS.

This last option has parallels in the private sector, where companies continue providing an unprofitable service in order to build or keep a client base for more profitable services.

Example 29: Cross Subsidies

Grameen Village Phone: Bangladesh

The Grameen Bank, one of the leading microfinance institutions in the world, is also taking a lead in pioneering a key BDS: telecommunications. The strategy uses income from the provision of telecommunications services to wealthy urban areas to finance the provision of cell phone services to rural, low-income clients. Here's how:

- Grameen Bank formed a non-profit telecommunications organization, Grameen Telecom (GT), which in turn formed a for-profit company, Grameen Phone (GP), in partnership with international private and public investors. GP won the rights to provide cellular phone services in Bangladesh.
- GP provides cell phone services to upper income individuals in urban areas and channels profits to GT and the Village Phone Project.
- The Village Phone Project selects, from a pool of interested borrowers, individuals to start village-level telecommunication businesses, often run out of homes or existing businesses. They receive financing, training, hardware, and cellular services. Loans carry an interest rate of 22%.
- Individually-owned telecommunications businesses in turn sell telephone services, by the phone call, to community members, many of whom are self-employed and use the phone for business purposes.

There are currently around 1,000 cell phones in use with some 60,000 users.

Burr, Chandler. "Grameen Village Phone: Its Current Status and Future Prospects," Prepared for the Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance; Hanoi, Vietnam, April 2000 Website: www.sedonors.org (BDS materials)

The advantage of this strategy is that an entire BDS institution can be sustainable, whether or not particular services are, and subsidies can be provided without a long-term commitment by governments and donors. A disadvantage is the very real possibility of crowding out other private sector suppliers who enter the market to supply the same, *subsidized* BDS and find they are unable to compete because of the subsidy. Another disadvantage is that market signals may be distorted by subsidized fees for services.

Although this strategy is much discussed among practitioners and experts, there are few examples of its success. It is more common to find non-profit organizations with donor contracts to build the capacity of BDS suppliers subsidizing services to SEs.⁷¹

7.2.4 Third Party Payment

Another financial sustainability strategy is to identify and deliver business services that are mutually beneficial to both small and large firms, and charge only the large firms. The best examples of this are the FIT-supported small enterprise radio programs in Africa. Corporate sponsors pay for the programs, which are targeted to SEs. The sponsors benefit from marketing to SEs, and the SEs benefit from a radio program that provides a voice for their concerns as well as vital business information. The radio stations have an incentive to respond to SE demand because the larger the listener base, the happier the sponsors. Thus, the service is mutually beneficial, but the large firms pay. Although there are few examples of such services, FIT has also supported business-to-business advertising publications that have some large-scale advertisers. One could also imagine how other mutually beneficial services might be financed in this way — sub-contracting services or programs that help large craft purchasers, like Pier One, access products.

⁷¹ 4 Bissegger, 2000

Example 30: Third Party Payment Services

FIT Supported Nekolera Gyange Radio Program, Uganda

The Nekolera Gyange (I Run My Own Business) radio program has broadcast twice weekly since October 1999 to SEs in and around Kampala. An estimated 40% of SE owners in the area, some 90,000 business people, listen to the program regularly. Nekolera Gyange is giving small enterprises a public voice for the first time, and helping them link to modern markets and to Uganda's increasingly democratic political system. The program is financed by a bank that serves small businesses and a telecommunications firm. The telecommunications firm markets cell phones to SEs and the bank uses the program as a platform for educating consumers about banking practices and receiving valued customer feedback. The program has been profitable for the radio station since the initial broadcast.

McVay, Mary "An Information Revolution for Small Enterprise in Africa: Experience in Interactive Radio Formats in Africa" ILO SEED, 2002. Website: www.ilo.org/seed

How does third part payment reach the poor?

Third party payment can reach poor people who are potential customers of profitable businesses that are trying to sell to the poor. In this manner, the provider and funders are financially motivated to service the poor.

7.2.5 Piggy-Backing on Microfinance

One strategy receiving increasing attention is known as "piggy-backing" — disseminating a BDS through a microfinance institution. Despite the poor performance of previous integrated service programs and the taboo that has emerged around

linking BDS to microfinance, many NGOs continue to deliver BDS through microfinance institutions. Some of these programs offer financially viable BDS and the activity is sustainable for the institution. Successful programs use credit meetings to disseminate information about a BDS, but offer it as a separate, non-required, fee-based activity. Usually, loan officers and BDS staff are separate as well.

The advantages of this approach are numerous:

- Promotional costs are minimal because there is a captive audience in credit meetings who can hear and spread the word about available services.
- Clients have access to finance to pay the fee for a BDS.
- In some cases, training costs for both supplier and entrepreneur can be kept to a minimum because it is delivered during a loan committee meeting or the MFI facilities are used during off-hours.
- Overhead is minimized because costs are shared and generally cross-subsidized by the microfinance program.

There are also potential disadvantages of this approach:

- Clients may feel compelled to purchase the service, thinking loan applications will be considered more favorably if they do so.
- There is some evidence that the primary clients for training are not the same as microfinance clients.⁷²
- Staff may become distracted with too many activities and skills could be diluted if the same staff members are required to be both loan officers and trainers.
- There is a danger of cross-subsidizing low-demand services with lucrative microfinance services, thus compromising institutional profitability.
- The business services, if delivered by the financial institution, are often focused on loan recovery, rather than on business development and may not be relevant.

⁷² Goldmark, 1999b

Example 31: BDS & Microfinance

SEEDS in Sri Lanka

Sarvodaya Economic Enterprise Development Services (Gte) Ltd. in Sri Lanka is an NGO with a dual goal of small enterprise development and financial viability. SEEDS is associated with the Sarvodaya movement in Sri Lanka and aims to develop and empower the poor with funds and technical assistance from DFID and ITDG, among others. As of March 2002, the program covered over 2,779 Societies with a largely rural membership of over 495,000 persons. They operate three key programs:

- As of 2002, the banking division had mobilized a savings deposit base of Rs. 907 million and initiated loans worth Rs. 4.5 billion. Its loan clientele comprises 43% women and its recovery rate is 96%.
- The training division serves its village-level banks and is paid for through interest rates on loans.
- SEEDS Enterprise Development Services (EDS) provides technology access and technical training on a sectoral basis and individual business counseling services, for a fee.
- SEEDS Enterprise Development Services (EDS) is also conducting action research to open “BDS Marketing Centers” to facilitate linkages between SEs and private sector BDS providers.

The SEEDS BDS program has evolved from one of direct, individual, free services to a more demand-driven and cost-effective model where services are provided for a fee, often in groups and in partnership with other providers to reduce costs. These changes have resulted in more relevant services that are helping businesses grow. SEEDS donor dependency was reduced from 83% in 1996 to 53% in 2001 and its business plan calls for only 25% of funds to be sourced from donors by 2005.

“SEEDS BDS and Microfinance Services,” Presentation at State of the Art in BDS, SEEP Network, 2002. E-mail correspondence, 2003

There may be significant lessons to be learned from additional research into this practice. Enhancing this concept with a market development perspective, a BDS facilitator could facilitate commercial, mutually beneficial partnerships between BDS suppliers and microfinance institutions.⁷³

⁷³ www.seepnetwork.org/bdsguide.html, “Finance”

8 What Strategies Can Be Used To Develop BDS Markets?

The vision of the BDS market development approach is to develop a vibrant, competitive BDS market in which large numbers of SEs use a wide range of business services to improve and grow their businesses. They obtain these services through business-to-business relationships with competing, private sector suppliers. The BDS market development approach as an explicit development strategy is still young and organizations are experimenting with a number of interventions to develop BDS markets. There is agreement that the intervention should “fit” the market — that it should be designed to improve a particular market problem or take advantage of a market opportunity. Practitioners are finding that there is often more than one way to address a market issue and more experience and experimentation are needed before the field can clearly outline which interventions address which market failures. Nevertheless, preliminary lessons are emerging.

A key principle for choosing and designing interventions is that the intervention should not be any more intensive than required to address the market issue. Interventions have the capacity to both distort and develop the market. The aim of the market development approach is to develop the market as much as possible while keeping distortion to a minimum. By targeting a specific problem and intervening only to address that problem, programs run the least risk of distorting the market.

The Difference Between A Service and An Intervention
*Entrepreneurs purchase a **business development service** – training, TA, technology, market access, policy advocacy, infrastructure, etc. – to develop their business. These services exist in a market of businesses and organizations that provide the services, and the SEs that demand them.*
Interventions are development program activities – information, TA to BDS providers, etc. – that strengthen the supply and demand for specific services.

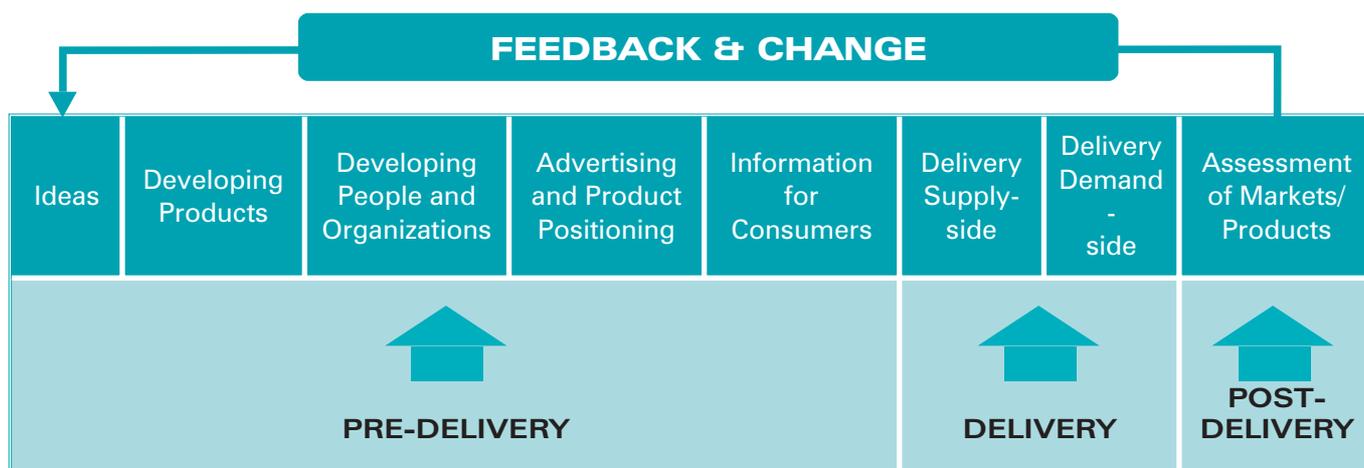
8.1 Where do interventions focus?

Figure 9, shows the functions in a BDS market.⁷⁴ Traditionally, donors have supported programs that intervened at the delivery stage, most often by directly supplying services. However, it is usually less distorting to intervene at the pre- and post-delivery stages. Intervening at the delivery stage usually causes considerable distortion⁷⁵ and it becomes even greater if donor or government-supported services replace the private sector or intervene between private sector suppliers and their SE customers, because it interferes with demand signals that SEs may send to suppliers.

⁷⁴ Springfield Center BDS 2000 Training Course

⁷⁵ Springfield Center BDS 2000 Training Course

Figure 9: Functions in a BDS Market



Markets are less distorted when practitioners support the relationship between suppliers and SE buyers, such as when they provide SEs with vouchers to buy services from private sector suppliers. Intervening at the pre- and post-delivery stages tends to be less distorting while still offering the potential for developing the market. Regardless of the intervention point, the least distorting interventions maintain or promote competition in the market, are limited in time, and do not damage the relationship between commercial suppliers and SE buyers.

8.2 How do programs work with suppliers?

Many interventions involve partnerships between a facilitator or donor and BDS suppliers. Traditionally, donors have tended to work with a few chosen providers. Now leaders in the field agree that interventions are most effective when donors promote competition among suppliers in the market. This often means working with many suppliers during the life of a program and opening access to the opportunities donors offer to a range of suppliers. It does not, however, exclude working

with one supplier at some point, for example to test a new product. Table 5 compares the two approaches — working with one supplier vs. promoting competition among suppliers.

Recent thinking also concludes that business-like relationships between facilitators and suppliers are more effective in developing markets than are grantor-grantee relationships. For example:⁷⁶

- The relationships between donors or facilitators and suppliers are transactional and based on mutual benefit. The donor/facilitator benefit is greater outreach and the supplier benefit is higher sales, new markets, and a larger customer base.
- Amounts to be invested and the roles of both parties are clear, and sanctions are applied for non-performance. Roles and sanctions are clearly written in a contract.
- Donors and facilitators terminate relationships with suppliers if the relationship is no longer beneficial for both parties. Suppliers are free to terminate relationships with donors if they find the partnership is no longer in their interest.

⁷⁶ Unpublished correspondence on the Swisscontact Indonesia Business Centres; Springfield Centre BDS 2000 Training Course

Table 5: Support to One Supplier vs. Promoting Competition Among Suppliers⁷⁷

Issue	One Supplier	Promote Competition
Competition in the Market	The supplier gets an unfair competitive advantage, distorting the market and suppressing competition	Competition in the market is strengthened, or at least less distorted
Administration	Administratively simple	Administratively complex: a donor/facilitator has to provide equal access to its offer; select partners using transparent, market-based criteria; and develop and monitor relationships with multiple suppliers
Strategies for achieving program targets	Targets for outreach – total number, percent women, etc. – are all placed on one supplier, effectively dictating the supplier’s client focus	Targets for outreach can be spread over many suppliers, allowing each one more leeway in choice of clients
Intervention intensity per supplier	Interventions with the supplier tend to be very intense, turning the supplier’s attention away from consumers and toward the donor. This also allows donors to dictate services and approaches.	Intervention with each supplier is less intense, which makes it easier to keep the focus on consumers. Suppliers have more leeway to follow customer demand and ignore donor suggestions that are not relevant to the market.
Donor relationship with suppliers	The program succeeds or fails when the supplier succeeds or fails. This may keep donors in relationships and providing subsidies even when programs are ineffective.	Suppliers can be added or dropped from the program, which enables the donor/facilitator to have a more business-like relationship with suppliers.

