

# Background Reader, Business Development Services

Developing commercial markets for BDS:  
can this give the scale and impact we need?

Second Annual Seminar, Turin, Italy, 10-14 September, 2001

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and  
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International Labour Office  
Small Enterprise Development

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# 1. Introduction

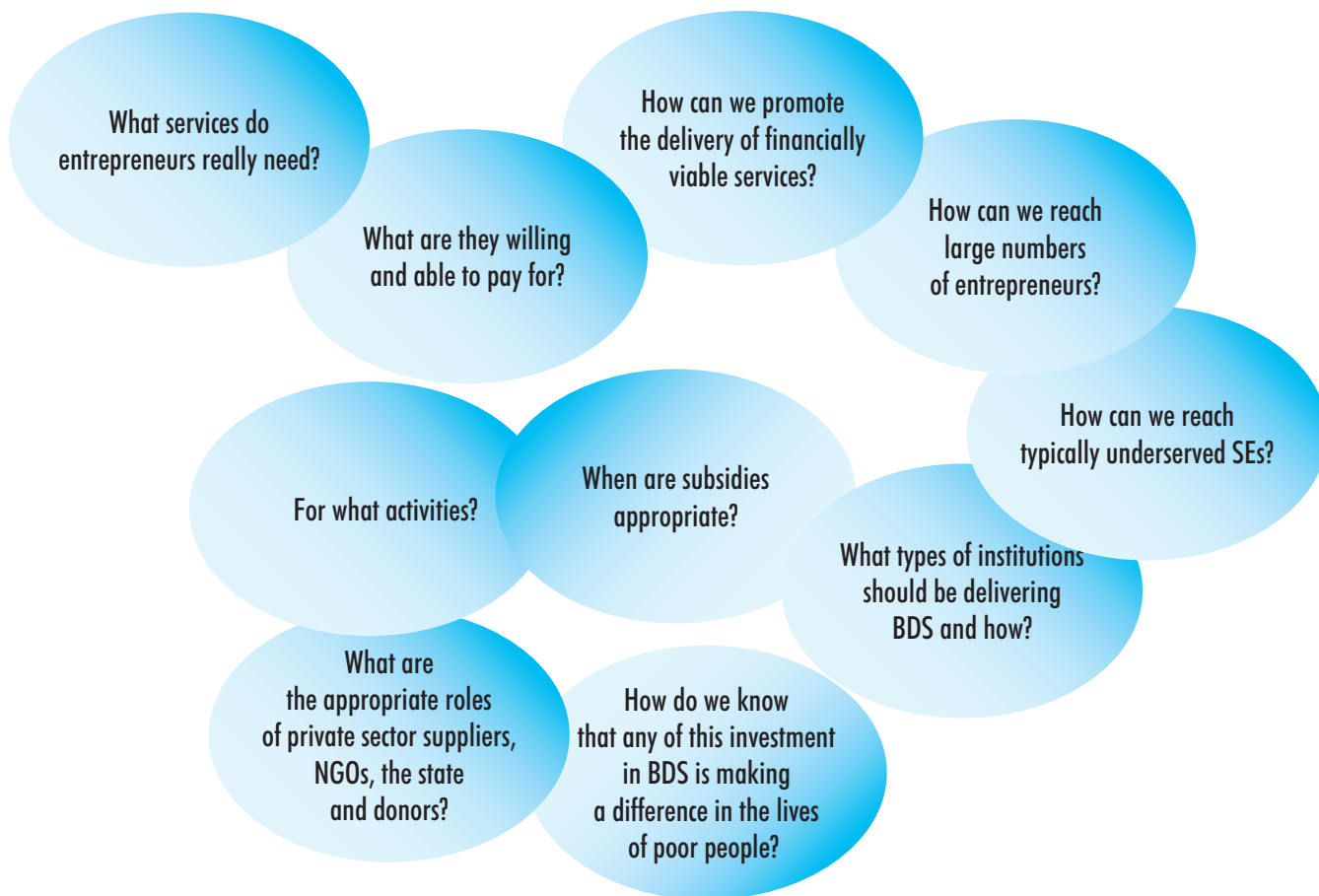
## Purpose

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

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 lack of education, inadequate technical skills, poor access to markets, lack of information and unreliable infrastructure. The wide array of services

designed to address these issues is termed “Businesses Development Services.”

After experimenting for decades with small-scale, subsidized programs, the field of Business Development Services (BDS) is now quickly moving to a new strategy of reaching large numbers of businesses in a sustainable manner. The provision of some services, such as communications and advertising, on a fully commercial basis has shown that effective markets for business services offer the opportunity to help many small enterprises develop and compete.<sup>1</sup> 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 practitioners for years.



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<sup>1</sup> Miehlsbradt, 1999.

Table 1. Types of business development services

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

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

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

Miehlbradt, Alexandra, "Guide to BDS Market Assessment for Program Design." International Labour Organization, forthcoming. Website: <http://www.ilo.org/seed>

The purpose of this Reader is to help donors, researchers and practitioners understand the latest thinking on these issues, and become familiar with the global experience that has contributed to current, best practice. This is the second annual edition of the Reader and includes updates and new experience gained since the first edition of the Reader was published in September, 2000.

### 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 a wide range of services used by entrepreneurs to help them operate and grow their businesses.<sup>2</sup> The BDS field focuses on supplying services to micro, small and medium scale enterprises. In this document the term, small enterprise (SE) covers all these categories, unless otherwise stated.

<sup>2</sup> Donor Committee Guiding Principles, 2001; Goldmark, 1997; Tanburn, 2000, McVay, 1996.



Formerly known as “non-financial services,” the field originally concentrated its efforts on provision of training, consulting and other services that address the internal constraints on enterprises, that is, their lack of education and technical capacity. More recently, the field has branched out to include marketing services and information resources that help firms gain access to services usually enjoyed by larger firms. There are a number of other activities also included under the BDS umbrella, such as infrastructure development and policy reform, which address external constraints on firms in these critical areas. As practitioners focus more on what SEs demand, the range of services that development projects address has expanded. The BDS field thus consists of many sub-fields.<sup>3</sup> Because of this diversity, it is challenging to draw conclusions about BDS in general. For example, some lessons learned about technology development may be irrelevant to marketing services. Nevertheless, the operating principles of the entire field have developed so significantly in the last five years that there are new principles applicable to all BDS, serving any type of enterprise, anywhere in the world.<sup>4</sup>

### Outline to this BDS Reader

This Reader explains the current operating principles and approaches to BDS, and offers examples of BDS programs that have used them. The first annual edition of the Reader 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, including donors, researchers, practitioners and some representatives of governments of developing countries. Through preparation of case studies and open dialogue, these experts attempted to develop, document and disseminate best practices in BDS.<sup>5</sup> The Reader refers to this group as leaders or experts in the field, and the conclusions presented emerge primarily from these conferences. The conferences were:

- **Harare, Zimbabwe, September, 1998:** Business Development Services: How Sustainable Can They Really Be?

<sup>3</sup> McVay, 1996.

<sup>4</sup> Committee of Donor Agencies, 1998; Gibson, 2000a; Tanburn 2000.

<sup>5</sup> To see the conference proceedings and papers from Zimbabwe (1998), Brazil (1999) and Hanoi (2000), see website: [www.ilo.org/employment/sedonors](http://www.ilo.org/employment/sedonors)

- **Rio de Janeiro, Brazil, March 1999:** Building a Modern and Effective Business Development Service Industry for Small Enterprises
- **Rio de Janeiro, Brazil, March 1999:** Building a Modern and Effective Business Development Services Industry in Latin America and the Caribbean
- **May-June, 1999:** Virtual Conference on Performance Measurement Framework for BDS
- **Hanoi, Vietnam, April 2000:** Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance.

From this global dialogue a new approach to BDS delivery, called the “Market Development Paradigm.” emerged. The Reader includes sections defining this approach, explaining its emergence, presenting its principles and giving examples of the strategies practitioners can use to develop BDS markets. This second edition of the Reader draws on work and papers completed after the conferences. Sections have been added to address what the BDS field has learned about market development since the last Donor Committee conference.

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

- How do practitioners decide what services to promote?
- How do practitioners learn about existing markets for BDS?
- How do practitioners go about choosing 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 Reader concludes by describing some of the current debates and challenges in the BDS field. The annexes include definitions of terms, a bibliography and list of useful reading material and websites, a list of acronyms, and a list of case examples cited throughout the Reader.

## 2. What does BDS market development mean?

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.

In order to provide SEs with access to BDS, traditional development programs focus on one institution, providing subsidies that allow SEs to access services free or at very low cost. There is now agreement in the field that this approach has had a limited impact because programs were generally short-term, small-scale and expensive.<sup>6</sup> Some non-profit BDS providers, learning from the success of microfinance institutions in sustainably reaching large numbers of people, began charging fees for services. A few have become financially sustainable. Unlike microfinance institutions, how-

ever, these programs have tended to remain small.<sup>7</sup> This is perhaps because microfinance is a mass-market product. In contrast, BDS services tend to be tailored to specific “niche” markets. The Market Development Paradigm is a new approach to BDS design and delivery that has the potential to reach large numbers, cost-effectively and sustainably.