This business-like approach has a number of advantages:⁷⁸

- Requiring that most of an investment for an initiative come from private sector suppliers means that the financial scale of the initiative will generally fit the capacity of the market. Experience show that this is likely to be more sustainable than initiatives with heavy donor support that tend to be out of proportion with supplier costs and SE capacity to pay.
- Business-like relationships foster business-like incentives, behavior, and attitudes among both suppliers and facilitators.
- It is possible to link support to suppliers’ achievement of agreed upon objectives.
- The approach attaches a value to support, which encourages prudent and effective use of program funds and technical assistance.
- Supporting suppliers’ initiatives builds their ownership of the changes in their businesses. Technical assistance with or without modest financial support enables suppliers to build their own businesses rather than being overwhelmed by external funds and advice.

⁷⁷ Adapted from Springfield Centre, BDS 2000 Training Course

⁷⁸ Tanburn unpublished, 2000; Springfield Centre, BDS 2000 Training Course

8.3 How do programs promote demand?

Because of the history of development programs telling SEs what services they need, there has been some reluctance to aggressively pursue demand promotion strategies. However, programs pursuing market development often find that demand creation is an important part of market development. In fact, demand promotion is often a key part of private sector marketing strategies as well.

However, there are different strategies for promoting demand. Some traditional BDS programs provided SEs with services experts thought they needed, regardless of what the SEs wanted. Market development programs try to address specific demand side problems in such a way that SEs will want to purchase a service. For example, if SEs are unaware of the benefits of a service, a program may develop an awareness creation strategy aimed at increasing SE understanding of what the service can offer them. Then, SEs can make a better-informed decision about whether they want the service or not.

Example 32: Building the Capacity of Suppliers

Swisscontact and Business Centers

Swisscontact, a Swiss NGO with major funding from SDC, is helping to create business centers in several countries including Indonesia, Philippines, Bangladesh, Colombia, Ecuador, and Peru. Some of these centers cater to a specific sub-sector and provide services – a retail outlet, bulk buying of inputs, common service facilities, and marketing assistance – primarily to SEs. Others offer a range of services – training, consulting, and administrative services – to SEs as well as larger enterprises.

Swisscontact provides the centers with a package of start-up services including financial and technical assistance. The philosophy of Swisscontact is that the development of commercially sustainable centers takes place only if business practices are used from the beginning. The business centers are selected through a bidding process that includes detailed business plans and a financial commitment from bidders. The bidding is open to any kind of organization, including business associations, private firms, and NGOs and aims to build on existing business support institutions rather than creating new ones.

Swisscontact signs a contract with successful bidders that stipulates that financial assistance is dependent on the achievement of agreed financial targets. Financial assistance typically includes some start-up costs and covers up to 50% of operating costs in the first six to twelve months. Financial assistance continues (if the center is meeting its targets) on a declining basis for one to five years. Financial indicators include financial sustainability, cost effectiveness, and gross margins for various services. Technical assistance may include advice, market surveys, new product ideas, networking with other business centers, auditing services, and training.

Swisscontact's experience has shown them the importance of business-like relationships with suppliers. Indeed, Swisscontact is now more closely examining private sector models of business investment such as venture capital companies.

Gibson, Alan and Robert Hitchins, "Swisscontact: Business Centre Approach in Indonesia and the Philippines" Springfield Centre. Prepared for the Donor Committee Conference on Business Development Services: Building a Modern and Effective Business Service Sector for Small Enterprises. Rio de Janeiro, Brazil, April 1999. Website: www.sedonors.org (BDS materials)

Hallberg, Kristen, "A Market Oriented Strategy for Small Medium Scale Enterprises," IFC Discussion Paper, February 2000

If SEs generally produce a service in-house, a program may subsidize supplier-marketing efforts that show why outsourcing a service can be a less expensive alternative. Again, this strategy helps SEs make informed choices about purchasing services.

8.4 What interventions develop markets?

A variety of market development interventions are used and each aims to address one or several weaknesses in a BDS market. Some work with primarily demand-side weaknesses and others the supply-side, but most affect both sides of the market. Usually the interventions are combined into an overall strategy and those used most commonly to date are described below, with examples.

- **Voucher Programs** address SE lack of information about services and reluctance to try a service. The aim is to expand demand for BDS by providing information and encouraging SEs to try services by subsidizing their initial purchase.
- **Information to Consumers** addresses SE lack of information about services and suppliers. The aim is to expand demand for BDS by making SEs aware of available services and their potential benefits.
- **Collective Action: Clusters, Networks and Associations** address SE inability to pay for services and supplier unwillingness (or inability) to sell services in small enough quantities for individual SEs. The aim is to help SEs overcome dis-economies of scale in purchasing BDS by enabling them to purchase services in groups.
- **Business Linkages and Promoting Embedded Services** address SE isolation and inability to pay for services up front. Business linkages also address suppliers' lack of knowledge about SEs. The aim is to create or expand BDS embedded within business relationships between SEs and other firms.

- **Technical Assistance to Suppliers** addresses suppliers' lack of technical or managerial skills. The aim is to build the capacity of new or existing BDS suppliers to profitably serve SEs.
- **Product Development and Commercialization** addresses a lack of appropriate service products for SEs in the market and supplier reluctance to target new consumer segments. The aim is to commercialize new products through existing suppliers by assisting with product development, market testing, and initial marketing of new products. New product commercialization can also be undertaken by promoting franchising of appropriate service products for service businesses.
- **Social Enterprise** addresses a lack of supply in the market. The aim is to increase the supply of services by assisting suppliers in expanding or helping new suppliers to enter the market.

8.4.1 Voucher programs

These programs are designed to increase demand for BDS by offering vouchers to qualified SEs who then procure discounted BDS from private sector suppliers. On the surface, these strategies resemble traditional BDS programs because they subsidize the procurement of services, but they are different in key ways that support BDS market development. In voucher programs, the strategy is to provide information and temporary subsidies to firms that do not commonly use BDS, and link them with BDS suppliers who do not normally serve SEs. The information is designed to increase SE awareness and understanding of available services. The subsidy is meant to encourage SEs to try a service that they might be too risk-averse to try at full price. Increased demand from SEs is meant to stimulate suppliers to develop and improve service products for the SE market. The vision is that once both parties experience positive business transactions, they will continue to exchange BDS without further subsidy.

Example 33: Matching Grants

The World Bank in Mauritius

From 1994-1998, the Government of Mauritius implemented a matching grant scheme focused on technology diffusion with funding from the World Bank. The program promoted consulting services to help private firms improve quality, design, technology or productivity. Any firm with majority private sector ownership was eligible to participate, regardless of size. The government contracted a private agent to run the program. The agent promoted the program to potential clients; assisted them with planning; facilitated contact between firms and suitable private consultants; helped clients complete grant applications, advised them on maximizing benefits from consulting services; and administered approvals and disbursement of funds. All project activities were 50% subsidized.

After four years of operation, the program had supported 266 projects. Initially, mainly larger firms within the SE spectrum were attracted to the program because they had experience with consulting services. However, as the program progressed more small firms participated because of the demonstration effect and the status associated with the program. Over the life of the program, average grant size declined from US \$15,000 to US \$9,800. Operating costs were, on average 19% of grant funds. The ratio of increased sales in assisted firms to the cost of grants was 163:1. However, there is little evidence to date that matching grant programs anywhere resulted in the development of competitive BDS markets.

Crisafulli, Daniel. "Matching Grant Schemes," in *Business Development Services: A Review of International Experience* edited by Jacob Levitsky, Intermediate Technology Publications, 2000. Available on website: www.sedonors.org (BDS materials)

Phillips, David A. "Implementing The Market Approach To Enterprise Support: A Comparative Evaluation Of Matching Grant Schemes," World Bank; December 2000

Matching grants are a pre-cursor of voucher programs that operate on a much smaller scale and target larger firms. They have been in use for over a decade, primarily in export-development programs serving medium-sized firms. In these programs, a small number of selected SEs propose projects to an agent, who is often a facilitator acting on behalf of a donor or local government agency. The agent screens the application and, if the SE has not selected a consulting supplier to assist with the activity, will refer the client to a list of qualified firms. If the SE has selected a firm to help with its project, the agent assesses the firm and registers it as a supplier, as long as it is legitimate. Usually, the SE pays the consultant up-front for the service, and then the agent reimburses the SE once there is evidence that the project has been completed as planned. Sample projects include building refrigerated storage for flower export, design and introduction of a new product, or development and implementation of a new marketing plan. The discount provided by the program is typically between 30% and 60%.

These programs tend to show strong cost-benefit results and high levels of growth in SE sales and employment. However, evidence that relationships and BDS exchanges continue after the programs end is not yet available.⁷⁹ Some experts also question the need for the intervention, because SEs demonstrate their ability to pay for the BDS by paying for the service first and seeking reimbursement afterwards.

Voucher programs were the first attempt to encourage a large number of private sector BDS suppliers to serve microenterprises by strengthening the demand for training services.⁸⁰ In these larger scale initiatives, microenterprises apply for a limited number of coupons or vouchers, which they receive with minimal screening. These vouchers can then be used to access training services from a large number of registered trainers. The discounts range from 35% - 80%.⁸¹ The agency distributing the vouchers also supplies SEs with information on available trainers, the courses they offer, and the number of SEs that have purchased their courses.

⁷⁹ Gibson, 1999; Crissafulli, 2000

⁸⁰ Information on vouchers is primarily from Botelho and Goldmark, 2000; Schor and Goldmark, 1999

⁸¹ Goldmark, 1999b

Example 34: Voucher Program

BONOPYME in Peru

The Voucher program in Peru started in the year 2000 and began a second phase in 2002. It targets small and microenterprises with 2-20 employees in growth sectors – tourism, agro-industries, handicrafts and manufacturing – and operates in nine cities in Peru. The vouchers are used to help SEs access management and technical training and technical assistance or consulting services from a range of private sector and not-for-profit providers. The government itself promotes and administers the vouchers, which offer first-time users a 20-25% discount on services. Performance statistics include:

- In two years 27,411 vouchers were used
- SEs paid 27% of the training costs
- The program successfully attracted private sector suppliers into the market. At the beginning of the program, 85% of providers were NGOs or vocational institutions, but by 2002 half the trainers were private sector businesses or associations
- 79% of SEs surveyed said the TA solved more than 60% of their productivity problems
- 90-95% of trainees felt the content was relevant, used it in their business, would recommend the training to others, and considered the trainers to have a strong mastery of their subjects
- 50% of enterprises receiving services through the voucher program improved their business skill competency and 50% improved sales or productivity or experienced reduced costs

Presentation, "Peru Vouchers," SEEP Training, State of the Art in BDS, 2002

Experience has shown that suppliers do respond to the increase in demand from SEs. They readily modified their training services and created new courses to serve microenterprises as a result of the programs. The new training courses focused on specific, immediately applicable skills. They were short, modular, and often practical, hands-on learning opportunities accessible by illiterate people. The most popular trainers were private sector firms, often entrepreneurs who managed a small business and offered training specific to their business.⁸²

Challenges to implementing voucher programs include:

- **Appropriate selection** of a credible, impartial facilitator and adequate supervision to avoid corruption and politicization of voucher distribution and supplier registration;
- **Strong program management** to ensure that vouchers are available when and where they are demanded and suppliers are accredited and paid on time;
- **Well-defined strategies** to build capacity of training institutions and provide financing for new services and physical development; and
- **Effective exit strategies** (many voucher programs have not finished on schedule, at least partly due to their popularity with governments.)

Although training voucher programs have helped large numbers of microenterprises link with corresponding numbers of BDS suppliers, there is growing concern about the sustainability of the positive market changes on both the demand and supply side. Recent research in Paraguay found that some market changes were sustained even when vouchers were not available:

- Training services began to have greater geographical reach;
- Voucher users' satisfaction with training courses was reasonably high and some SEs continued to purchase training even when vouchers were not available; and
- Some training institutes have continuously expanded and diversified their training courses.⁸³

⁸² Goldmark, 1999

⁸³ Botelho and Goldmark, 2000

Example 35: Vouchers for BDS

BIZPRO in Ukraine

The BIZPRO voucher program in Ukraine was designed to be temporary, to “spike demand” over a 6-18 month period, and then withdraw from the market. Vouchers were offered through business centers and associations in 4 “oblasts” (states). As of April 2002, 8,406 vouchers had been used. The BIZPRO program also worked with suppliers to strengthen their offerings. Trainers and clients alike agreed that the most important aspect of the program was the market linking and information service, rather than the voucher. In a post-test survey, voucher users said that they would have paid the full cost of training in computer usage and business accounting if they had known that these services were available. The service providers, meanwhile, valued their new relationship with the business associations that administered the program, because these associations kept them in touch with the requirements of their SE customers. In the Ukraine market, it would seem that the primary demand-side problem was not SE risk aversion to paying full cost for training services, but rather lack of information about the availability of services and service provider lack of information about SE demand.

Gibson, Alan, Rob Hitchins and Marshall Bear, “BDS Market Development: A Guide for Agencies,” USAID Microenterprise Best Practices Project managed by Development Alternatives, Inc. Website www.mip.org; Original study “Business Services Centers in the Ukraine,” Yoo Mi Lee, 1999.

Mike Field and David Knopp, “Kick-Starting the Market for Business Development Services, Presented at State of the Art in Business Development Services, SEEP Network, July 2002. SEEP Business Development Services Seminar Washington, D.C. April 30, 2001

However, the research documented a significant drop-off in SE demand for services when vouchers were not available. On the supply side, the research found that different types of suppliers involved in the program varied in their sustained responses to the intervention.⁸⁴

- **Entrepreneurial / Expanding Diversifiers** used the program to expand and diversify their training courses and continued this strategy even when vouchers were no longer available.
- **Risk-Averse Diversifiers** also expanded and diversified their courses under the program, but curtailed investments during periods of market adversity.
- **Do-Gooders** or suppliers with a social mission, whose course prices did not cover costs, tended not to respond as much to the program and to not enforce the rules of the program related to SEs.
- **Rogues** maximized voucher income while minimizing investments; when vouchers stopped they turned to other mechanisms for generating revenues.

Experts warn that a market assessment should precede any voucher program. On the demand-side, vouchers address SE risk aversion to trying services at full cost. However, if this is not the primary demand-side problem, vouchers may distort a market more than necessary by fostering SEs dependence on subsidies.

Example 36: “Seven Deadly Sins” of Voucher Programs

The following is a list of things NOT to do in voucher programs. **DO NOT:**

- **“Guestimate” the market.** Rigorous consumer research is recommended to understand demand and assess whether there is a critical mass of existing suppliers.
- **Assume the program will sell itself.** Programs must be promoted to suppliers and SE consumers by a trusted, objective facilitator.
- **Let suppliers distribute vouchers.** To avoid fraud, vouchers should be distributed by an objective third party whose main role is to distribute information about a wide range of suppliers.
- **Drop the co-pay.** SEs should always be required to pay a partial fee in order to keep demand signals flowing and create a culture of payment for services. SEs should know the actual price and realize that the discount is a one-time trial offer.
- **Internalize the audit function.** Voucher programs are at risk of fraud if not carefully monitored by an external auditor.
- **Try to control supplier participation.** The pool of suppliers should be as large as possible so that consumers may select the suppliers that best meet their needs. The role of the program is to provide as much information, including customer satisfaction data, on the suppliers as possible.
- **Worry later about exit strategy.** Most voucher programs have yet to develop exit strategies, but in principle they are designed to be temporary. Some experts recommend phasing vouchers out over time, by gradually reducing their value. Others recommend short-term programs of 3-18 months.

From Goldmark, Lara “The Voucher Experience: The Moral of the Story,” Presentation at the MBP-IDB-SEEP Business Development Services Seminar Washington, D.C. April 30, 2001

Experts also caution that voucher programs are not appropriate for all markets. If the supply of training is fairly elastic because there is competition in the market then a voucher scheme will increase the volume of purchases with little impact on the price of services. In this case, most of the benefits of the program will go to the consumers, the SEs. However if the supply of training is inelastic – perhaps because there are few training suppliers in the market – then the main effect of a voucher scheme alone would be to increase the price of training courses with little impact on the number of courses purchased. In this second case, the voucher program would not achieve its objectives and would mainly benefit suppliers. In the long run, a voucher program might stimulate the supply of training, but its success would depend upon other market factors such as ease of entry and availability of potential trainers.⁸⁵

8.4.2 Providing information to consumers

Many developing country BDS markets suffer from SE lack of information about services and their potential benefits. In some markets, this is the only or key weakness. Facilitators respond to this problem by raising SE awareness of existing BDS suppliers and their products. Examples of such interventions include:

- Starting “business to business” magazines
- Generating directories such as “Yellow pages” listing service suppliers
- Using media such as radio or newspapers to promote services
- Introducing social marketing campaigns that explain the benefits of services
- Facilitating information exchange in voucher and matching grant programs
- Facilitating business links that provide information
- Producing small enterprise radio programs
- Helping small enterprise associations circulate newsletters, hold conferences, and host networking events

Example 37: Information Services

FIT Zimbabwe, Business Connect Magazine

The ILO-funded FIT project was able to achieve two aims in one with their Business Connect magazine — commercializing advertising services for SEs and providing them with information about BDS from existing suppliers. During PRA and discussions with FIT staff, SEs articulated a desire to advertise their products beyond local markets. FIT staff interviewed large firms and BDS suppliers and found that they were interested in advertising directly to SEs. Based on models of successful small business magazines in the UK, the FIT project created Business Connect magazine. The magazine offers SEs an opportunity to advertise their products beyond local markets and it gives large firms and BDS suppliers a place to advertise their products and services to SEs. The magazine has been successful in linking BDS suppliers — security firms, insurance brokers, etc. — to SEs. By 2002, circulation had reached approximately 10,000 businesses and the number of advertisers was approximately 320, both large and small, with significant repeat customers. Initially printed in early 1999, the magazine has been profitable since its sixth monthly issue and, as of the end of 2000, has paid for approximately 75% of FIT Zimbabwe's total costs.

Hileman, Milena and Jim Tanburn, *Wheels of Trade*, Intermediate Technology Publications, 2000, available from IT or Amazon.com. Shorebank Advisory Services, "BDS Research in Market Access and Workforce

Development Services for Small Businesses – FIT Zimbabwe: Business Connect Magazine." Draft Case Study, March 2001. ILO FIT website at: www.ilo.org/seed; and Business Connect at website: www.businessconnect.co.zw

When valuable, affordable BDS exists in the market, interventions focused on information dissemination tend to be cost-effective. Some programs have commercialized the information dissemination role, which increases the potential for sustainability. However, this strategy alone is not effective if suppliers do not offer appropriate, affordable BDS for SEs.

8.4.3 Collective action: Forming clusters, networks and business associations

For some services, it is difficult to make products that are affordable for an individual small business or create business links that are appropriate for very small firms. Often, the quantity of the BDS that SEs

need is too small for suppliers to bother developing products. As a result, SEs often cannot afford the available services. A strategy to address this problem has evolved from the cooperative movement. In these programs, a facilitator helps SEs form groups — networks or clusters — to jointly purchase or access BDS. SE networks can often access services such as consulting, technology, transportation, marketing intermediation, or training that they could not afford individually. Traditionally, non-profit BDS providers not only organized groups, but also provided them with subsidized BDS. In contrast, the role of a market development facilitator is to help SEs form groups and then assist the groups to access the BDS from the private sector.

Example 38: Association Development

NASFAM in Malawi

The National Association of Small Scale Farmers of Malawi (NASFAM) emerged from a development project that assisted over 60,000 Malawian farmers to organize farmers' associations that, in turn, helped market tobacco and other cash crops. The project, and later NASFAM itself, offers organizational and technical training to farmers associations. The associations do not receive subsidies, but operate as businesses that link farmers to existing private sector sources of BDS, sell inputs and advice, and market agricultural crops. A major activity is providing associations with advice on contracting processes when hiring private transporters to haul tobacco to market. They also provide information and extension services to farmers associations as they diversify production from tobacco to other export-oriented crops.

Results:

- 93,000 farmers served, 38% women
- Cost per person served: \$118.00
- Transport contracts leading to costs being halved, tips and bribes eliminated, and delivery times shortened by more than 60%. Transport contracts exceeded \$800,000 in 2001 with association commissions at \$117,000
- Bulk purchases of over 5,400 tons of fertilizer in 2001, with a value of \$1.7 million, resulting in lower prices and free delivery for smallholder farmers
- Associations marketed 1,251 tons of high value cash crops in 2001, resulting in gross revenues of \$83,700 per association
- All 34 associations operating at a profit, with sufficient revenue to afford full-time managers and employ a growing cadre of technical field staff

NASFAM collects membership fees for its service to associations, but the fees do not cover the entire cost of operation, which includes significant promotions, information, and organizing activities for which it is difficult to charge fees. Instead, NASFAM advocated to receive an allocation of a tobacco levy collected on the auction floor. This has become one of NASFAM's main sources of finance, in addition to membership fees. Although the BDS depends on a "tax," the tax is generated by the industry being assisted, and NASFAM is using it to serve large numbers of farmers throughout Malawi.

McVay, Mary, "Microenterprise Marketing: Trends, Lessons Learned and Challenges," SEEP 1999. Website: www.seepnetwork.org and www.seepnetwork.org/bdsguide.html

The advantage of this approach is that it helps entrepreneurs overcome a clear market barrier while supporting private sector BDS suppliers. In addition to linking groups to fee-for-service suppliers, there is also the opportunity to expand or intensify services embedded in business relationships. For example, it is more cost effective for a large enterprise to procure goods from or supply inputs to a group of SEs rather than to individual SEs. Well-organized groups of SEs are often more effective than individual SEs at attracting the types of large suppliers and buyers, like importers and exporters, that offer embedded services.

A major challenge of this approach is how labor-intensive it is to form groups and identify services common to everyone in the group. In general, SEs do not perceive “group organizing” as a service and are not willing to pay for it. Proponents of organizing SEs as a donor intervention argue that promoting cooperation and joint action of SEs is a public good because the benefits are largely indivisible and, once provided, are available to all. Therefore, the intervention must and should rely on public funds.⁸⁶ However, there is at least one example of a for-profit BDS supplier forming SEs into groups and marketing a mix of services to the

groups. The supplier saw group organizing as a market building strategy because the groups then marketed services to their members and were able to pay for services.⁸⁷ These cases and recent research suggests that where innovative service suppliers and/or private enterprises with a stake in SE clusters exist, the private sector can be instrumental in SE cluster formation and development. Where these are absent, public funding will initially need to play a greater role both in forming clusters and linking them with suppliers and other enterprises.⁸⁸

Example 39: Market-driven Small Industry Clusters in Indonesia

In Indonesia, a trader has established a registered trading company that deals in “functional art.” The trading company serves export markets and buys from over 5,000 producers in selected industry clusters in rural Java, Bali, and Lombok. The company is responsible for product design and raw materials selection in accordance with international tastes. In order to ensure that clusters meet product specifications for export orders, the trading company invites representatives of clusters to visit its showroom and understand the organization of the export trade. The company employs 40 workers who provide on the job training and supervision to the clusters. With the company’s blessing, producers also use company designs for sales directly to consumers. Not only have these BDS been useful to cluster members, but the company has also been instrumental in developing the clusters.

Sandee, Henry and Sandra C. van Hulsen, “BDS for Small and Cottage Industry Clusters in Indonesia: A Review of Case Studies from Central Java,” Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance,” Hanoi, Vietnam, April 2000. Website: www.sedonors.org (BDS materials)

8.4.4 Promoting business linkages and embedded services

Embedded services are a major source of BDS for SEs. Inter-firm links are also often the key source of growth and skills transfer for SEs. Promoting linkages among firms is a way to enable more SEs to gain access to BDS as well as the other advantages of more and better business relationships. Facilitation to foster links focuses on disseminating information about players in the market so that they may develop relationships. Examples include:

- Identifying opportunities for profitable business linkages, usually between large enterprises and SEs, but including other relationships that benefit SEs
- Promoting sub-contracting from large firms to SEs
- Providing opportunities and events for large firms and SEs to interact
- Supporting small enterprise participation in trade shows and trade associations
- Developing or expanding business associations, particularly those that include SEs and larger businesses
- Building supplier capacity for those enterprises that provide embedded services to many SEs

⁸⁶ Clara, Russo and Gulati, 2000

⁸⁷ Field, Hitchins and Bear, 2000

⁸⁸ Sandee and van Hulsen, 2000

Example 40: Business Linkages

USAID JOBS Project in Bangladesh

The USAID Job Opportunities and Business Support (JOBS) program, implemented by the IRIS program of the University of Maryland, has demonstrated success in helping microenterprises reach markets by strengthening business linkages. It is also planning the development of a sustainable market for business linkage services.

The shoe cluster initiative aims to increase sales and employment among microenterprise shoe producers by helping them access international growth markets. The shoe sector is one of the highest potential industries for Bangladesh because there is a natural source of raw material, low labor costs, high value addition, and a trend in global shoe manufacturing moving from North to South. Before the program, medium scale exporters faced a huge demand for hand-made shoes but lacked quality suppliers because they had weak backward linkages. Small and microenterprises, meanwhile, did not have access to international markets, produced poor quality shoes, and were trapped in credit-based production systems that were risky and not very profitable. JOBS linked small and micro enterprise producers with large-scale shoe exporting factories, using a range of strategies — in Mirpur, a large firm, Apex, tested the capacity of the SEs, and identified a small group to work with. Apex then purchased technical training services for their new sub-contractors after which they began to do business in earnest, making large orders, providing advanced payment, and paying cash within two days of delivery. Through this business linkage, SE sales more than doubled over a period of three years and 86 jobs were created. Meanwhile, JOBS trained the entrepreneurs in costing and accounting and helped them jointly procure inputs to ensure increased profitability of the SEs. Since the Apex deal, the “cluster” of small and microenterprise producers has been able to sell to other large-scale shoe exporters.

As of 2002, the JOBS initiative had increased targeted business sales by 20-200%, and created at least 500 jobs. The program is now experimenting with strategies to develop markets for the key services they provide: business linkages (which they term clustering.) In its old approach, JOBS created business linkages and provided training to SE. The large enterprises meanwhile purchased training services, which they provided to SEs as part of their business deals (as an embedded service.) In the new strategy, JOBS is building the capacity of organizations to facilitate business linkages and these organizations are selling their expertise to the large firms. JOBS has also trained technical trainers, who are selling their services to large firms.

Asif Ahmed, Presentation to State of the Art in BDS, SEEP Training, July 2002. See also Knopp, 2002

One key advantage of this approach is that it fosters “win-win” relationships in the private sector. SEs benefit from relationships with larger firms and/or access to BDS they might not otherwise find. The larger firms benefit by building a customer base (in the case of suppliers), or by gaining lower-cost, flexible production (in the case of companies buying SE products). Another benefit is that expanding embedded services avoids a common market limitation in many BDS markets — SE willingness and ability to pay for services up front. In embedded services, the costs are either subsumed within other transactions with SEs or are charged to third party commercial players — sometimes both.

A limitation of the approach is that if a supplier enterprise provides embedded services to only a few SEs, it may not be cost-effective for a program to generate links. Programs tend to focus on large enterprises that have the potential to interact with many SEs and they also rely on astute facilitators who can identify business opportunities where there is potential for profitable linkages between firms. A potential disadvantage of this strategy is that large enterprises sometimes exploit SEs in their business relationships. A challenge for these programs is to develop methods of reducing this risk and promoting balanced relationships.

8.4.5 Building the capacity of suppliers

Many of the strategies mentioned here focus on linking SEs to the existing supply of BDS and are only effective when there is a sufficient supply of services in the market. What if the supply is inadequate, as is common in so many BDS markets? Providing technical assistance to suppliers can address a range of supply-side constraints that limit supplier capacity to expand and profitably serve SEs. Technical assistance can take many forms including training, advice, and information. Often, technical assistance is provided to help suppliers develop new products for the SE market. This strategy overlaps with product development and commercialization (described in the next section). Providing TA to help potential entrepreneurs start BDS enterprises is one way of creating new suppliers and increasing supply. While some programs provide TA without financial support, others combine the two.