### The Market Development Paradigm

The Market Development Paradigm 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 BDS commercially, to large numbers and types of SEs. Programs start by understanding the existing supply of BDS

#### Example 1. Early market development program BRAC: Poultry development in Bangladesh

Poultry rearing is a traditional income generating activity for millions of rural Bangladeshi, particularly women. BRAC’s poultry program aims at increasing 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 has 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 subsector 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 chickens as a cause of low-prices. The corresponding solution was to assist small-scale poultry rearers with access to high yield varieties of chicks, and the feed and medical services required to rear improved varieties. BRAC then analyzed the technology and poultry input chain, and identified interventions that would develop a sustainable technology input chain. These interventions included:

1. Identifying and strengthening private sector hatcheries, both large and small-scale. Identifying entrepreneurs and training them to start mini-hatcheries. (And, starting several sustainable hatcheries, owned by BRAC, that serve remote areas and generate income for BRAC.)
2. Identifying and training BRAC members to become poultry workers, independent entrepreneurs who provide technical and medical services to poultry rearers.
3. 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.
4. Starting a sustainable feed mill, owned by BRAC, for a reliable source of improved feed.
5. Identifying and training private sector feed sellers in the distribution of improved feeds.

The above suppliers together serve the small-scale farmers who raise and sell chickens.

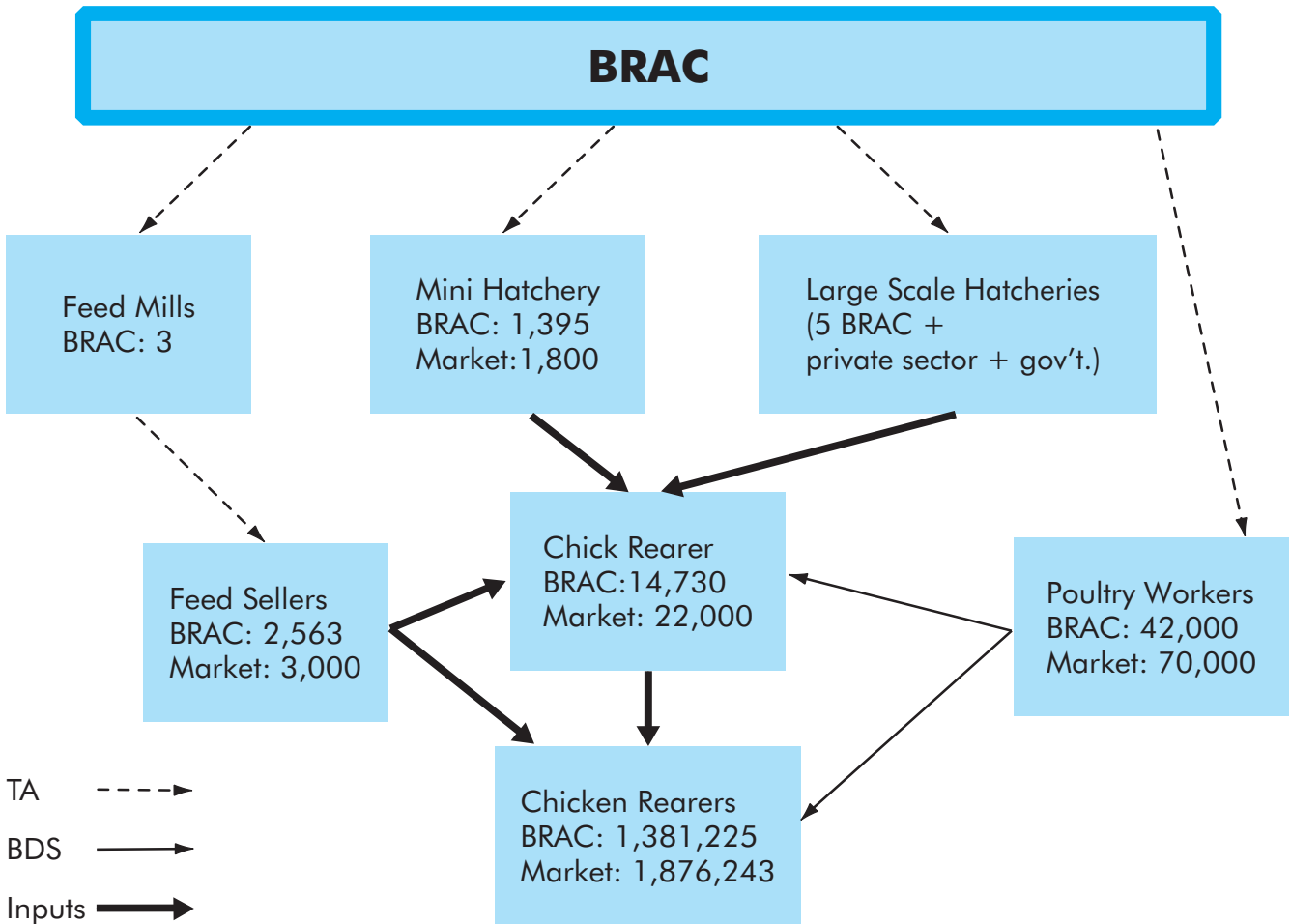
In addition to establishing this sustainable, private sector technology chain, BRAC charges fees for its services and earns income from its businesses in the sector. BRAC’s cost-recovery in these “facilitation” activities is 50%.

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: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/>

<sup>6</sup> Committee of Donor Agencies, 2000.

<sup>7</sup> Goldmark, 1999a; McVay, 1999b.

Diagram 1. Early Market Development Program, BRAC's Poultry Development in Bangladesh



from the private sector, donor supported programs and government, and the market failures that lead to a gap between supply and SE demand for services. The goal of market development interventions, then, 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” may mean paying fees for services or procuring them through commercial relationships with other businesses.)

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. Thus, market development programs tend to promote as many suppliers as

the market will bear. Some programs also stimulate demand by providing information about services, marketing services, or temporarily discounting services. The main activity of a subsidized BDS program is not direct service provision. Rather, it is market research, provision of information to consumers, new product development, supplier training, monitoring and evaluation, activities aimed at “facilitating” market improvement by increasing demand and/or improving supply.

These programs promote the following changes in the market:

- the 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;

Table 2. Traditional vs. market development interventions

|                         | <b>Traditional interventions</b>   | <b>Market development interventions</b>   |
|-------------------------|--|---|
| Vision                  | A non-profit or government organization provides quality BDS to SEs.   | A sustainable, primarily private sector market, made up of competing suppliers, sells a wide range of quality services to SEs.                              |
| Objective               | Provide quality services that SEs can afford   | Encourage others to provide quality services for which SEs are willing to pay full cost   |
| 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 impact. |

- a range of service products are available in the market;
- service quality and appropriateness improves with increased competition to serve SEs; and
- the number of transactions between private suppliers and SEs increases.<sup>8</sup>

### How does BDS market development compare with traditional approaches?

The table 2 summarizes the characteristics of traditional programs compared to market development initiatives<sup>9</sup>.

The two approaches differ fundamentally in their vision, objective, point of intervention, duration of involvement and approach toward subsidies. Experts in the BDS field have judged this change in approach so significant that they are calling it a “paradigm shift.”<sup>10</sup>

### How did the market development paradigm 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 approaches was fueled by three innovations in the BDS field:

While most BDS practitioners assume only non-profit organizations service SEs, it is actually unusual for there not to be an existing private sector market for BDS.

1. Practitioners developed “demand-driven” services. These are services that meet a specific need of SEs for which SEs are willing to pay. By charging a fee for services, BDS providers were able to deliver better services because firms began to expect value for their money.
2. Non-profit institutions attempted to recover costs through these fees, which resulted in some sustainable institutions, but few on a large scale.
3. To reach scale, a few innovative BDS programs began working with several providers, and began stimulating demand through the distribution of “vouchers” that discounted services for SEs.

These isolated experiences were shared and studied at the Donor Committee conferences around the world. The conferences also commissioned research into what works in the private sector. In well functioning markets, how do SEs gain access to BDS? While most BDS practitioners tend to assume only non-profit

<sup>8</sup> Springfield Centre, BDS 2000 Training Course.

<sup>9</sup> Adapted from Hallberg and Tanburn, Presentation to the Donor Committee, 1999 and Hileman and Tanburn, 2000.

<sup>10</sup> Gibson, 2000a.