Example 41: Business Linkages

Manicaland Business Linkage Project

The Manicaland Business Linkage Project was established in 1996 to develop the local economy in a rural area of Zimbabwe where the timber industry dominated. The project strategy is to help improve sector competitiveness by a) improving the efficiency of large firms through outsourcing work to more efficient, smaller firms and b) by helping small firms access global markets through local corporations. The project is managed by a local business association of primarily large firms, whose demand for small firm suppliers drives the program. The main role of the project is to:

- Raise awareness about the benefits of outsourcing
- Help large firms identify and publicize outsourcing opportunities
- Help ensure that small firms benefit from the relationship

Any capacity building – training, raw materials, access to technology, etc. – that small firms require is supplied by the large firm buyers. In the first five years, the MBLP facilitated 110 business linkages between large and small firms. As of 2002, all were still intact and none of the small businesses had folded despite the severe economic downturn and political crisis in Zimbabwe. The project has created an estimated 1,000 new jobs and there is no evidence that job quality has been reduced. No fees are charged and large firms are increasingly taking responsibility for, and bearing the cost of, facilitating their own business linkages. More and more firms are engaging in outsourcing as the practice becomes common in the region.

Carpenter, Janney et al. “Helping SEs Grow and Create Jobs, Brief Case Studies,” forthcoming from Shorebank Advisory Service, 2002. Website: www.shorebankadvisory.com

Technical assistance programs are designed in response to problems found among suppliers:⁸⁹

- Lack of the technical skills suppliers need to provide SEs with quality services
- Lack of business skills such as marketing, pricing, and management
- Limited information about the service benefits and features SEs want
- Limited ability or experience in designing services for SEs

Example 42: Building the Capacity of Suppliers

FIRMA 2000, Poland

From 1996-2000, ACDI/VOCA provided training and technical assistance services to Polish Business Support Organizations (BSOs). The program strengthened supply and demand for business management training and consulting services and mobilized international and local volunteers and consultants to mentor the BSOs through a process of transformation from subsidized, generic service providers to market-responsive, commercial business service suppliers. Capacity building focused on understanding market demand for services, developing appropriate services, promoting services, and running a profitable business. Because the skills of running client business are similar to those of running a BSO, the mentoring built the capacity of organizations to run their own business and to train others to do so. The program trained 38 BSOs, 131 consultants, and 223 SEs, and served more than 30,000 clients on a commercial basis. At project end, 85% of the BSOs were sustainable and the remaining 15% were covering at least 80% of their costs.

Carter, Gail and June Lavelle, "FIRMA 2000," ACDI/VOCA 2001

In many cases, technical assistance not only addresses these problems, but also lessens supplier risk in diversifying into SE markets by absorbing some of the costs of innovation and needed business changes.

Many market development programs have found that technical assistance to suppliers is an important part of almost any market development strategy. Even where weak demand is the key problem in the market, suppliers may need some help to learn how to profitably meet SE demand for services. For example, the Paraguay voucher scheme began providing training to suppliers to help them respond to increased SE demand for appropriate courses.⁹⁰ Donors report that the increased TA required for the market development approach is a major change from previous programs, which concentrated more on financial assistance.⁹¹

A key advantage of technical assistance is that it allows facilitators to target specific problems in supply. A disadvantage of the approach is its potential to distort markets by working with only a few suppliers. In markets where there are many suppliers, it may be difficult for a facilitator to offer equal access to program assistance, and providing TA to only a few may give them an unfair advantage. However, proponents of the approach argue that even in this case, the market could be developed if other suppliers copy business strategies being developed by those receiving assistance.

A particular challenge of the approach lies in making it cost-effective. Providing individualized TA to small suppliers that reach only a limited number of SEs is not likely to be cost-effective and programs can take one of two routes:

- Finding ways to provide TA or training to many suppliers at once. This works if several suppliers in a market have similar problems and needs.
- Targeting large suppliers who reach many SEs. While cost-effective, this strategy discriminates against small BDS suppliers and distorts the market.

⁸⁹ Field, Hitchins and Bear, 2000

⁹⁰ Botelho and Goldmark, 2000

⁹¹ Tomecko, 2000

In the long run, the answer may be to develop the capacity of the private sector itself to provide technical assistance to suppliers. When programs understand that BDS suppliers can also be BDS consumers, they can develop markets that provide the suppliers with the services they want.

8.4.6 Product development and commercialization

Product development and commercialization, a strategy that is gaining in popularity, responds to a lack of appropriate products for SEs and insufficient innovation on the part of suppliers. The strategy was first used with appropriate technology (AT) and agencies are now experimenting with product development and commercialization for other services — training, information and communication, advertising, and financial advisory services.

The appropriate technology movement helps low-income people adopt technologies that can improve their lives. Looking for ways to increase the scale of their programs, AT organizations began experimenting with having private sector firms distribute technology and soon found themselves moving away from direct provision into research and development, identification and training of manufacturers and distributors, promotion, and monitoring and evaluation. In short, AT organizations are now facilitators for private sector technology suppliers.

Facilitators have copied this approach in markets for other services by performing roles that private sector firms are reluctant or unable to take on — research and development, publicizing new services, or quality control. Private firms often do not want these roles because the benefits tend to accrue to many firms rather than just one, particularly in markets where intellectual property rights are absent or not enforced. In addition, suppliers in some markets are not skilled innovators, lacking both the knowledge and experience to develop new and attractive service products.

There are now several different types of product development interventions:⁹²

- **Standardized products** (franchise-style) — ILO's Start and Improve Your Business and GTZ's CEFE training courses are transferred when a facilitator trains suppliers, accredits them, and monitors their courses to ensure quality.
- **Market research** to identify and provide service suppliers with information on market niches and product opportunities. This may include general market research for suppliers to use in promoting innovation or it could be specific to a new product idea.
- **Market-based facilitators**, permanent or long-term, who identify, develop, and sell new products to service suppliers. This strategy has been used with training services and has been successful in reaching suppliers who are often overlooked by traditional BDS programs because they are small or operate in the informal sector. Experience shows that trainers want training in new courses for SEs as well as courses in up-to-date training skills and methodologies. To make the ToT courses appealing to suppliers, facilitators develop and test them to ensure their marketability.
- **Appropriate product franchising** brings foreign suppliers into a country and links them with local suppliers. Facilitators then help them adapt the service to the local context and test-market it.

Managers implementing product development strategies find that facilitators usually play a key role in:

- defining the product concept
- gathering market information — general or on specific product ideas
- building supplier capacity to research and deliver new products
- creating awareness and understanding among consumers about a new product
- conducting marketing trials⁹³

⁹² Field, Hitchins, and Bear, 2000

⁹³ Tomecko, PowerPoint 2000

Example 43: Product Development and Commercialization

ApproTEC and IDE – Irrigation Technology:

The Treadle PumpThe treadle pump, a manual water pump designed and adapted to various country contexts by appropriate technology organizations, has now been disseminated in a number of countries in Asia and Africa — Bangladesh, Eastern India, Nepal, Kenya, Tanzania, and Uganda. The pumps are treadle operated, portable, and usually manufactured in medium-sized workshops. Named the “MoneyMaker” by ApproTEC in East Africa, farmers can readily increase their incomes fourfold or more by irrigating their farms using the pump. IDE developed and disseminated the pump in Bangladesh and by 2002, there were over one million pump users in Bangladesh and the benefit to cost ratio was 33 to 1. ApproTEC also disseminates the pumps and by 2001, approximately 6,000 pumps had been sold in Kenya, Tanzania, and Uganda, generating as estimated \$14 million in income and creating some 8,000 jobs. ApproTEC’s benefit to cost ratio in a recent pump dissemination project, not including research and development costs, was approximately 27 to 1. Both organizations manufacture, promote, and distribute the pumps through the private sector. In 2000, the pump delivery channel in Bangladesh consisted of 65 manufacturers, 700 dealers, and 5,000 installers. ApproTEC found that private sector businesses were willing to manufacture and sell pumps, but only if they could be assured of a sufficient volume of sales. Similarly, dealers were willing to sell pumps, but were less willing to risk

investing in marketing and promotion of a new item and often needed credit to get started in pump sales. Another realization was that the market developed most effectively, reaching lower income farmers with affordable technology, when ApproTEC subsidized and conducted marketing, promotion, quality, price control, and distribution activities. ApproTEC’s long-term vision – a mature market in which private business takes over its activities and affordable technology becomes sustainable on a large scale – has yet to materialize. Despite impressive numbers, the pumps are still reaching only a small percentage of potential users and experts are concerned that delivery channels are not dynamic and profitable enough to achieve high market penetration. Addressing this issue is a key challenge for these programs.

Wright, David, “ApproTEC: Developing Technology Based Business Opportunities,” Donor Committee Conference on Business Development Services: How sustainable can they really be?” Harare, Zimbabwe, March 1998. Website: www.sedonors.org (BDS materials)

McVay, Mary, “Feasibility Assessment of ApproTEC “MoneyMaker” Irrigation technology in Uganda.” August 1999, DFID.

Downing, Jeanne and Paul Polak, “The Development and Commercialization of the Treadle Pump in Bangladesh: A Case of Product Marketing on a Mass Scale,” Donor Committee Conference Hanoi, Vietnam, April 2000. Website: www.sedonors.org (BDS materials)

ApproTEC Annual Report, 1999-2000 www.approtec.org

A major advantage of the approach is that it responds to a common BDS market weakness, lack of appropriate products for SEs. The approach promotes flexibility and innovation among suppliers and builds the capacity of the market to respond to SE demand. Programs have encountered several challenges, however — product development costs can be high; suppliers may not initially be interested in targeting new

markets, particularly if their current markets are profitable; and promoting demand is often essential to success and must usually be subsidized to reduce supplier risk and because benefits often accrue to more than one supplier.

Sustainability is also a key challenge for these programs and determining when and how to turn product development activities over to the private

Example 44: Product Development and Commercialization

GTZ in Several BDS Markets Nepal

In Nepal, GTZ is focusing on product development and commercialization in several business service markets. The strategy combines the development of new products, supplier technical assistance, and demand promotion with the aim of getting as many commercially viable products to the market for the least cost. GTZ focuses on many products and many suppliers. The emphasis is on “product viability” rather than supplier sustainability. One of GTZ’s first efforts was assisting a technical education facility. The school approached GTZ for a grant to help them add another year to their long-term auto mechanics course. Instead, GTZ encouraged them to think about profitable ways to use this core competence. The school came back with the idea of selling training in basic auto maintenance to car owners or drivers and GTZ provided a brief orientation to the school’s staff on how to conduct a market survey. The school surveyed potential students and then designed a pilot course. To reduce the school’s risks, GTZ paid for initial advertising for the course. By 2001, the school was on its fifth training course. They were profitable and the school was starting to target new business markets. Subsequent new products developed with GTZ assistance include:

- presentation skills
- value-added tax services for the construction industry
- basic banking for the garment / carpet industries
- arbitration in the tourism sector

- using market research to increase profits and sales

Efforts to promote innovation among suppliers include:

- Conducting a partially subsidized training course for suppliers on how to use market research tools to identify profitable new markets and develop and test new products_
- Offering suppliers technical assistance in applying marketing research tools and developing new products
- Providing suppliers with market information from GTZ’s BDS market assessment and other market research that identifies potentially profitable market niches and describes consumers’ desired service benefits and features

Tomecko, Jim. “The Application of Market Led Tools in the Design of BDS Interventions,” GTZ for the Donor Committee BDS Conference in Hanoi, 2000. Website: www.sedonors.org (BDS materials)

Unpublished correspondence with GTZ Nepal; Tomecko, Jim. PowerPoint Presentation on Product Development and Commercialization to GTZ in September 2000 available on website: <http://www.gtz.de/cefe>

Rana, Prashant “Joint Ventures with Commercial Suppliers: The Nepal Experience” Presentation for the 2nd annual BDS Seminar in Turin, 2001. Website <http://training.itcilo.it/bdsseminar>

sector can be tricky. Some product development and commercialization programs have found that, to succeed, the program must not only develop products but also provide a range of on-going support services, such as advertising and branding, quality control, remedial service support, and upgrades.⁹⁴

Donors are experimenting with ways to help facilitators become private sector actors as well, selling their services to many suppliers. A few programs have successfully established commercial facilitators who sell new products and other services to suppliers.

⁹⁴ McKenzie, 2000

8.4.7 Social Enterprise

A problem in particularly remote or low-income markets is an apparent lack of service providers and many rural, low-income businesses do not typically purchase services, relying instead on a few, limited suppliers or buyers from outside the area. Developing business service markets when “there is no market,” is a challenge for the field.

One business development strategy that persists is social enterprises, ventures that have a dual purpose — financial profitability and social service. There are two, typical social enterprises in the field of business development services:

- 1) **Not-for-profit service providers** who aim to deliver demand-driven services on a financially sustainable basis. These may include business associations, business centers, and traditional NGOs. They act like profit-seeking business service providers, but are more willing to accept a less profitable venture in order to serve disadvantaged populations and regions.
- 2) **Marketing companies** owned by non-profit concerns, cooperatives or community members. The main purpose of these ventures is to help low-income or isolated SEs access markets. They are often launched when there is no evident private sector activity, for example, in a new product market, or when existing private sector traders create a monopoly and provide disadvantageous terms of trade to SEs.

In addition, many social enterprises are established to cross-subsidize other social activities. For example, Goodwill Industries International recycles clothes and household items for resale, and uses the earnings to provide vocational training to people with disabilities and other barriers to employment. The clothes that don't sell in the US are sold internationally and provide low cost clothing and business opportunities around the globe.

In general, the BDS market development approach is encouraging NGOs and other not-for-profit institutions to understand and build on the capacity of the existing private sector market, rather than

launching new businesses. The market development approach also casts doubt on the effectiveness of not-for-profit ventures, but the persistence of social enterprises is indicative of their appropriateness in particularly weak market situations, given the lack of alternative models offered by the market development approach at this time.

There is some evidence that social enterprises have the potential to contribute to the development of a competitive, vibrant BDS market. A cooperatively-owned marketing company may demonstrate that particular markets are viable and convince private sector firms to enter the market. This was the case with global crafts. The global market for

Example 45: Social Enterprise

ASOMEX Bean Marketing in Bolivia

ASOMEX, a bean marketing cooperative in Bolivia owned by a cooperative of bean farmers and originally invested in by MEDA, was the first marketing company to offer profitable prices to bean farmers. Five years later, however, there were several other marketing companies who had followed suit and were competing effectively with ASOMEX. MEDA was a co-investor with the farmers' cooperative and has sold its shares to the farmers, leaving behind a competitive market for beans.

Presentation, SEEP Annual General Meeting, 2001

crafts was launched by individuals with the intention of helping communities they visited or came from. It grew as not-for-profit organizations with religious affiliations or goals of cultural preservation and fair prices developed “fair trade” markets. Now, the fair trade market represents a small percentage of the market for hand-made items, because the mainstream global market has seen the demand and value of hand-made items.⁹⁵ In other situations, service providers opt to provide services on such a mass, profitable scale that competition seems a minor issue, for example microfinance services or the cell phone service sold by the Grameen family of

⁹⁵ Littrell and Dickson, 1999

companies.⁹⁶ Finally, some social enterprises develop BDS markets themselves. For example, FIT Zimbabwe facilitates SE and BDS markets through its Business Connect Magazine. Thus, there are several emerging models in which social enterprise contributes to the development of vibrant and competitive BDS markets.

Organizations that pursue a social enterprise model, but see the promise of the BDS market development approach, might consider:

- **Future Vision:** How can a social enterprise lead to the development of a competitive market in which target SEs can choose service providers and markets?
- **Subsidies:** How can subsidies support the social enterprise in a way that provides an incentive for the enterprise to become profitable?
- **Crowding out the private sector:** How can the social enterprise program ensure that it has invited possible private sector players to participate and that it really is the best alternative?
- **Joint Ventures:** Consider joint ventures with existing businesses to harness their expertise.
- **Venture Capital:** Consider forming a venture capital firm that invests in social ventures and then exits, taking a return on the investment in order to re-invest in other projects.

These strategies may help strengthen and develop the private business service sector in very weak markets.

In some business service markets, BDS suppliers want to increase and/or improve service for SEs but lack financing to invest in service expansion. While suppliers might be able to access capital from private sources in a well-functioning financial market, in many developing countries it is difficult for small suppliers or start-ups with minimal assets to secure loans or attract investors. In this case, a donor or facilitator has several options:

- Help link suppliers to financial institutions
- Offer lending services
- Invest in suppliers as partners
- Provide suppliers with targeted matching grants that support product development, start-up costs in new locations, consulting services, significant

capital investment, etc., but that do not directly subsidize transactions.

In these situations, capital is usually provided to enable suppliers to increase their own capacities or to develop and test new products for SEs; it is not meant to subsidize on-going sale of services to SEs.

Example 46: Diversifying the Eco-Tourism Market through Social Enterprise

Conservation International, ECOMAYA and Asociación Alianza Verde (AAV) in Guatemala

Conservation International is developing a more vibrant, competitive market for eco-tourism in northern Guatemala. The program aims to protect the second largest tropical rainforest in the Northern Hemisphere while helping local communities earn a living by preserving, rather than destroying, the forest and its endangered species. The tourism industry in Guatemala is increasingly dominated by large firms that attract international tourists to a limited number of sites and the small-scale tour operators who offer a variety of experiences are unable to compete with their marketing programs.

In 1998, CI and five communities in the Mayan Biosphere Reserve (MBR) formed ECOMAYA, a marketing firm that attracts tourists to experiences in their region. The firm is jointly owned by these community-based enterprises and operates on commission on sales, which finance its business activities. In 2001, ECOMAYA was significantly expanded due to its purchase by Asociación Alianza Verde (AAV), an association of small-scale tour operators also facilitated by CI. ECOMAYA now serves 18 communities that generate income through ecotourism activities by providing tourists with complete services including air and ground transportation, accommodations and home stays, tours, and Spanish language instruction. In 2002, the company began providing marketing services to approximately 24 small, micro, and community-based enterprises in the Petén and 65% of Petén tourist attractions are now represented by ECOMAYA, making the tourist market more diverse and Guatemala's forest less at risk.

Straghalis, Jennifer. "Facilitating the Supply of BDS in the Tourism Sub-sector in Guatemala," Conservation International, 2002

⁹⁶ www.grameenbank.org

Helping suppliers access capital has the potential to address a clear and specific constraint on the expansion of supply. However, the approach also has considerable potential for market distortion. An infusion of capital into the supply of services almost inevitably turns suppliers' attention away from consumers and toward donors. This is often not only true for partner suppliers but for other suppliers as well. The challenge for programs is to ensure that the market development impact of access to finance outweighs the market distortion impact.

8.4.8 Sub-sector development & BDS market development

Prior to introduction of the BDS market development approach, many experts pursued sub-sector development as a way to reach scale and have a significant impact on SEs. Using this methodology, development organizations target SEs operating in high-potential markets – leather goods, horticulture, or dairy processing – and then analyze the production chain from input supplier to producer, wholesaler, and retailer. They look for opportunities for SEs to increase their earnings; identify constraints facing SEs in the sector; and find “leveraged interventions” able to help large numbers of SEs overcome key constraints and realize their potential in the market. Examples presented in the Primer include Action for Enterprise’s craft export work in Mali, ACDI/VOCA’s work in developing small-scale farmer associations in Malawi, and Enterprise Works Worldwide’s program in El Salvador’s coffee sub-sector. Traditional sub-sector development programs focused on strengthening the market chain for SE goods and services, often by delivering services directly to SEs, but also strengthening SE input suppliers and buyers of SE products and services. “Sustainability” was viewed as the sustainability of the new market channels that SEs would access as a result of the program.⁹⁷

Since the advent of the BDS market development approach, increasing numbers of organizations are combining sub-sector development strategies that strengthen SE product supply chains and BDS

market development approaches. In these programs, there are two markets at work:

- 1) **The Sub-sector:** The market for SE products and the supply chains that provide SEs with inputs and help them sell to final customers.
- 2) **The BDS Market:** The market for services that helps SEs take advantage of growth opportunities and overcome constraints to growth in their product markets.

Often, sub-sector development programs are aimed at strengthening backward and forward market linkages in the SE product market to help SEs access lucrative markets or low-cost inputs. The programs endeavor to “embed” soft services such as product design and market information into the hard market transactions of buying and selling

Example 47: BDS and Sub-sector Development Combined

In 2002, Swisscontact designed a program using a BDS market development approach to develop the plastics sub-sector in Vietnam by helping SEs gain access to markets, training and technical assistance, technology and product development, and improved input supply. These service markets were selected through a combination of demand analysis (conducted in conjunction with GTZ) and sub-sector analysis. The sub-sector analysis addressed specific opportunities for and constraints to the growth of small and medium plastics manufacturing enterprises as well as environmental and gender concerns. When selecting interventions, the project flexibly targets market opportunities in the plastics sector, focuses on strengthening embedded services, selects services that have high demand and weak supply, and concentrates on building the supply of BDS.

Swisscontact, Draft Program Design: SME Promotion, Vietnam 2002. Website: www.swisscontact.org.vn/main.htm

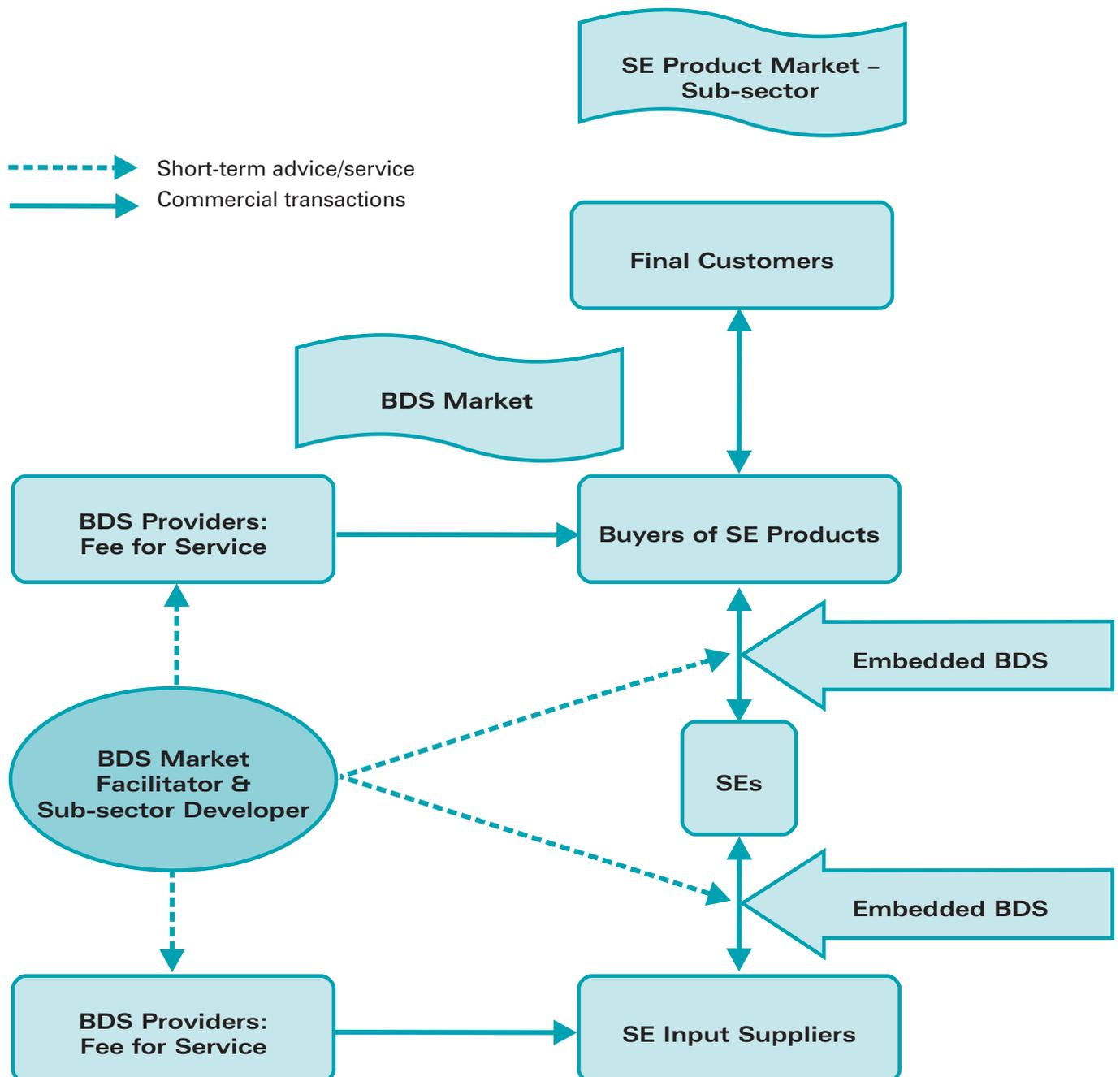
⁹⁷ Lusby, 2000

products. In addition, sub-sector development programs recognize and develop fee-for-service markets for services to larger players, who then pass services or information on to SEs in an “embedded” form. “Sustainability” in these programs is seen both in terms of strengthening the market chain for SE products, as well as developing sustainable markets for on-going service delivery to and within the market chain. Action for Enterprise and USAID have produced a manual on combining sub-sector and BDS market development programs.⁹⁸

There are many challenges involved in integrating these two approaches and a great deal of debate over which approach has more potential for outreach and impact — sub-sector or cross-sector. These debates and challenges are explored in-depth in the BDS Update.

Figure 10 depicts a program developing both the sub-sector and the BDS market:

Figure 10: Combining Sub-sector Development and BDS Market Development



⁹⁸ Lusby, 2002

9. How is BDS program performance being measured?

There is still considerable debate about how to measure the performance of either traditional or market development BDS programs. But, lessons are beginning to emerge about how performance measurement might be different using a market development approach. Consensus is developing around some of the changes that should be measured at different levels and a preliminary, common performance measurement framework has been developed. There is also some agreement on what research needs to be done to improve BDS performance measurement.

As donors and organizations grapple with applying the market development approach to BDS, performance measurement is also changing. While some aspects of performance measurement, such as an interest in impact on SEs, has not changed, other aspects have — measuring market development and helping suppliers obtain information that results in improved services and sustainability are two. More attention is also being paid to who should measure what kinds of performance and for what reason, as well as how to measure performance.

9.1 Why measure performance?

There are several reasons BDS programs assess performance:

- **Assess impact** of the program and how much it costs to achieve specific impacts
- **Identify better performing programs** for documenting and disseminating best practices
- **Gather data** that can inform the design and delivery of better services and improve the strategies used to develop BDS markets

Different players in BDS programs may emphasize different aspects of performance assessment.

Typically, development programs measure performance primarily from a donor perspective; the aim is to ensure that programs achieve intended impacts and that funds are used for their intended purpose. Depending on the program, different levels of intermediate outcomes are also assessed — outreach (number of people served and who) and outputs (services delivered) are the most common. Because impact data is challenging to gather and generally of doubtful quality, this leaves most BDS programs focused on how money is spent and the number of services delivered.⁹⁹ The two essential elements typically missing from BDS program performance assessments are useful information for improving:

- 1) services for SEs
- 2) cost-effectiveness and efficiency of service delivery

As the BDS market development model evolves and BDS providers focus more on selling demand-driven services and becoming sustainable, programs are increasingly measuring performance — primarily in order to improve service and operate more efficiently — and the data is significantly more focused on:

- **Improving services:** tracking SE satisfaction with services, how they use services to change their business practices, and how these changes are, or are not, benefiting the business in specific ways — reaching new markets, reducing production costs, increasing productivity in certain tasks, etc.

This type of information helps suppliers adjust their services to meet the demands of specific clients and to sell more services. This process is likely to result in increased service relevance and impact, and may even lead to better ways to attribute changes in sales and profits to specific services.¹⁰⁰

⁹⁹ McVay, 1999; Carpenter et al, 2002

■ **Improving efficiency:** in addition to tracking the gross profits of specific services, service lines, and service centers and staff productivity, helps create performance-based incentives.