## Example 2. The “hidden” BDS market in Vietnam and Thailand

A study by the International Labour Organisation 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 micro enterprises; 84% of the sample businesses employed less than 7 people. The study found few services were provided by service companies on a fee for

service basis. Sales services were typically provided on a commission basis. The channel through which the widest variety of services were delivered was through 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 shows that even the smallest businesses are currently obtaining 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: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/>

organizations serve SEs, it is unusual for there *not* to be an existing private sector market for BDS. These markets have remained hidden to BDS experts because they offer different products than most BDS organizations, because they are less formal, and because the experts failed to look for them. These findings have led to thinking about how to strengthen, expand and develop existing BDS markets. There is a growing sense of obligation to understand the market for a BDS before starting any type of BDS project, in order to maximize additional benefits for SEs and minimize distortions in markets that are already providing benefits to some SEs.

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 markets can be channeled to benefit SEs. The Market Development Paradigm 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.

The practitioner innovation, research into private sector markets, and innovative thinking about markets converged around the Donor Committee conferences to produce the Market Development Paradigm. The approach is still quite new. A small but fast-growing number of programs have adopted the full approach. Some older programs that helped lead to the new paradigm use aspects of the approach.

The Reader describes how existing innovative programs illustrate the principles and strategies that make up the market development paradigm whether they use the full approach or only aspects of it. Although the paradigm needs to be assessed over time to understand its long-term impact, it shows potential for reaching large numbers of SEs, sustainably and cost-effectively.

### 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 the existence of private sector BDS markets, many SEs, particularly the smallest, poorest and most remote, do not have access to desired services. This is because the BDS markets serving SEs are wrought with market failures, including:

- Suppliers serving SEs in urban areas, but not rural areas;
- Suppliers serving medium sized businesses, but not small or micro enterprises;
- Suppliers offering inappropriate or undesirable services;
- Suppliers providing appropriate services, but there are so few suppliers that prices are high and the wait is long;
- Suppliers who are not skilled in business management and marketing themselves offering a limited service range using limited promotion strategies;

### Example 3. BDS market failures in Vietnam, Indonesia and Malaysia

Recent research documented a variety of market failures common to BDS markets in Vietnam, Indonesia and Malaysia. A sample of the problems are described below:

**Supply-side:** The study found that private sector suppliers in all three countries faced competition from government and donor funded programs. The “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, leaving a lack of 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: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/>

- Suppliers’ lack of market information about the service characteristics that SEs desire;
- Small numbers of suppliers, who create a monopoly or cartel, resulting in high prices for services and, often, inappropriate service products. In the case of marketing businesses, monopolies may result in exploitative prices for SE products and few alternative market channels;
- SE lack of information about available services and their benefits;
- Risk averse SEs, combined with suppliers who are unable to convey the quality of their products, resulting in SE reluctance to try services.

Continued intervention in BDS markets is required to resolve these types of market failures. In other areas of the economy, the role of donors and governments is to establish the conditions for market growth, addressing problems in the market and promoting equity. Donors see that this may be the best job they can do in BDS as well.

### Where is the BDS field now in market development?

Since the Donor Committee conference in Hanoi, donors, practitioners and academics in the BDS field have been working to elaborate and begin testing the market development approach. Some donors and practitioners have started new programs using the market devel-

opment approach. Others are adapting existing programs to follow some or all of the market development principles.

Donors and practitioners have begun to share the lessons they are learning from implementing the market development approach. (See Chapter IX) More performance measurement and analysis of existing programs has been conducted to find the lessons learned and see how these programs might mesh with the market development approach. A particular area of focus has been how the market development approach can be effectively applied to reach typically underserved SEs. (See Chapter IX). A lot of critical thinking has been done to flesh out how to implement the market development approach.<sup>11</sup> A number of agencies are working on how to effectively monitor and evaluate market development programs and development of a common performance measurement framework for BDS programs is ongoing. (See Chapter VIII)

Recognizing that the BDS field still knows relatively little about existing BDS markets, research in this area has also been a focus of recent work. One of the key findings has been that BDS markets often do not look the way donors and practitioners expect.<sup>12</sup> There are a

<sup>11</sup> See particularly “BDS Market Development: A Guide for Agencies” by A. Gibson, R. Hitchins and M. Bear, Forthcoming from the USAID Microenterprise Best Practices Project managed by Development Alternatives Inc. website: [www.mip.org](http://www.mip.org)

<sup>12</sup> Miehlsbradt, 2001a.

#### **Example 4. Surprising forms the BDS market takes Market access and packaging services for bicycle parts manufacturing in Vietnam**

A European bicycle manufacturer imports 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, greases and pre-assembles them before packing them according to the assembly plant's requirements using the bar codes provided. 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 the 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>

wide variety of types of BDS providers ranging from individuals working part-time in the informal sector to large formal sector companies and institutions. Transactions take on various forms. Fee for service transactions may be a minority of the transactions that take place in BDS markets for SEs. 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 of 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 to determine the appropriate structures, capacity and funding mechanisms to effectively implement market development programs. (See Chapter X). More experience in implementing market development programs and sharing lessons learned will help the field address these issues.

#### **Example 5. 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 main source of income. Mary began training when she was accepted into an ILO Training of Trainers (ToT) course to offer Improve Your Business to her fellow SEs. Since then, she 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 cash books 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 Amazon.com

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### 3. What are the important principles of BDS market development?

Is there a practical way to intervene in BDS markets? The markets are diverse, with a variety of types of services and transactions. Many suppliers and customers operate in the informal sector. In old-style program, donors would conduct a needs assessment and develop relationships with a few non-governmental organizations which would provide services to SEs. The complexity and informality of BDS markets create challenges not faced by these simple arrangements. New-style projects are showing that if donors and practitioners 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.<sup>13</sup> These principles may be modified as the field gains more experience with the market development approach.

#### Facilitate market development rather than providing services

In traditional programs, donors and governments have intervened in the BDS market at the level of transactions. They have directly provided services to SEs or permanently subsidized services by non-government providers. In the market development approach, donors and governments instead try 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 to encourage suppliers to enter new markets, to develop new, low-cost products, and to expand services to under-served markets.

In the diagram 2 “Facilitating BDS Market Development,” the vertical dashed lines represent the divide between public and private funds. The market development paradigm suggests 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.”<sup>14</sup>

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<sup>13</sup> Committee of Donor Agencies, 2001; Gibson, 2000a.

#### Start with market assessment

To effectively intervene in a market, donors and practitioners must understand it first. 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 are in demand by SEs? What prices can they pay? Who is providing those services in the market but perhaps not to SEs? What are the weaknesses and opportunities in the market? In order to minimize the market distortion that any subsidy creates in a market, it is helpful to have a good understanding of BDS markets before starting interventions. Donors, in particular, are increasingly conducting market assessment before designing BDS programs.

#### 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 distortions.<sup>15</sup> Donors and practitioners are beginning to target market problems and opportunities identified during market assessment with interventions aimed specifically at addressing those issues. Interventions are designed with specific market development objectives.

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

Subsidies which directly reduce the cost or price of services are likely to distort markets more than subsidies for pre- or post- delivery activities. In the market development approach, subsidies for transactions are avoided or limited to a short duration with specific objectives. Donors are beginning to use subsidies instead for pre-delivery activities such as the development of service products, test marketing, capacity building and awareness raising, or for post-delivery activities such