This information helps providers manage the business of delivering services and helps motivate staff to deliver them profitably. The process is also likely to result in better cost-effectiveness because providers are driven to reach more people at a lower cost and to focus on services that are selling well, presumably those the SEs value most and that have the greatest impact.¹⁰¹

Example 48: Use of Performance Assessment to Improve

INSOTEC, Ecuador

“INSOTEC utilized divisional profitability reporting to determine which services and products to provide in which markets, demonstrating that it can successfully wed its mission to disenfranchised garment workers and business owners to self-sustaining financial performance. INSOTEC also established performance objectives – sales, loans, customer targets – for each employee, tracked the performance of each business development officer against these objectives, and paid staff a financial reward for meeting or exceeding objectives.”

Carpenter, Janney et al. “Helping Small Businesses Grow and Create Jobs: Good Practices from Global Experiences.” Shorebank Advisory Services, 2002
www.shorebankadvisory.com

Thus, the question, “*why measure performance?*” leads directly to “*what to measure?*”

9.2 What to measure?

BDS programs around the globe typically measure performance in the following categories:

- **Impact** on SEs and the wider economic/social environment
- **Outreach**, meaning both the number of SEs reached (scale) and the effort to provide services to people not served by existing markets (access)
- **Sustainability** of business service delivery and supplier institutions
- **Cost-Effectiveness** of program activities

Most programs have a logic model that orders these goals and describes the overall SE development strategy — the causality between program inputs, activities, outputs, outcomes, and ultimate impacts. Work on a standard logic model that incorporates BDS market development as a strategy and outcome is in progress. Figure 11 presents a logic model developed by Oldsman and Hallberg for Small Enterprise Initiatives.¹⁰² The model depicts how donor funds are provided to facilitators who in turn provide technical assistance and finance to BDS suppliers and financial intermediaries. These organizations then provide services and finance to SEs, who change business practices as a result. SE changes in business practices lead to increased sales and profits, which increase incomes and employment in targeted SEs. These increases in income and employment then lead to economic growth and poverty alleviation in target communities. Their paper outlines sets of performance indicators in each of these areas and suggests methods for data collection and reporting.

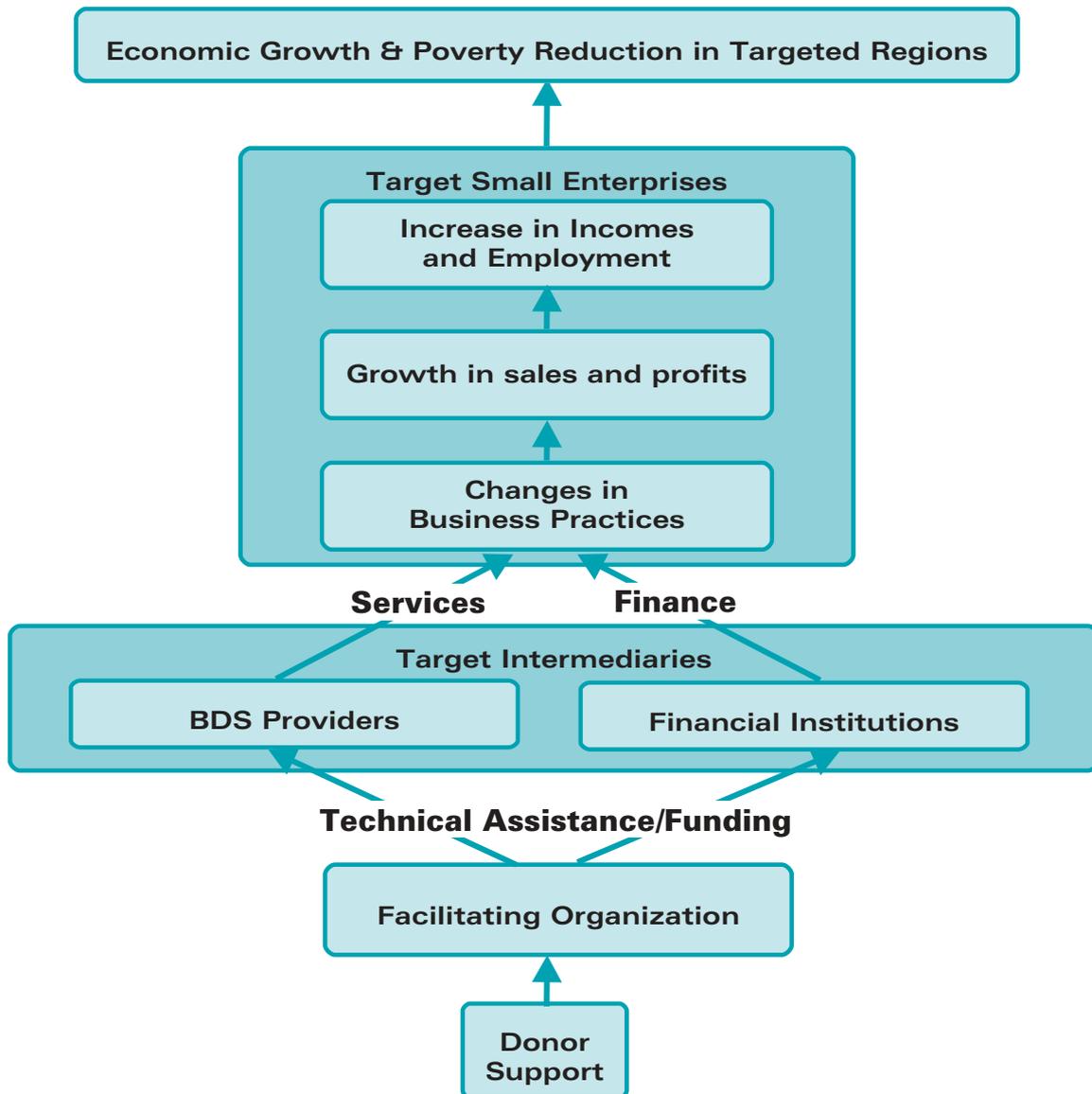
There has also been a collaborative global initiative to develop a common performance assessment framework for BDS programs in the context of BDS market development. Three years of research, global dialogue, and field-testing has resulted in a preliminary framework, the PMF 2001, that is being adapted and tested around the world. The PMF 2001 presents a draft logic model that attempts to include BDS market development goals-strengthening the demand for, and supply of, services leads to a vibrant, competitive BDS market and BDS market development leads to large numbers of SEs using and applying business services to improve their business practices. Better business practices contribute to SE growth and profitability and, eventually, increased employment and income.

¹⁰⁰ McVay et al, PMF 2001; Carpenter et al, 2002

¹⁰¹ I.B.I.D.

¹⁰² Adapted from Oldsman and Hallberg, 2000, available at website <http://www.wiram.de/dokumente/EvaluationPaper.PDF>

Figure 11: Illustrative Logic Model for Small Enterprise Initiatives



The PMF 2001 focuses on assessing changes in supply and demand for services, the development of BDS markets, and how SEs use services to change business practices. It is designed to be used in conjunction with occasional impact assessment and more frequent tracking of efficiency indicators by suppliers.¹⁰³

There is still a lot of interest in understanding and measuring impact on SEs and the wider economic and social environment. However, the field is realizing that this can be measured regularly only on a limited basis. An in-depth understanding of program impact on SEs and the wider environment requires expensive and rigorous studies that can be

performed only infrequently. For regular monitoring, experts are exploring the use of proxies-indicators that are easier to measure than final impact, but that are linked to final impact. Often, these proxy indicators rely on SEs' own perceptions of the services they receive as measured by their satisfaction or willingness to purchase them.¹⁰⁴

Market development programs are also beginning to rely on indicators of change in the market that relate to the specific issues the program is trying to address. For example, if the market problem is SE lack of awareness of services and suppliers, a good indicator for that service would be *the change in number of SEs aware of the service and suppliers*.¹⁰⁵

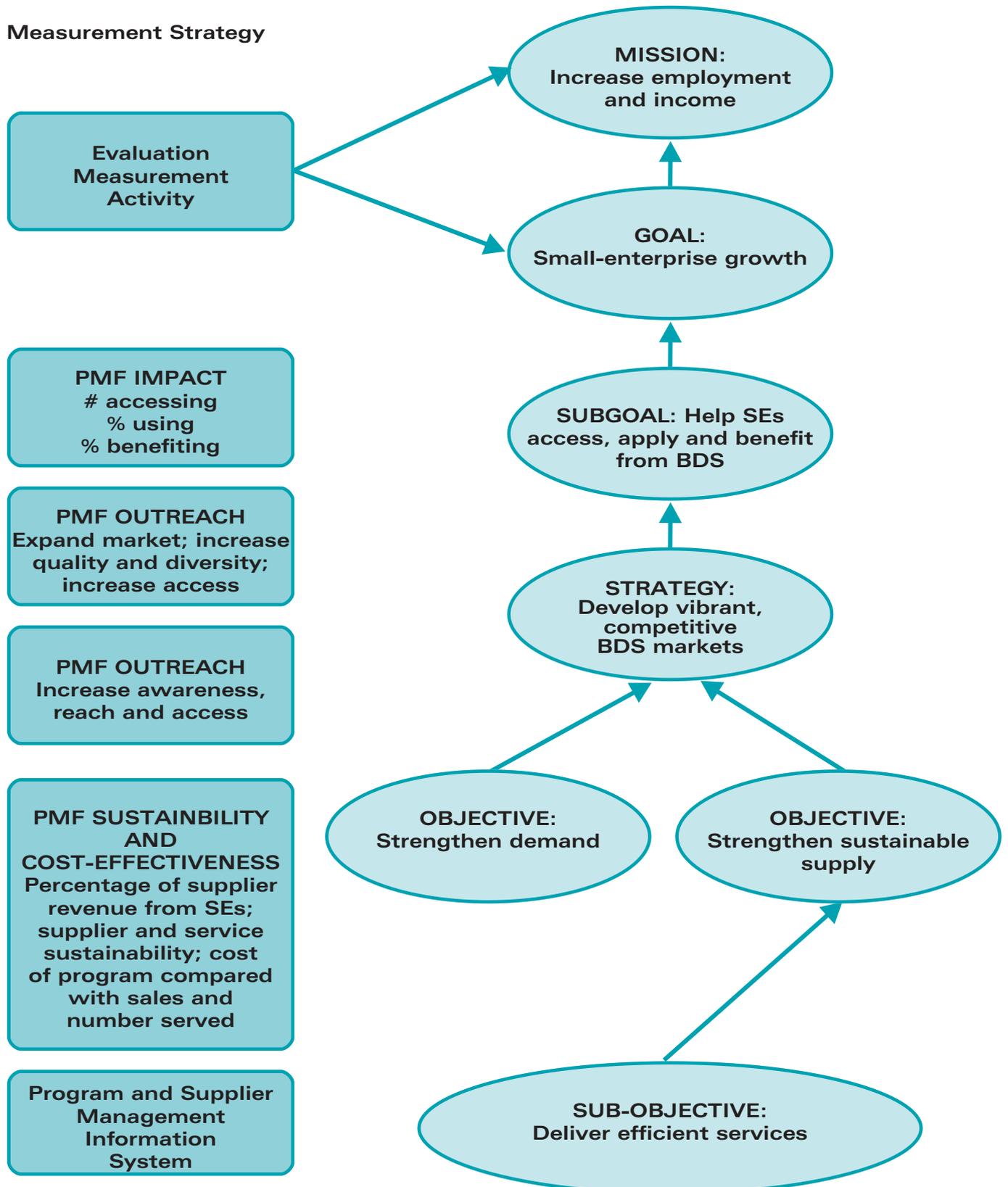
¹⁰³ McVay et al, PMF 2001

¹⁰⁴ Gibson, 2001; Candeo, 2000; Miehlbradt, 2001b; McVay 2001

If the market problem is lack of appropriate products for SEs, useful indicators might be *the change in the number of SEs purchasing services and the change*

in the number of SE customers who are satisfied with services.

Figure 12: PMF Causal Model



¹⁰⁵ Gibson, Hitchins, Bear, 2001

9.3 How to measure?

While how to measure performance is not a new issue, experts and practitioners are revisiting this question as it relates to market development programs. There is still agreement that a variety of tools are necessary including both quantitative and qualitative approaches. There is also agreement on the importance of using participatory approaches that take into account the viewpoints of various program stakeholders.¹⁰⁶ However, experts and practitioners are working on more efficient and effective ways of measuring performance and¹⁰⁷ there is increasing interest in and use of private sector tools for performance measurement—consumer marketing research tools for measuring changes in markets and private sector business tools for measuring provider performance. Experts are also encouraging practitioners to develop tighter program logic models—the logical series of events by which program strategies produce results—and to develop performance monitoring indicators and systems based on the program strategy.¹⁰⁸

9.4 Developing a common performance measurement framework

The collaborative effort to develop a common performance measurement framework, which started in 1998, resulted in the PMF 2001, a preliminary framework undergoing further research and field-testing.¹⁰⁹ The PMF 2001 attempts to organize a set of valid, practical, and useful indicators to assess the performance of all BDS initiatives. In the long run, it is hoped that the PMF will:

- **Enable comparison** of program performance
- **Help identify** and synthesize best practices
- **Provide information** to improve services for SEs and market development strategies
- **Contribute to development** of fair funding allocation decisions and fair performance standards

The PMF is structured to reflect the market development paradigm and to measure three common objectives of SE programs. Each of these

There is increasing interest in, and use of, private sector tools for performance measurement – consumer marketing research tools for measuring changes in markets and private sector business tools for measuring provider performance

objectives has been equated with progress at three levels: impact—changes in SEs, outreach—market development, sustainability and cost-effectiveness—provider development and facilitator performance, respectively. Within these three broad categories, the framework proposes objectives that a BDS program might be trying to achieve:

- **Impact**
 - Increase consumer acquisition of BDS
 - Increase customer application of BDS in the business
 - Increase business benefits from BDS
- **Outreach**
 - Expand the market for BDS
 - Develop a high quality, diverse, competitive market
 - Increase access to BDS by under-served groups
- **Sustainability and Cost Effectiveness**
 - Promote sustainable access to services
 - Maximize program cost effectiveness