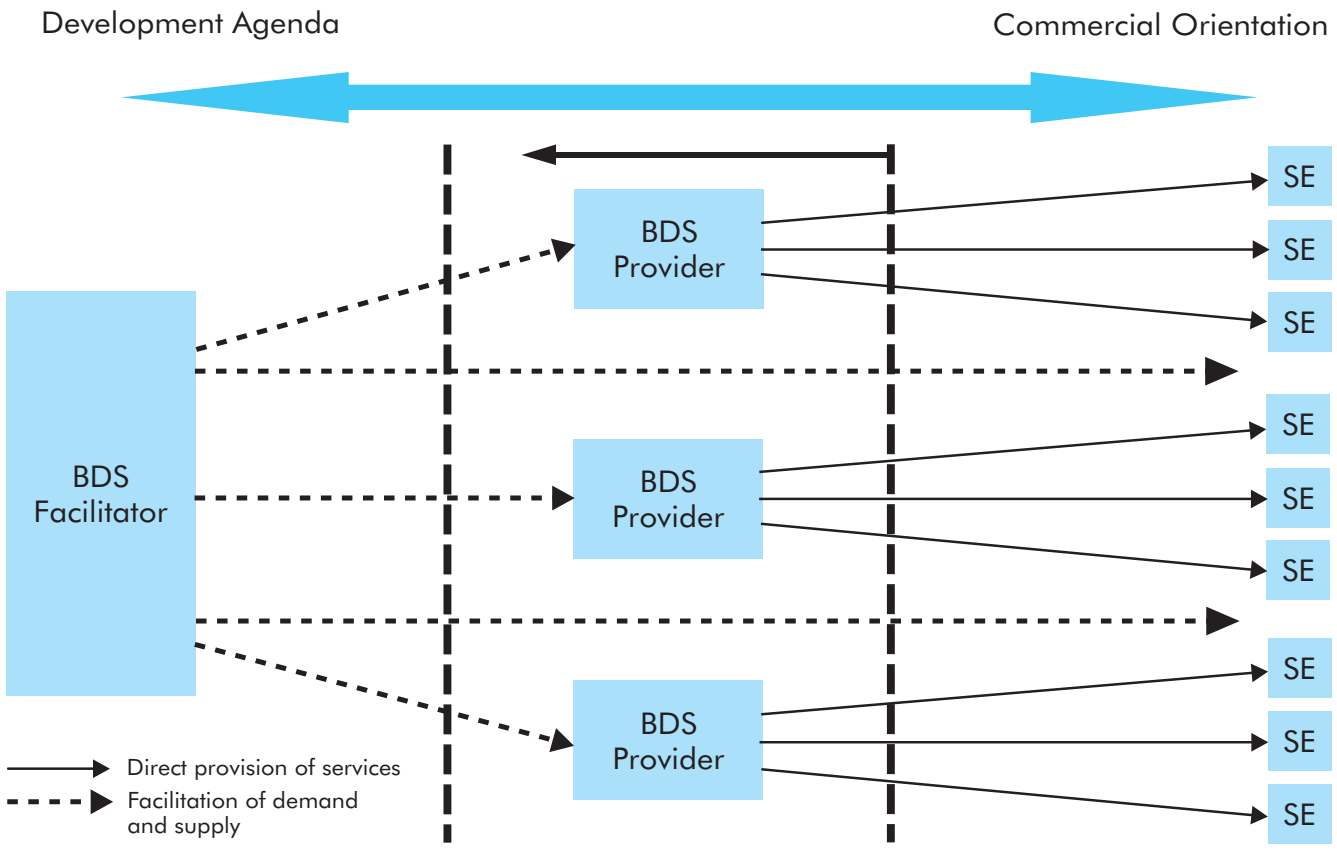
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<sup>14</sup> Committee of Donor Agencies, 2001.

<sup>15</sup> 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



Diagram 2. Facilitating BDS market development



as gathering consumer feedback. Subsidies are also being used for monitoring and evaluation.<sup>16</sup>

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

Like traditional programs, market development programs may 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 and frequently innovate to meet changing demand and capitalize on market opportunities. Sustainable markets should also be growing in volume and offering increasing access to underserved groups. There is growing consensus that development agencies are more likely to end programs successfully if there is a specific vision for a sustainable market. The challenge is to

assess the market objectively to determine when it has reached a sustainable level.

**Separate the roles of provider and facilitator**

In many BDS programs, the same organization performs both the supplier role, offering services directly to SEs, and the facilitator role, encouraging other individuals and firms to supply services to SEs. This often presents a conflict of interest for a competitive supplier. Because facilitators usually have a development agenda and suppliers have a commercial agenda, mixing the roles often leads 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 their functions. The exception is if a facilitator can finance its activities by selling services to suppliers, thus becoming a sustainable, permanent market actor.<sup>17</sup>

<sup>16</sup> Committee of Donor Agencies, 2001.

<sup>17</sup> Committee of Donor Agencies, 2001.

### Promote competition and efficiency in the market

Traditional programs often work only with one supplier. This practice tends to give one supplier an unfair advantage over others and suppress competition in the market. Instead, experts now think that facilitators should promote competition among suppliers, usually by working with multiple suppliers. This does not preclude working with one supplier for some activities at some points in a program, for example testing a new product or in a new or very weak market. However, it means that a facilitator must always be careful to promote rather than stifle competition in the market. Traditional programs often work with not-for-profit or public institutions. Private sector suppliers are usually more efficient and more innovative. Programs do not have to exclude organizations with a social mission, however facilitators should encourage these organizations to act as commercial market players and distort the market as little as possible. All players in the market should have equal opportunity to access facilitation services. Otherwise, the facilitator is “picking winners” rather than letting the market determine which suppliers are best.

### Develop a transactional relationship with suppliers

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

### Tread lightly in markets.

Large government and donor programs have often suppressed private BDS markets or crowded out private suppliers. Even what donors consider moderate financial inflows can damage a budding market. Particularly where poverty alleviation is the program goal, donors face pressure to disburse funds. Visible donor involvement in SE programs tends to distort

markets because SEs and providers come to expect subsidies. If markets are to develop and serve low-income clients with the services they desire, they must not be smothered. Donors and practitioners should exercise discipline, matching interventions to the level of the market, emphasizing technical assistance over financial inflows and maintaining a low profile. This appears to be difficult but important in markets with weak demand, a common characteristic of low-income consumers.<sup>18</sup>

### 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.<sup>19</sup>

### Coordinate donor efforts

It is very difficult and not very effective for one donor to pursue a market development approach if several 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 who advocates market development. Free services dampen SE willingness to pay. Even if all donors are pursuing a market development approach, coordination is important. 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.<sup>20</sup>

Even if all donors are pursuing a market development approach, coordination is important.

<sup>18</sup> Tomecko, 2000.

<sup>19</sup> Tomecko, 2000;Committee of Donor Agencies, 2001.

<sup>20</sup> Tomecko, 2000;Committee of Donor Agencies, 2001.

## 4. How can practitioners select appropriate services?

For years, BDS practitioners stated that SEs are not always aware of the benefits of BDS because so few have experienced them. Therefore, the argument went, BDS need to be subsidized and promoted, sometimes even required in order to access finance, until such time as the entrepreneurs in a community realize the value of the BDS. All too often, however, that time has not come. Despite participatory rural planning methods and expensive surveys assessing needs, too many BDS programs continue to supply services that are not valued by entrepreneurs. The impact of the service cannot be demonstrated and entrepreneurs are not willing to pay for the service. What is the solution to this dilemma? “Demand-driven” services.

### *What are demand-driven services?*

In general, demand-driven services are those that meet a clearly identified need and for which SEs are willing and able to pay. Paying fees for services is one clear way entrepreneurs can express their desire and felt value for a service. If the service is adding value to their business and is worth the investment, they will pay. If not, they won't. In addition, when people pay for something, they expect quality service in return. Entrepreneurs are more likely to give

### **Example 6. The importance of charging a fee BusinessNOW training in Atlanta, Georgia (USA)**

A business development program in Atlanta, Georgia (USA) developed a business management workbook for low-income African American women, for use in their training course. At first, the workbook was free while trainers asked participants for comments. These were few and far between. Once the workbook was finalized and had gone to print, the program began charging a minor fee for the book. The comments flooded in, typos were identified, racial stereotypes were eliminated, and figures were made consistent throughout the book. Lesson learned: charge a fee even during the pilot phase to get real feedback from a real market test.

Personal experience of the author, Mary McVay

### **Example 7. Embedded services can also be demand-driven Furniture manufacturing in Vietnam**

In Vietnam, many furniture showrooms exist in Hanoi that sell furniture from rural SE producers. Some of these showrooms provide market information and product designs to their SE suppliers. For example, one showroom prepares design drawings when ordering furniture from rural producers. These services help rural producers stay in touch with the changing urban market trends. The showrooms embed the costs for this service in the commissions and mark-ups on their 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. <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/>

feedback to an organization about their precise wants and needs if they are paying customers, who don't need to worry about offending a patron. Although many entrepreneurs are not able to identify complex constraints facing their businesses, evidence suggests that when SEs gain access to a service that meets an articulated need, and thus are able to solve a business problem, they start to see and want to address other business problems as well.<sup>21</sup> Demand-driven services are thus more likely to have an impact on business performance than services that development experts believe will benefit SEs, even though SEs themselves don't see the benefits.

A second type of demand-driven service is one acquired through commercial transactions or relationships, that meets a specific, articulated need of SEs, but for which SEs may not have to pay up-front. For example, buyers of SE products often provide product specifications, market information or raw materials to their SE suppliers. Or, large businesses may pay for advertising in newspapers or radio programs that provide useful information to SEs. Often,

<sup>21</sup> Chen, 1996.

SEs receive training and advice from peers, friends and relatives 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.

### *How are demand-driven services being chosen?*

Traditionally, non-profit BDS providers identify services that SEs need. One major shift in approach with the market development paradigm is that private sector suppliers should select services based on what they feel they can sell in the market. Often, however, these suppliers need technical assistance in identifying services that are in high demand, and in understanding the features and benefits of services that SEs desire. Thus, a BDS facilitator is often in the position to work with suppliers to identify and select services to deliver, and their characteristics. The identification of what services to market, to whom and where, is essentially defining the BDS market that is to be developed.

Programs are using different starting points to choose services depending on their objectives. Those that focus on a particular group of SEs start by looking at demand from those SEs. Other programs identify subsectors in which

Many programs are realizing that SEs can not and will not pay for sophisticated services that have been subsidized with donor funding. Emerging experience suggests that businesses want and will pay for less sophisticated but relevant services.

SEs operate that have potential for growth and select services that will help both the subsector in general and SEs within it expand. Programs focused on SEs in general start by looking at a broad range of services with the aim of identifying those that the highest number of SEs want. Programs with specific economic objectives, such as increasing exports, look for services that will help SEs contribute to that objective.

As programs begin to consider what services SEs will buy, the type of services that program managers are choosing is starting to change. Many programs are realizing that SEs can not and will not pay for sophisticated services that have been subsidized with donor funding. Emerging experience suggests that businesses want and will pay for less sophisticated but relevant services.<sup>22</sup> For example,

some programs are now looking into promoting “low-end” services, such as courier, money transfer, advertising, basic accounting and bookkeeping, rather than or in addition to services more traditionally promoted by development programs.

Some agencies are analyzing the types of services that different kinds of SEs typically want with the aim of beginning to generalize what types of services may be in demand in different circumstances. For example, new entrepreneurs often want information about competition in their sector and links with other enterprises (suppliers, service providers and buyers). Expanding entrepreneurs often want advice on product and market development and information on cost-effective means to modernize technologies. Entrepreneurs in transition economies often want advice on privatization and its implications for restructuring and training in market identification. While these generalizations do not always hold true, these types of analysis provide a starting point for choosing appropriate services for different SE segments.<sup>23</sup>

### *What tools can help practitioners choose demand-driven services?*

There are a variety of tools that can help BDS practitioners choose demand-driven services. General SE surveys, participatory rural appraisal, subsector analysis and test marketing are four tools currently in use that can be very helpful in identifying appropriate services that SEs demand. These tools are covered in this chapter. Consumer marketing research can also be helpful for identifying services that SEs demand. Consumer marketing research tools are also used for choosing market development interventions, and they are discussed in the next chapter.

Because it can be expensive to do several market studies, some organizations are combining studies to choose services with studies to choose market development interventions. In this case, surveyors need to balance program design objectives in developing a market assessment plan. Studying many services will provide better information for choosing services to facilitate. More depth of information on a single service will provide better information for designing interventions. One practical way to

<sup>22</sup> Hitchins, 2000.

<sup>23</sup> UNDP, 2001.

balance the objectives is to conduct a broad assessment of the markets for many BDS and then conduct some supplementary research on the one or several that the program will promote.

The rest of this section presents four tools currently in use to help donors and practitioners select services. The description of each tool is followed by a case example in which the tool was used to identify services.

### General SE surveys

Since the “informal sector” was identified as an important source of employment and income for poor people in developing countries, studies have abounded to document its existence, characteristics and the contribution it makes to the economy. The USAID sponsored project GEMINI conducted some of the first statistically valid national surveys of the SE 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 on such areas as:

- The number of SEs in a country and the number of people employed.
- The geographic, sector, size and gender distribution of firms.
- Growth trends in the sector, and in different groups within the sector.
- Indications of major constraints affecting the growth of the firms.

As useful as this data is, the potential for its being available and current is not very high

now that the GEMINI project is over. Although efforts were made to build local capacity to carry out the surveys, few local government or other agencies have funded repeat surveys. Still, almost every country has some general data available on the SE sector that will provide useful background information for program design. If up-to-date information is not available, it can be expensive (\$200,000-300,000) to conduct a survey, and difficult to find the necessary expertise.

### Participatory rural appraisal

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

- Resource mapping, in which participants draw maps of their community with relevant resources available.
- Seasonal mapping, in which participants describe seasonal trends that affect their work and lives.
- Network mapping in which participants draw linkages they have to external individuals and resources.
- Ranking exercises, in which participants rank their status, the importance of problems or the preferred solutions.

#### Example 8. Program design using national surveys Jamaica MicroNET Business Service Centers

Jamaica MicroNET was designed using national data to determine the size, firm type and location of its target market, and to identify services that would be in demand by large numbers of microenterprises. The national surveys indicated that:

- Micro enterprises were the largest segment of the SE market.
- The majority of SEs without services were located outside the major capital, where the growing consumer markets are.

- The majority identified marketing as a key constraint.

Program designers concluded that interventions that assist microenterprises to access urban markets would be most in demand. They selected services that were in use in other countries: a business service center that supplies telecommunications, post office, photocopying, desktop publishing and marketing advice.

Hanna, James and Ton de Wilde, “Jamaica MicroNET,” Donor Committee Conference on Building a Modern and Effective Business Development Services Industry for Small Enterprises, Brazil, April 1999. Website: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

### Example 9. PRA design techniques SEWA in India, Women's Subsector Development Program

Self-Employed Women's Association (SEWA) in India conducts participatory subsector development programs with poor, self-employed women. SEWA started its work by organizing self-employed women into groups according to the work they are involved in, for example incense making or dairy production. With these groups, SEWA used PRA techniques to identify immediately felt needs. These needs are addressed initially, and with the momentum of simple success, the groups go on to identify and tackle larger structural issues. This approach led to SEWA's

national dairy cooperative support project. The immediate need for women dairy workers was for access to vaccinations and veterinary services. SEWA conducted a pilot program 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 Subsector Approach to Promoting Women's Enterprises*, Aga Khan Foundation Canada, 1996.

PRA can be useful in: identifying services that are in high demand by a particular population; understanding how SEs operate in particular economic environments; identifying what constraints are most significant for them; and getting information about the features and benefits a particular 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 that the role of the researcher is to bring that knowledge to bear in identifying and solving key problems.<sup>24</sup> PRA is the most affordable and simple technique for identifying services SEs demand.

#### Subsector analysis

Subsector 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 "subsectors." The main tool in subsector analysis is a map that describes the linkages of firms operating in the same industry, in different market channels. For example, a furniture map might show one set of linkages from a national forest to wood cutters, to sawmills, to wood wholesalers, to 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 to urban shops to 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. For example, a subcontracting service might link SEs to the large-scale exporter so that SEs may take advantage of higher international prices.

The information for the maps comes from national survey data, from interviews with "key informants" including large firms in the sector who know the industry well, and from PRA-style discussions with SEs. Subsector 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 will help entrepreneurs take advantage of new market opportunities. The more SEs are involved directly in conducting the subsector analysis, the more likely it is that the services identified will be in high demand.<sup>25</sup> Depending on the depth and sophistication of the study, subsector analysis can be a quite simple PRA exercise with key sector players, or a more sophisticated, professional data collection exercise.

<sup>24</sup> Chambers, 1997.

<sup>25</sup> Haggblade and Gamsler, 1991; Lusby, 1999. Chen, 1996.

### **Example 10. Subsector analyses and program design Enterprise Works Worldwide and the coffee sector in El Salvador**

In El Salvador, Enterprise Works Worldwide, a US based NGO, chose to focus on the coffee subsector. A subsector analysis revealed that small scale coffee producers could earn more income if coffee was sold processed. The analysis also determined that key problems in the subsector were inefficiency and environmental pollution. Enterprise Works Worldwide used this analysis to design a program to assist small scale coffee producers. The program promoted several BDS which helped address these issues. The program helped link cooperatives so that small cooperatives without processing facilities could use the processing facilities of larger cooperatives. Links

among cooperatives also improved efficiency by enabling cooperatives to cooperate on financing, processing and marketing of coffee. Enterprise Works Worldwide also assisted the cooperatives to computerize their production and marketing information. In order to reduce environmental pollution, Enterprise Works Worldwide provided access to better technology and helped cooperatives to provide training and technical assistance to their members on environmentally friendly production techniques that also reduce costs. These services have assisted small scale coffee producers to increase their profits.

"El Salvador Coffee Project" 1998 from the Enterprise Works Worldwide website: [www.enterpriseworks.org](http://www.enterpriseworks.org)

### **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, as follows:<sup>26</sup>

- Starting without a pre-conceived idea of what services might be in demand, staff members listen closely to entrepreneurs about their constraints and what exact services might address those constraints.

- Initial service ideas are developed from those discussions, drawing on ideas for services that exist in the private sector.
- New services are pilot 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.

<sup>26</sup> Hileman and Tanburn, 2000

### **Example 11. Action research program design ILO FIT in Africa**

The FIT Program has designed and commercialised 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 have been a recognised and effective tool for networking, developing new markets, and technology and skill exchange for MSEs, but has predominantly been undertaken with high subsidies. The FIT program identified a demand from small businesspeople to travel and experimented with national enterprise visits with groups of MSEs travelling to meet their counterparts in other parts of their country. Subsequently, FIT developed and tested a range of tours for MSEs in East and Southern Africa to visit other businesses or commercial events in neighbouring countries and other regions of Africa. FIT built on the proven

willingness of MSEs to pay for a number of these services and began supporting a number of tour agencies to develop and sell these tours on a commercial basis

**Commercial training and facilitation:** The FIT program developed and tested two training methodologies that helped MSEs to undertake practical marketing (Rapid Market Appraisal) and demand based product development (User-Led Innovation). These products were initially tested through traditional donor-supported training channels but were subsequently sold to commercial training businesses through training of trainer courses in East Africa. These two products and a further ILO developed training product (Grass-roots Management Training) were therefore sold into the private sector and modified and adapted according to the specific demands of the training market.