The PMF 2001 contains general guidance and rationale for these goals, specific indicators for assessing the goals, and tools and methodologies for data collection and analysis. The development of the PMF is expected to be a long-term endeavor and the framework should evolve as the field continues to change.¹¹⁰ The PMF 2001 indicators are presented in Table 6. Example 49 shows how Swisscontact Philippines used the PMF 2001 to assess performance.¹¹¹

¹⁰⁶ DFID, 2001

¹⁰⁷ Gibson, Hitchins, Bear, 2001

¹⁰⁸ Gibson, 2001

¹⁰⁹ The PMF 2001 is available at www.seepnetwork.org/bsguide.html

¹¹⁰ McVay, 1999

Table 6: Performance Measurement Framework for Business Development Services, PMF 2001

Goal 1: Increase Impact	
Assessing BDS Customer, SEs	
Objective	Indicators
Increase customer acquisition of BDS	Customer satisfaction with a business development service (percentage satisfied)
	Repeat customers (percentage of customers who buy more than once)
	Reasons for satisfaction and repeat purchase (<i>supplemental</i>)
Increase customer application of BDS	Percentage of customers who applied the services — as intended by the program and reported by the client
Increase customer benefits from BDS	Percentage of customers who experienced business benefits as a result of the service — as defined by the program and reported by the client,

Goal 2: Increase Outreach (Scale and Access)	
Assessing BDS Markets	
Objective	Indicators (Reported for the Overall Market and for the BDS Program)
Expand the market for BDS	Number of SEs acquiring a service through any method and purchasing a service through commercial transactions
	Amount of sales by BDS suppliers (<i>program only</i>)
	Market penetration: percentage of potential SE market acquiring a service through any method and purchasing a service
	A program's market share of all services acquired through any method and all services purchased (<i>program only</i>)
	Awareness: percentage of SEs aware of a service
	Reach: percentage of SEs who are aware and have purchased a service at least once

Goal 2: Increase Outreach (Scale and Access)

Assessing BDS Markets	
Objective	Indicators (Reported for the Overall Market and for the BDS Program)
Develop a high-quality, diverse, competitive market	Percentage market share held by the three largest suppliers
	Number of BDS suppliers (<i>program only</i>)*
	Number of BDS product (<i>program only</i>)
	Retention: percentage of multiple purchasers out of all purchasers (<i>not relevant for some programs</i>)
	Satisfaction with last service purchase (<i>supplemental</i>)
	Reasons for purchase, non-purchase, and choice of supplier (<i>supplemental</i>)
Increase access of underserved groups to BDS	Extent of access: percentage of SE customers purchasing a service that represents targeted populations (<i>women, microenterprises, exporters and so on</i>)*
	Target market penetration: percentage of potential SE targeted markets (<i>women, microenterprises, exporters, etc.</i>) acquiring a service through any method and purchasing a service

Goal 3: Achieve Sustainability and Cost-Effectiveness

Assessing BDS Suppliers and Facilitators	
Objective	Indicators
Achieve supplier sustainability	Percentage supplier revenue from SEs
	Breakdown of sources of supplier revenue (<i>supplemental</i>)
	BDS supplier financial sustainability (<i>non-donor revenue s /total expenses</i>)* (<i>supplemental</i>)
	BDS contribution margin (<i>SE revenues from a service-direct expenses for the service / total expenses</i>) (<i>supplemental</i>)
	BDS viability (<i>SE revenues from a service / direct expenses for the service</i>)* (<i>supplemental</i>)
Improve program cost-effectiveness	Ratio of annual program expenses to annual program sales to SEs
	Annual program expenses per customer served

Example 49: Summary PMF 2001 Data: Swisscontact Philippines

Swisscontact Philippines supported the Oro (business) Service Center in its development and delivery of training and trade fair participation

Goal 1: Impact: Oro Service Center

Objective	Indicator	2001
Increase customer acquisition of business development service (<i>increase sales</i>)	Percentage of customers whose satisfaction exceeded expectations	80%
	Repeat Customers	45%
Increase customer application and benefits of business development services	Percentage of customers who change business practice as program intended	90%

Goal 2: Increase Outreach: Enterprise Development Training

Objective	Indicator	Market	Program	
			Annual/Status	Cumulative
Expanding the BDS market	Estimated potential market size		2,500	N/A
	Number of SEs purchasing	N/A	199	342
	Market size, annual sales	N/A	US \$3,269	US \$34,388
	Awareness of service	69%	37%	N/A
	Reach: percentage of those aware who purchased services at least once	20%	39%	N/A
	Market penetration — acquiring	25%	16%	N/A
	Market share	N/A	44%	N/A
Developing a high-quality, diverse, competitive market	No. of BDS suppliers	N/A	1	
	No. of service products	N/A	12	18
	Retention: multiple purchasers	87%	75%	N/A
	Satisfaction with last service purchase*	2.6 (satisfied)	3 (very satisfied)	N/A
Deepening the market: reaching underserved groups	Percentage women-owned SEs in market		20%	N/A
	Percentage woman purchasers	8%	44%	45%
	Percentage of microenterprises in the potential SEs market		49%	N/A
	Percentage of purchasers that are microenterprises	15%	43%	N/A

Goal 3: Financial Sustainability: Oro Service Center

Indicator	1999	2000
Percentage of revenue generated from SEs	N/A	26%
BDS supplier Financial sustainability (<i>non-donor revenue / total program expenses</i>)	90.6%	88.0%
BDS contribution margin (<i>non-donor BDS revenues — BDS direct expenses</i>) / total expenses Service 1: entrepreneurship development training	5.5%	21.4%
BDS viability (<i>non-donor BDS revenues / direct expenses for BDS</i>) Service 1: entrepreneurship development training	270.4%	431.2%

Goal 3: Cost Effectiveness: Oro Service Center, in US\$

Indicator	1999	2000
Ratio of annual program expenses to annual sales to SEs	58%	35%
Annual program expenses per customer/client served	\$57	\$33

- **Impact:** Overall clients are satisfied with services and using the services to improve their businesses.
- **Outreach/Market Development:** Oro center is a big fish in a small pond that is contributing to a diverse product offering and increased outreach to women and microenterprises, but not providing SEs with a diverse set of providers.
- **Sustainability & Cost-Effectiveness:** The center is subsidized, and sustainability is declining despite high contribution margins of the services. This may indicate that some market distortion is taking place, or may indicate that the center has very high overheads that are affecting sustainability and cost-effectiveness.

9.5 Performance measurement challenges and the research agenda

Measuring the performance of BDS programs is plagued by typical performance measurement challenges, and some that are particular to BDS programs. Typical challenges include:

- Collecting impact data from informal sector firms
- Attributing changes to a specific service or intervention (assuming data is collected)
- Determining negative impacts — benefits for one SE occur at the expense of an unassisted SE
- Developing standard definitions for such things as firm size and location — rural, urban, peri-urban, and “poor” clients
- Avoiding bias by the impact assessor or technique used
- Appropriately calculating cost-benefit ratios using weak impact data
- Identifying the most cost-effective indicators and balancing the cost of data collection against data quality
- Interpreting findings across vastly different economic, political, and cultural contexts

In addition, the field is grappling with how to:

- Define BDS markets
- Count BDS suppliers when so many are informal and so much BDS is non-transactional
- Define a BDS in order to identify and analyze the market
- Collect comparable data across the wide range of services that comprise BDS
- Collect reliable data from market players not affiliated with BDS programs — programs are focusing more on overall market development
- Allocate costs in standard ways to ensure valid sustainability and cost-effectiveness measures — there are many complex institutional arrangements in BDS programs
- Measure the ultimate impact on SE performance

Donors and practitioners recognize that the field needs to learn much more about program impact and a research agenda to address some of the key issues is emerging:¹¹²

- **Identifying proxies for performance** — Given the cost and difficulty of measuring impact at either the market or client levels, donors and practitioners are looking for proxies that are easier to measure and correlate with impact. Before the proxies could be widely used, the correlation with impact would need to be tested in a variety of circumstances.
- **Confirming the impact of BDS** — Most donors and practitioners pursue BDS programs in order to positively affect poor people, primarily through poverty alleviation and employment generation. There is still a lack of hard data generated through rigorous studies about the impact of BDS at this level.
- **Understanding the impact of BDS and small business promotion** — How do BDS and small business promotion contribute to poverty alleviation? For example, do small businesses generate jobs for the poor and for those with low skills?
- **Understanding BDS Markets** — To measure progress toward a “developed” BDS market, organizations need a better understanding of how BDS markets behave and develop. This would help the field identify appropriate indicators for market development.
- **Understanding the Effect of Market Development on SEs** — While there is general agreement that better developed BDS markets benefits SEs, this has not been confirmed through rigorous studies. Understanding if and how better developed BDS markets help SEs is important for donor accountability.

¹¹² This section draws on the minutes of the Committee of Donor Agencies SE Impact and Performance Working Group Meeting of March 2001

10. What's Next in the BDS Field?

The BDS field has evolved significantly. In 1993, business services were called *non-financial services* and there was considerable skepticism about the relevance of these services for small enterprises. A few practitioners and donors working in isolation faced the challenges of small scale, lack of sustainability, the need to mobilize resources in a doubtful and sometimes hostile climate, and the inability to prove impact. Now called *business development services* or *BDS*, the field has seen numerous innovations that have been synthesized into broad guiding principles. Many cases have been documented and disseminated and donors and practitioners have developed tools, training events, and websites that help improve their skills, support their work, and maintain contact with each other. The field is working optimistically towards increased impact by supporting relevant, demand-driven services, delivered sustainably and on a large scale through vibrant, competitive BDS markets.

Nevertheless, significant challenges remain and the field is still struggling to document and demonstrate significant impact, especially on poverty alleviation. The new principles are being tested in projects around the world and these field tests are affirming many of them, but they are also raising challenges to their strict interpretation in every environment. As well, the principles are being integrated into a wide range of development initiatives, from agricultural development to refugee assistance, and their relevance in these different contexts affirms them, while also challenging the sequence and timing with which they are applied.

Because of this rapidly changing environment for BDS, the 2003 BDS Reader is divided into two parts — the Primer covers the basic principles and strategies which the field now uses and the Update addresses the latest trends, innovations, challenges, and debates going on in the field. The authors invite you to continue your learning experience with the ILO BDS Reader Update.

Annex A: Definitions

Business Development Services (BDS):	Any non-financial service provided to businesses on either a formal or informal basis.
Demand:	The quantity and type of goods or services that buyers wish to purchase at any conceivable price (describes consumer behavior.)
Consumer:	User or buyer of service products offered by business service providers.
Cost-effectiveness:	The impact of a program intervention, compared to its cost. A program is cost-effective if the ratio of benefits to costs is high.
Donor:	The funding agency that pays for development activities.
Facilitator:	International or local institutions, usually funded by governments, foundations, or donors that aim to expand and improve a BDS market by increasing demand or supporting BDS providers in developing new service products, promoting good practice, and monitoring and evaluating performance.
Impact (sometimes called “effectiveness”):	The effect of the service on the performance of SE clients – that which can be attributed to the service itself, not to outside factors – or the broader economic and/or social effect of the intervention.
Intervention:	The temporary, facilitative mechanism by which donors and facilitators try to effect change (typically a project or program.)
A Market:	A set of arrangements by which buyers and sellers are in contact to exchange goods or services — the interaction of demand and supply.
Market development-based or oriented:	Activities that try to make the interaction between demand and supply more effective.
A market transaction:	The exchange between demand and supply is at full market price — the price at which suppliers are prepared to sell and consumers are prepared to buy in an unsubsidized situation.
Outreach (sometimes called “coverage” or “scale”):	The number of the target population that uses the service. Note that in the PMF, “outreach” is understood to include an indication of the coverage of underprivileged groups such as the poor or women.
Practitioner:	A non-profit organization, publicly funded consulting firm, or government institution that provides BDS to SEs or facilitates BDS provision. Distinguished from the donors who fund these activities.
Provider:	A firm or institution that provides BDS directly to SEs. They may be private for-profit firms, private not-for-profit firms, NGOs, parastatals, national or

sub-national government agencies, industry associations, etc. Used more often in this text to refer to non-profit organizations.

Public goods:	A good, or service is said to be public if the amount consumed by one individual or firm does not reduce the amount available for consumption by others.
Service:	The product consumed by SEs — fax services, technical training, consulting, marketing advice, information, etc.
Supply:	The quantity and type of goods or services that sellers wish to sell at any conceivable price (describes supplier behavior.)
Supplier:	A private sector or for-profit individual, organization, or mechanism that supplies BDS directly to SEs (contrasts with provider.)
Small Enterprises (SEs):	Includes microenterprises as well as small- and medium-scale enterprises. These size categories are usually defined by the number of employees or by assets, but these definitions vary by country and/or institution. No precise definition is adopted here.
Sustainability:	A BDS is “sustainable” if is continuously available to SEs through unsubsidized, commercial channels beyond the life of a project. Sustainability in BDS is considered at the level of impact on enterprises, specific types of services, BDS providers and BDS markets. Financial sustainability is a critical part of overall sustainability and a BDS provider, facilitator, or individual service is sustainable if commercially motivated revenues are at least as great as the full cost of service provision (direct and indirect costs, fixed and variable costs.) Revenues received from the public sector (donors or governments) are not included. Similarly, revenues received as a result of philanthropic or political motivations are not included.

Annex B: Acronyms

AFE:	Action for Enterprise
AT:	Appropriate Technology
ApproTEC:	Appropriate Technology for Enterprise Creation
BDC:	Business Development Center
BDS:	Business Development Services
BRAC:	Bangladeshi Rural Advancement Committee
BSO:	Business Support Organization
CARE:	Cooperative Assistance and Relief Everywhere
CEFE:	Competency-based Economies Formation of Enterprise
CI:	Conservation International
DFID:	United Kingdom Department for International Development
FIT:	An International Labour Organization small enterprise development program looking for innovative ways to work with commercial service providers
FGD:	Focus Group Discussions
GAMA:	<i>Grupo de Asesoàia Multidisciplinaria</i>
GEMINI:	USAID research project preceding the Microenterprise Best Practices project
GTZ:	German Agency for Technical Cooperation
ICT:	Information and Communication Technology
IDB:	Inter-American Development Bank
IDE:	International Development Enterprise
IFC:	International Finance Committee
ILO:	International Labour Organization
JOBS:	USAID Job Opportunities and Business Support Program

MBLP:	Manicaland Business Linkage Project
MBP:	Microenterprise Best Practices project
MFI:	Microfinance Institution
MPDF:	Mekong Project Development Facility
MSEs:	Micro and Small enterprises
NASFAM:	National Association of Small Scale Farmers of Malawi
NGO:	Non-Governmental Organization
PMF:	Performance Measurement Framework
PRA:	Participatory Rural Appraisal
PROARTE:	A private, for-profit marketing and craft exporting company in Nicaragua initiated with support from MEDA and profiled by the IDB and Donors Committee
SDC:	Swiss Development Corporation
SE:	Small Enterprise (refers to a micro-, small-, and/or medium-sized firm)
SEEP:	Small Enterprise Education and Promotion network
SEWA:	Self-Employed Women's Association
SMEs:	Small and Medium Enterprises
TA:	Technical Assistance
ToT:	Training of Trainers
UAI:	Usage, Attitude, Image market study
UNDP:	United Nations Development Programme
UNIDO:	United Nations Industrial Development Organization
USAID:	United States Agency for International Development

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Annex F: List of Useful Reading, Websites, and Training Opportunities

The following is a list of useful BDS reading materials, websites, and training opportunities. The papers, sites, and training programs were chosen with the aim of focusing on summaries of the BDS field, providing the most recent information on BDS in general, and directing readers to resources containing additional information. Papers on individual services, strategies, countries, or programs are listed in the bibliography and can be found at many of the websites listed below. Many organizations cited in the study also have their own websites, which can be found using any search engine.

I. Books and Papers



“A Guide for Agencies on the Emerging Market Development Approach to BDS” by A. Gibson, R. Hitchins, and M. Bear. United States Agency for International Development Microenterprise Best Practices Project managed by Development Alternatives, Inc. 2001 Website: www.usaidmicro.org (Knowledge Sharing, MBP publications).

This paper is a summary of how to pursue the market development approach to BDS. It includes the rationale for BDS in general and for the market development approach in particular, as well as key design principles that underpin the approach. Also included are sections on choosing interventions, developing a picture of sustainability, core implementation challenges, and monitoring and evaluation BDS interventions.



“Business Development Services – A Review of International Experience” edited by Jacob Levitsky. Intermediate Technology Publications 2000. Available from Intermediate Technology Publications.

This book includes 23 of the 32 papers presented at the Donors Committee Conference on Building a Modern and Effective Business Development Services Industry in Brazil, 1999. The introductory piece includes summaries of the findings of all 32 papers.



“Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention 2001 Edition (The Blue Book)” by the Committee of Donor Agencies for Small Enterprise Development, February 2001. Website: www.sedonors.org

This document includes the recommendations of the Donor committee to its members and other donors on how to pursue BDS programs for SEs. The document provides a concise description of the market development approach and principles the Donor Committee recommends donors follow in BDS programs.



“Designing BDS Interventions as if Markets Matter” By Michael Field, Rob Hitchins, and Marshall Bear. United States Agency for International Development Microenterprise Best Practices Project managed by Development Alternatives, Inc., July 2000. Website: www.usaidmicro.org (Knowledge Sharing, MBP publications)

This paper is a discussion piece on the core concepts of the market development approach and the basics of how to design a BDS market development program. The paper describes how a market works and shows the link between the functioning of a market and a BDS market development program.



“Developing Markets for Business Development Services: Designing and Implementing More Effective Interventions” by Rob Hitchins. Swiss Agency for Development Cooperation, SED Issue Paper No. 5, June 2000. Website: <http://www.intercoop.ch/sed/main/> (Products, Issue Papers)

This paper summarizes the market development approach to BDS including the reasons for the approach, intervention rationale and design, sustainability issues, and how to intervene. It includes summaries of various types of market development interventions.



“The Development of Markets for Business Development Services: Where We Are Now and How to Go Further – A Summary of Issues Emerging from the Real and Virtual Conferences on BDS for Small Enterprises” by Alan Gibson, Springfield Centre for Business in Development, for the International Labour Organization. March 2000. Website: www.sedonors.org (BDS materials)

This paper was presented at the beginning of the Donors Committee Conference on Business Services for Small Enterprises in Asia, *Developing Markets and Measuring Performance*, in Hanoi. It summarizes the market development approach: what it means, its rationale, how to undertake market development, and how to measure performance. It also includes a list of key challenges for the BDS field.



“Good Practices in Business Services: Helping Small Enterprises Grow and Create Jobs” by Janney Bretz Carpenter, Julie Gerschick, Lynn Pikholtz, and Mary McVay. Shorebank Advisory Services, September 2002. Website: www.shorebankadvisory.com (News, Publications)

The series of publications includes findings, short case studies, in-depth case studies, and recommendations from a global examination of BDS programs that help small enterprises reach markets and create jobs. This examination of programs that achieve high impact affirms the BDS market development approach, while identifying lessons about linking business development services to impact, thus making a much needed connection between the BDS market development approach and impact. It's inclusion of European- and U.S.-based cases, and the fact that the target audience is U.S. practitioners, sheds light on the persistent debate of what approaches are appropriate in different environments.



“SEEP Guide to Business Development Services and Resources” by the Small Enterprise Education and Promotion Network. Website: www.seepentwork.org/bdsguide.html

This guide summarizes the latest strategies in BDS, including best practices and debates. It addresses types of BDS, selecting services delivery channels, and performance measurement. It also includes information on funders, BDS resources, and the Donor Committee guiding principles. The guide also includes extensive information on a variety of different BDS types with program examples and references to further resources.



Small Business Services in Asian Countries – Market Development and Performance Measurement, edited by Jacob Levitsky. Intermediate Technology Publications, 2001. Available from Intermediate Technology Publications.

This book includes some of the papers presented at the Donors Committee Conference on Market Development and Performance Measurement in Hanoi, 2000.



“The UN Inter-Agency Resource Guide for Small Enterprise Development” by the United Nations Development Programme collaborating with other UN agencies.
Website: <http://www.undp.org/edu/guide/frames1introduction.html>

This guide summarizes best practice in SE development, addressing the enabling environment, business development services, challenges facing small enterprises, and designing a small enterprise programme. The guide has many examples of UN agency programmes demonstrating ways to promote different types of BDS. Examples include a contact person for more information.



“The Wheels of Trade – Developing Markets for Business Services” by Milena Hileman and Jim Tanburn. Intermediate Technology Publications 2000. Available from IT Publications and www.amazon.com

This book explores the practical realities of implementing donor-funded programs to develop BDS markets. While it focuses on the experience of the International Labour Organization’s FIT project in Africa, it includes examples from around the world. Topics addressed include the structure and activities of facilitators, product development and commercialization, improving existing services and measuring impact.

II. Websites¹¹³

Action for Enterprise



www.actionforenterprise.org

This website by one of the global leaders in combining sub-sector and BDS market development provides hands-on tools for designing programs using a synergistic approach.

BDS Seminar in Turin



<http://training,iticilo.it/bdsseminar>

This is the site for the annual BDS Seminar in Turin, Italy. It includes a description of the seminar and all of the seminar presentations from the previous year in PDF format.

¹¹³ Many of the website descriptions are from the SDC Small Enterprise Development website.

Center for International Private Enterprise (CIPE)



www.cipe.org

CIPE, an affiliate of the U.S. Chamber of Commerce, works to build democracy and market economies around the world. CIPE's strategy focuses on issues such as combating corruption and promoting sound corporate governance measures.

Committee of Donor Agencies for Small Enterprise Development



www.sedonors.org

This site provides information on the Donor Committee including its purpose and activities. It also houses the proceedings and papers from the Donor Committee conferences on business development services (click on "BDS materials")

Directory of Development Organizations



www.devdir.org

"The Directory is a compilation of contact data for the main sources of assistance available for private sector development and poverty alleviation in developing countries, with particular attention to the development of (non-) financial markets for micro and small enterprises. The Directory lists over 18,500 individual contacts of organizations and includes: microfinance institutions, small enterprise development organizations, NGOs/PDOs, development agencies, international organizations, private sector institutions, trade promotion organizations, banks, government ministries, development consulting firms and research and training institutions."¹¹⁴ The directory is organized by region, country and type of organization.

Enterprise Development Impact Assessment Information Service (EDIAIS)



<http://www.enterprise-impact.org.uk/>

This site, commissioned by DFID's Enterprise Development Department provides a range of information on how to assess the impact of enterprise development programs. It includes a variety of papers, cases studies and tools, an enquiry desk, and a very comprehensive list of links.

EnterWeb: The Enterprise Development Website



www.enterweb.org

An excellent gateway by Jean-Claude Lorin where websites on small business, finance, international trade, entrepreneurship, enterprise development, and the economy are listed thematically and geographically. Each site is rated by EnterWeb.

¹¹⁴ From the Directory of Development Organizations website.

ICT for Economic Development

 <http://www.gtz.de/sme-portals/>

A new source for information about closing the digital divide, with specific relevance to closing the gap for small enterprises in developing countries. The site focuses on providing information on SME portals and how to provide web-based information services to SMEs..

Inter-American Development Bank (IDB) Sustainable Development Department

 www.iabd.org/sds

This site's pages are available in both English and Spanish. Click on "Micro, Small, and Medium Enterprise Division" for information on BDS programs. There is also a section on publications.

Intermediate Technology Publications

 www.oneworld.org/itdg/publications.html

IT publishes many books and papers on development, particularly small enterprise development. The site includes a bookshop with shopping cart possibility. Look for the category "Business-Enterprise Development."

International Labour Organization: SEED Programme

 www.ilo.org/seed

This is the website of the ILO's SEED Programme: *Boosting employment through small enterprise development*. The site offers information on business development services, policy environment, market opportunities, association building, informal sector, best practices, job quality, and gender equality. There are a number of BDS-related publications available (click on publications.)

Pact Publications

 www.pactpub.com

Pact publishes many development-related papers and books and the site includes a catalog of its publications. Do a search of the category 'microenterprise' to see a list of books on the topic. The USAID sponsored GEMINI surveys are available through PACT.

SDC Small Enterprise Development Website

 www.intercoop.ch/sed/main

This easy to use site, managed by Intercooperation, includes news, documents and links on small enterprise development. The news includes upcoming conferences and new publications. There is also a diary of SED training courses and a list of 400 documents and 17 newsletters available from SDC is provided. The "Links" page provides descriptions of, and links to, 25 other websites on small enterprise development.

SEEP Guide to Business Development Services and Resources



www.seepnetwork.org/bdsguide.html

This guide summarizes the latest strategies in BDS, including best practices and debates. It addresses types of BDS, selecting services, delivery channels, and performance measurement and includes information on funders, BDS resources, and the Donor Committee guiding principles. The guide also contains extensive information on a variety of different BDS types with program examples and references to further resources.

Servicios de Desarrollo Empresarial Para la Pequeña Empresa



<http://sde.microempresa.org/>

This Spanish language site documents the IV Encuentro Latinoamericano, "Mercado de los Servicios de Desarrollo Empresarial para la Pequeña Subsidio? o Rentabilidad?" an international seminar conducted in Guatemala in December 2001. The site includes a description of the seminar as well as Spanish language papers and presentations on BDS.

USAID Microenterprise



www.usaidmicro.org (includes materials from the former www.mbp.org site.)

The site has many publications from past USAID research projects on microenterprise development, such as the Microenterprise Best Practice project, and will contain publications from their upcoming research program "Accelerated Microenterprise Assistance Project" (AMAP).

III. Training Programs



International Labour Organization: "Business Development Services: Developing Commercial Markets for BDS" This event is held annually in September in Turin, Italy. Development agencies have worked for years to assist small enterprises, providing a range of Business Development Services (BDS) such as training and information. Now, agencies are increasingly experimenting with BDS delivery through private-sector service markets, to boost both sustainability and scale. What do we know about this new approach? For more information, see: <http://training.itcilo.it/bdsseminar>



International Labour Organization: "Market Oriented Small Business Development Services (MOSBDS Diploma)" An on-line course, oriented primarily for providers, with enrollment offered twice a year — in July and February. <http://learning.itcilo.it/bds>



SEEP Annual General Meeting, October in Washington, D.C.: The annual meeting and conference offers a one-day workshop and several 11/2 hours sessions on specific BDS and Microenterprise development topics. For details, see www.seepnetwork.org

- ⚙️ **SEEP BDS Training in Washington, D.C.: The State of the Art in Business Development Services for Micro, Small and Medium Enterprises: Principles, Tools and Practices.** A weeklong training offered annually in July.

The training helps participants learn how to design best practice Business Development Services (BDS) initiatives and to improve the outreach, cost-effectiveness, sustainability, and impact of their BDS offerings to small and micro enterprises. The course presents the main principles of state-of-the-art in BDS and a step-by-step process for program design. SEEP combines the latest approaches in BDS market and sub-sector development in this unique training.

www.seepnetwork.org/bdsguide.html

- ⚙️ **Springfield Centre BDS Training Programme: A three-week course offered annually in July, Glasgow, UK:**

This yearly program is aimed at senior staff in BDS funding, promotion, and implementing organizations. It covers essential principles, core skills, and emerging ideas in BDS best practice and links these to what organizations should do and how they should do it. Drawing on the experience of a range of faculty, the program also offers participants choice through different elective subjects such as commercializing services, market research tools, voucher programs, and business networks and linkages. For details contact:

The Springfield Centre for Business in Development

Mountjoy Research Centre,

Durham DH1 3UZ,

UK; telephone +44 191 383 1212; fax +ff 191 383 1616; email bds@springfieldcentre.com or

download details from the website www.springfieldcentre.com

- ⚙️ **Southern New Hampshire University: Manchester, NH. An annual event in June/July.** NHC offers a Microenterprise Development institute which includes courses on business development services targeted to microfinance institutions. The institute also offers general microenterprise development and microfinance courses taught by leaders in the field. Participants can sign up for 2 weekly courses for 1–3 weeks. For more information, see:

http://www.snhu.edu/Southern_New_Hampshire_University/Academics/MDI_Home/MDI_About_the_Institute.html

Training events occurring around the world can be announced and found at:
www.seepnetwork.org/bdsguide.html and www.intercoop.ch/sed/index.htm