Hileman, Milena and Jim Tanburn, *Wheels of Trade*, Intermediate Technology Publications, 2000, available from IT or Amazon.com; ILO FIT website at [www.ilo.org/seed](http://www.ilo.org/seed)



## 5. How can practitioners choose strategies to develop BDS markets?

The above analyses are largely focused on the basics of a BDS program: defining the BDS market to be developed. This process mainly entails selecting what service to deliver to whom and where. Then begins the challenge of developing the market. Experts agree that in order to develop a market, it is critical to first understand how the market is currently operating.<sup>27</sup> Based on this understanding, a program manager can choose market development strategies aimed at reducing specific constraints to market development or taking advantage of existing market opportunities for expanding the SE market. Interventions that target specific market problems and opportunities have the most potential for developing a market while minimizing market distortion.

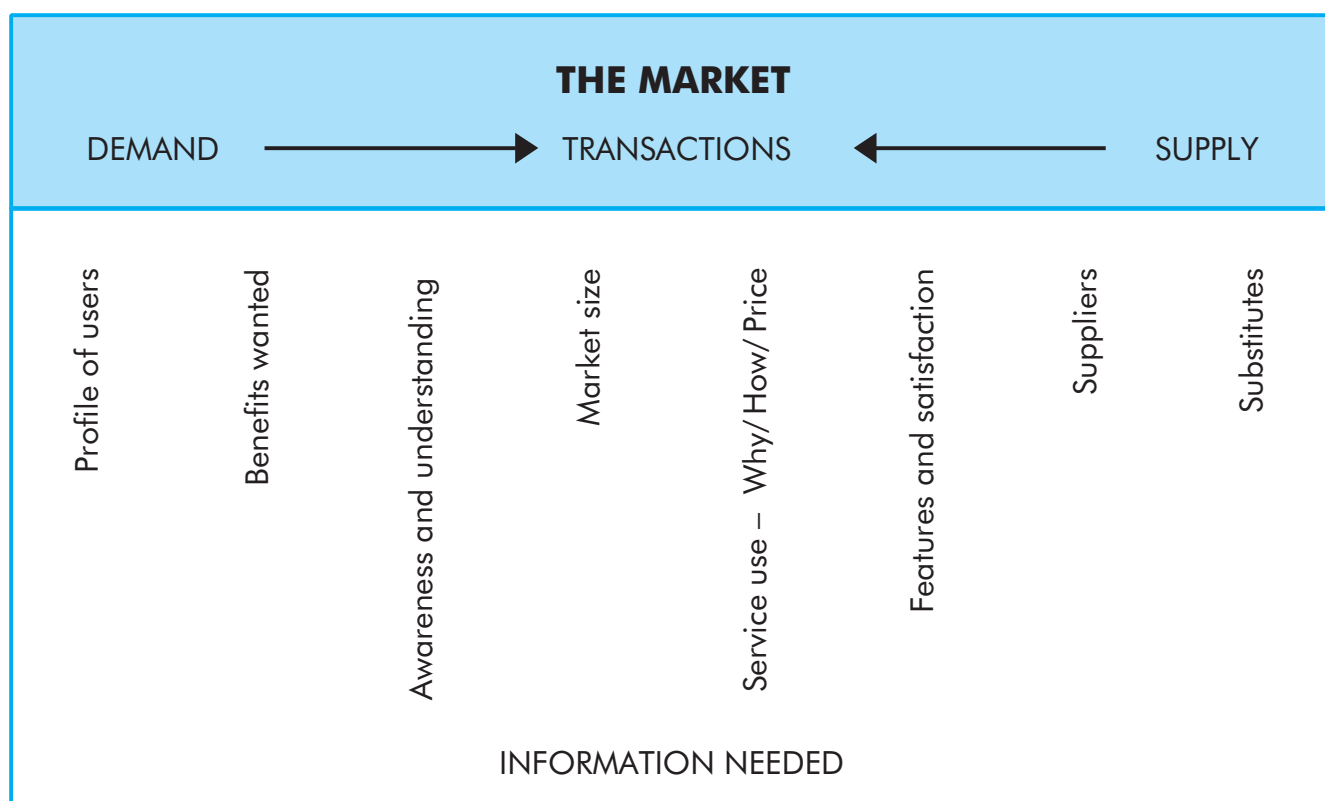
Using a market-development approach, there are three steps to this process:<sup>28</sup>

1. Conducting a market assessment to understand the existing service market;
2. Identifying market problems or opportunities;
3. Identifying intervention strategies that address the priority market problems and/or opportunities.

### *What information about a market do you need to choose interventions?*

Essentially, an understanding of the market has three components: demand, supply and transactions (the interaction between demand

Diagram 3. Information needed to assess the market



<sup>27</sup> Committee of Donor Agencies, 2001.

<sup>28</sup> For more information, see Michlbradt, Alexandra, "Guide to Market Assessment for Program Design," forthcoming from the International Labour Organization. Website: [www.ilo.org/seed](http://www.ilo.org/seed)

and supply). Within each of these components, there are several issues to grasp.<sup>29</sup>

#### **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 free services?
- How are the services delivered? How do SEs want services to be delivered?
- What are the service features that SEs want? How satisfied are SEs 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?

The outcome of analyzing this information is a picture of a BDS market showing how the market works and where there are significant problems. For example, a weakness in the market may be that SEs are unaware of available services or unclear about their benefits. Another market weakness might be that suppliers are offering inappropriate products or services that do not have the features that SEs want. (See Diagram 4., on next page).<sup>30</sup>

#### *How can practitioners gather this information?*

There are a variety of sources for this information and tools to get it. Information can come from consumers (SEs), suppliers, business

associations (of either consumers or suppliers), government agencies or key informants. The most important source is consumers – the SEs. By seeing the market through their eyes, practitioners make the market work better for them. The field is realizing that traditional needs assessment techniques do not get useful market demand information from consumers. Rather, they focus primarily on information that helps define development goals: the characteristics of SEs, their contribution to employment generation or growth, and their general constraints. These assessments do not capture SE desire for services, the features and benefits a service should have, and SE willingness or ability to pay for these services. Now the field is adapting private sector marketing research tools, which are proving useful in gathering market demand information from SEs. They are proving an excellent compliment to traditional program design tools.

#### *How extensive does information gathering need to be before a program gets started?*

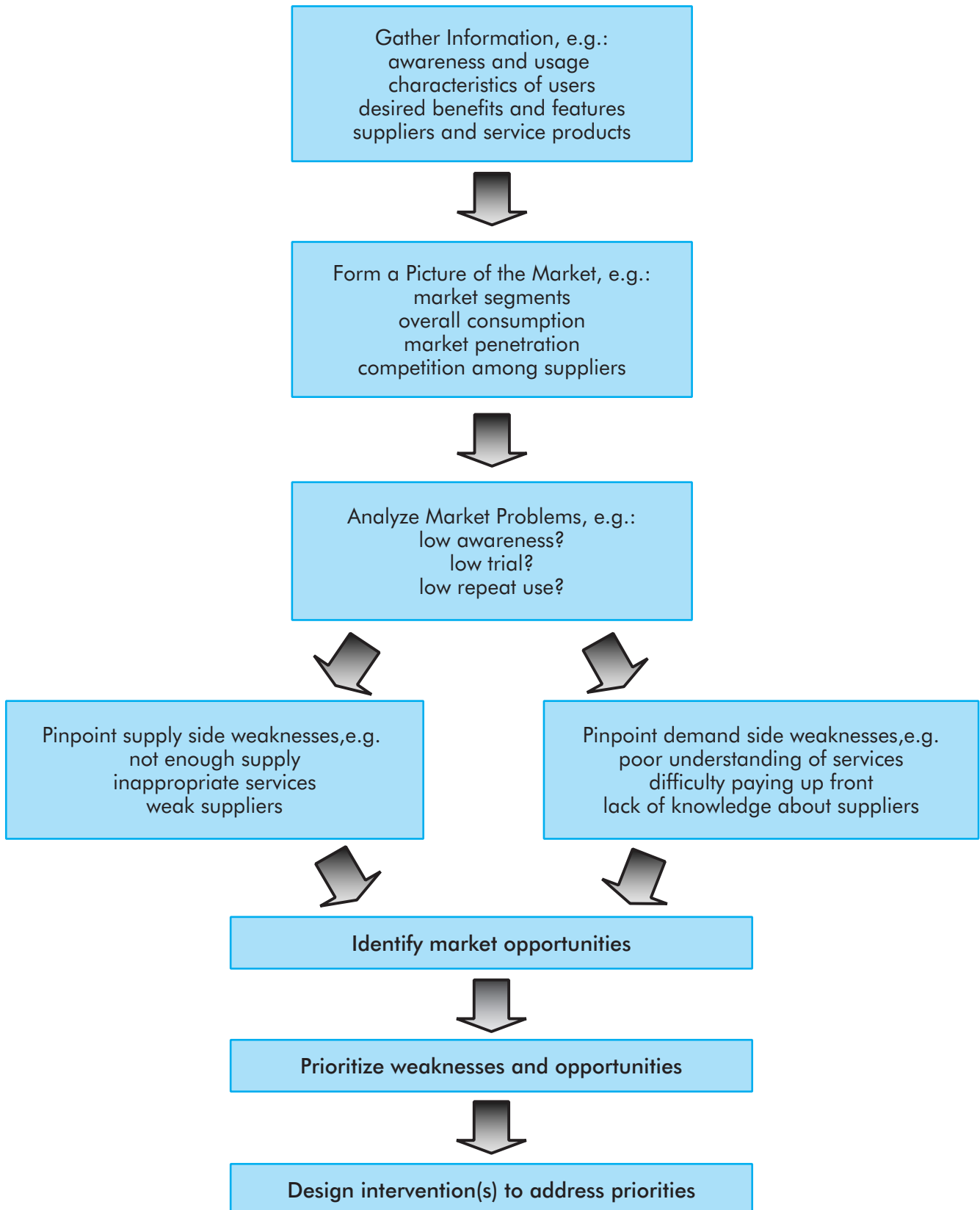
As a general rule, the further away from the market an organization is and the bigger it is, the more formal and extensive should be the market assessment. Big organizations that are far from the market, like donors, need formal market assessments because they do not get frequent market feedback. Donors and other large organizations should conduct consumer surveys and supplementary market research before starting a program. Large facilitators or suppliers may need a formal market assessment even if they are in the market, because their ample resources and the many layers between consumers and decision makers can isolate strategic decision makers from market signals. Large private sector companies rely more on formal market research not only because they have more resources than small companies but also because they need it more to stay in touch with the market.

The closer to the market **Small providers and small commercial facilitators can rely more on customer feedback and test marketing rather than formal, up front market assessment, because they are in frequent contact with customers.**

<sup>29</sup> Adapted from Springfield Centre, (BDS 2000 Training Course, module by Bear and Miehlbradt).

<sup>30</sup> Adapted from Gibson, Hitchins, Bear “BDS Market Development: A Guide for Agencies,” 2000.

Diagram 4. Overview of market assessment process



mal, up front market assessment, because they are in frequent contact with customers. They can receive regular feedback in the form of customer comments and customer willingness to pay for services. Also, the investment is smaller, so the stakes are lower.

New BDS market development programs are experimenting with market assessment tools. Two such tools, consumer marketing research and supplier diagnostics, are described below. These tools are probably most effective when used in combination with one another, but organizations will also select from them depending on their resources and role in the market.

### Consumer marketing research tools

As the Market Development Paradigm has evolved, BDS experts have started to adapt commercial marketing research tools to the task of identifying demand-driven BDS and determining how to develop BDS markets. These tools are designed to get accurate and useful information from consumers in order to expand the sales of suppliers. They yield specific information on what SEs demand, how satisfied they are with currently available services and how to improve the supply of services.

Consumer research uses a variety of techniques to get information directly from consumers. Both quantitative tools and qualitative tools are available. Quantitative tools offer statistically significant – and therefore reasonably accurate – data on the market. Qualitative tools offer more in-depth information, which is often easier to interpret and apply to market development. However, qualitative information is not statistically significant and therefore might not yield an accurate picture of the whole market.

The following two tools have been used to help choose BDS services and design market development interventions.

- **Usage, Attitude, Image Market Study.** A UAI is a consumer research tool that generates a broad, quantitative overview of a market and can pinpoint specific market constraints and opportunities. It was designed to look at the market for a single service but has been adapted also to function as a tool to compare a variety of services and understand BDS markets in general. The UAI gathers information through a survey of consumers – either SEs

### Example 12. Usage, Attitude, Image Study USAID's study of telecommunications in the Philippines

USAID used a UAI to understand the market for information and communications services in the Philippines. Three surveys of 100 SEs each were conducted on different consumer groups. The data showed that the market for basic telecommunications services was functioning quite effectively. However, the data suggested ways in which suppliers could improve service features and also pointed to several weak market segments, particularly micro manufacturers. Also, the market for newer ICT services such as email and Internet was almost non-existent but there was potential for these types of services if they had the features SEs want.

Miehlbradt, Alexandra "Information and Communications Services for Micro and Small Enterprises in the Philippines," Development Alternatives, Inc. / USAID, 1999. For more information, see the USAID- Microenterprise Best Practices website, [www.mip.org](http://www.mip.org).

in general or a specific consumer segment or group. By using random sampling, the UAI generates a statistically significant picture of the market.<sup>31</sup> UAI surveys require skills in marketing research and statistical analysis but a reasonably small sample of 100-500 can yield accurate data on an entire market.

- **Focus Group Discussion.** An FGD is a targeted discussion with a group of consumers managed by a facilitator. Discussions with service users focus on consumer experiences with the services, their reasons for using them, their satisfaction with them, and what they would want changed. Discussions with non-users focus on how they get the benefits of the service elsewhere, why they don't use the service, what would make them buy the service and what service features they would want. FGDs are a qualitative tool that yields specific ideas for marketing and improving services. FGDs require specific skills in order to

<sup>31</sup> For more information on this method see, Miehlbradt, Alexandra "Guide to Market Assessment for BDS Program Design" forthcoming from the International Labour Organization. Website: [www.ilo.org/seed](http://www.ilo.org/seed)

### Example 13. Focus Group Discussions GTZ's study of trade fairs and other services in Nepal

GTZ conducted FGDs in Nepal on several services to supplement a UAI study on 13 different BDS. The information from the FGDs is now being used to help suppliers improve their services and marketing to SEs. For example, the FGDs on trade fairs found that SEs were not participating because the available trade fairs are

inappropriate for their size enterprises and the products they produce. During the FGDs, consumers described many features they wanted in a trade fair, such as a focus on Nepali products and an intimate atmosphere that promotes personal contacts.

Tomecko, Jim "The application of Market Led Tools in the Design of BDS Interventions," Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance . April 2000. Website: [www.ilo.org/employment/sedonors](http://www.ilo.org/employment/sedonors); or contact Prashant Rana of GTZ Nepal at [prashant.rana@gtz.org.np](mailto:prashant.rana@gtz.org.np).

obtain objective information, but are quite easy and affordable to conduct.

Practitioners can use consumer research data to design market development interventions. For example, consumer research data might show that SEs are reluctant to try a service for the first time. In this case, a practitioner might choose to train suppliers in trial inducing strategies such as free trial services or referral programs. If consumer research shows that SEs are unaware of service suppliers, a practitioner might choose to develop a service supplier directory, train suppliers in marketing strategies or develop a BDS consumers bureau.

#### Supplier diagnostics<sup>32</sup>

Supplier diagnostics enable a practitioner to examine the supply side of the market and get suppliers' views on the market. Supplier diagnostics are a helpful complement to consumer research because they allow a practitioner to add depth to his or her understanding of supply problems and to identify "gaps" or areas of disconnection between supply and demand. Based on this information, a practitioner can determine the opportunities in the market for new products, marketing strategies or suppliers.

In conducting supplier diagnostics, the practitioner aims to gather information from a range of different types of suppliers: large formal companies, small firms, informal suppliers such as individuals who supply services part-time, embedded service suppliers, donor-supported organizations and government agencies.

A practitioner conducts supplier diagnostics by interviewing and observing a range of suppliers offering a particular service. Ideally, a practitioner would be able to interview a statistically significant sample of suppliers. In practice, this is rarely possi-

ble because of the difficulty in developing a list of suppliers that includes the many informal suppliers or embedded service suppliers that often characterize BDS markets. However, the practitioner aims to gather information from a range of different types of suppliers: large formal companies, small firms, informal suppliers such as individuals who supply services part-time, embedded service suppliers, donor-supported organizations and government agencies. Consumer research or key informant interviews can provide information about the types of suppliers operating in a particular BDS market.

Interviews may be formally structured or more exploratory in nature. They aim to give a practitioner a good picture of each supplier: its product and market mix, ownership structure, business strategy, capacity and views of the market. Combining this information with an understanding of demand will help a practitioner identify where there is potential to intervene in order to strengthen a market. For example, consumer research might show that there is a lack of appropriate service products for SEs in the market and supplier diagnostic data might show that suppliers do not know what service benefits and features SEs want. In this case, a practitioner might choose to provide suppliers with market information on what SEs want or teach suppliers how to conduct basic consumer research on SE consumers. Alternatively, consumer research might show that consumers do not understand what services can offer them and supplier diagnostics might show that suppliers do not have the capacity to market their products effectively. In this case, a practitioner might choose to provide suppliers with training and technical assistance in marketing or to develop a general awareness raising campaign among SEs about the service.

<sup>32</sup> Miehlsbradt, 2001.

### **Example 14. Supplier diagnostics GTZ's study of management training and other services in Nepal**

GTZ conducted supplier diagnostics with a range of BDS suppliers in Nepal to complement consumer research. The supplier diagnostics helped GTZ identify demand-supply “gaps.” For example, in the market for management training, focus group discussions with non-users showed that consumers wanted new products that address specific business problems. Interviews with management training suppliers showed that while suppliers were somewhat aware of this demand, most training courses they offered were

generic, “off-the-shelf” management training courses. The suppliers were selling these generic courses mainly to donors and found this market stable and profitable. In this environment, suppliers were risk averse to creating new products and trying to sell them directly to enterprises. In addition, suppliers were not sure exactly what products and product features were in demand. This research showed GTZ that there was a need for intervention in product development.

Bear, Marshall A. “PSP’s Offer to BDS Suppliers: Consultant Report for GTZ/Private Sector Promotion Project.” unpublished, January, 2000. For more information, contact Prashant Rana at GTZ Nepal, email: [prashanrana@gtz.org.np](mailto:prashanrana@gtz.org.np)

## 6. What strategies develop sustainable access to BDS?

The market development approach attempts to help SEs gain sustainable access to services through private sector suppliers who will seek out profitability as a primary goal. One challenge of the model is to see how well purely private sector suppliers can provide low-income and under-served SEs with effective services. In order to do so, they may need assistance in developing sustainability strategies that work, particularly with low-income or otherwise under-served clients. In addition to this challenge, the Donor Committee guiding principles recommend that, in order for market distortions to end, traditional programs become more business-like:

“...there are often many not-for-profit BDS providers already in the marketplace, and during the transition to a commercially-oriented model there is much work to be done to assist NGOs and other not-for-profit providers to become more sustainable and business-like.”<sup>33</sup>

The transition from subsidized to sustainable programs may be difficult for non-profit organizations that are not used to the realities of the private sector market. In fact, there is some evidence that a common sustainability strategy is to target higher income clients, leaving a typical market gap in serving the poor.<sup>34</sup> Thus, there remain several key challenges to facilitating long-term availability of services for SEs.

1. Financial viability (or cost-recovery or profitability) of BDS service delivery. Do the fees charged to SEs cover the daily costs of providing the service? Can a supplier earn a profit from SEs with the service?

2. Sustainability (cost-recovery or profitability) of BDS provider institutions. Is the supplier covering its operating costs and making a profit? Moving up a level, is the institution able to re-invest any profits in the development of new services? Moving up another level, is the institution able to recover or repay the up-front subsidies received when the program started (whether in cash or in-kind)? This is primarily a challenge faced by traditional programs wishing to make the transition to a market develop-

ment approach. It is also the case, however, that many private sector BDS suppliers are operating on the brink of viability and may need assistance with financial planning for their company.

3. Cost-recovery of the facilitation services provided to develop the BDS sector as a whole. If BDS suppliers are private sector businesses or are financially sustainable, can facilitators charge them for development services and recover costs? How? In situations where BDS facilitators supply ongoing services (spreading awareness about a particular technology, for example, or facilitating business linkages), exiting the market would hamper its development. In these cases, how can the services become sustainable?

These challenges to reaching sustainability are significant and 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 of BDS points to key program issues:

- how SEs, especially low-income SEs, can finance BDS investments,
- how payment mechanisms can be designed to fit SE capacities and
- how to design services that have a very clear and fast payoff.

Second, effective BDS are tailor-made to meet specific demand of specific target markets.<sup>35</sup> As a result, up-front research and development costs are fundamentally higher than those of microfinance programs, whose methodologies at this point are fairly standard around the globe. In addition, the scale of services will usually be smaller because the markets for specific services are smaller.<sup>36</sup> Third, many BDS services have developed in the context of donor-funded institutions. In order to attract donor funding, the education level of staff and financial tracking systems need to be at a sufficiently high level, a situation which

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.

<sup>33</sup> Committee of Donor Agencies, 2001.

<sup>34</sup> Lee and Bear, 1999.

<sup>35</sup> Committee of Donor Agencies, 1998.

<sup>36</sup> Goldmark, 1999a.

often leads to cost structures that are prohibitive for cost-recovery from fees paid by SEs. Finally, 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 programs are achieving this goal.

Several strategies are emerging for achieving sustainability in BDS that are presented in more detail in the section below. These include:

1. Delivering financially viable services from the outset, particularly through private sector suppliers;
2. Facilitating embedded services or using profits from a marketing business to finance product development, training and other services;
3. Cross-subsidizing from one set of customers to another, or across different services;

4. Supplying mutually beneficial services to small and large firms, and having large firms pay the fees.
5. Facilitating business relationships and mentoring that do not require financial outlays;
6. “Piggy-backing” on microfinance institutions;
7. Offering sustainable public sector financing.

Each strategy is described and illustrated by an example.

### Financially viable 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. Donors or facilitators build on existing markets by promoting innovation, providing market

#### **Example 15. Supporting financially viable services Mekong Project Development Facility in Vietnam: Management Training Services**

In 1997, Mekong Project Development Facility (MPDF) started a program to develop the management training market in Vietnam. MPDF chose to focus on this market because both demand and supply were growing but there were significant constraints to expanding the market. An explosion of private sector firms in Vietnam had created many new companies whose managers needed additional skills. Demand was enhanced by the great value placed on learning in Vietnam. On the supply-side, a number of universities and business support organizations had begun offering management training. However, the courses were not appropriate for SEs and consumers complained about the quality of supply. Rather than initiating a new organization to offer subsidized training, MPDF elected to strengthen private sector and non-profit training institutions in offering commercially viable courses.

The program proceeded as follows:

1. MPDF undertook market assessments to understand the existing market and determine how best to meet demand for management training.
2. MPDF sponsored a pilot test of a 36 hour management training course through a local university.
3. MPDF developed new training course content in cooperation with three local universities.
4. The three local universities tested the courses with an MPDF subsidy for promotion only; the group then revised course content and determined how to market the courses.
5. MPDF sponsored one university to train 40 trainers from various organizations in how to deliver the new course content.
6. The three universities began offering the courses on a commercial basis.

Results in the first six months were encouraging: 20 courses were delivered to 574 participants.

McKenzie, John, “Creating a Market in Management Training for Vietnam’s Private Firms: MPDF’s Experience,” MPDF (IFC), 2000; Geoff Stevens and Mark Nielsen, “Commercialized Training Product Development: Lessons from the Trenches,” Prepared for the Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance; Hanoi, Vietnam, April, 2000. Website: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>



information or helping with other product development costs, but do not subsidize the delivery of services.

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

1. Suppliers offer services that are low-cost and often have a very short-term payback period of a few months or less.
2. Costs are reduced by separation of activities between “facilitators,” who perform much of the BDS service development and testing, and “suppliers” who supply standard services on a regular basis.
3. Costs are further reduced by the “facilitator” playing a liaison role between suppliers and donors, so that suppliers can be experts at serving SEs while facilitators can be experts at negotiating and managing donor funds, and developing supplier capacity.
4. Market research costs may be subsidized by BDS facilitators who help with technical assistance or conduct research relevant to a large number of suppliers.
5. BDS marketing costs may be subsidized by BDS facilitators who spread awareness about and promote services.
6. Suppliers are primarily private sector businesses, donor funding is not used to subsidize direct transactions, and the presence of donor funding is not publicized, so that SEs are less expectant of subsidies. Full prices are charged as soon as the service is fully designed.<sup>37</sup>

Not all examples of sustainable BDS services follow all of these principles, but these 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.

### Embedded services and marketing companies

Many SEs, particularly low-income SEs, are reluctant to or cannot pay up-front for val-

uable services. They can, however, make their products, particularly if a buyer supplies raw 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, such as quality control, packaging or promotion, whose costs are paid by the mark-up on the SE products. Similarly, companies that supply inputs or technology to SEs sometimes provide training or advice as part of the sale. These are called “embedded” services.

Programs are promoting embedded services in two ways. Some programs facilitate business links between SEs and other companies that offer embedded services. Other programs actually establish marketing businesses that offer embedded services, particularly when there is a monopoly buyer offering exploitative prices to SEs. The strategy is most commonly used in the agri-business and crafts sectors. The main reason the strategy works is that SEs do not have to pay up-front for the services. Instead, the transaction is part of their regular business operations.

There are a few problems with providing subsidies to marketing businesses, however. Supplying services as part of a transaction removes the demand signal of SEs paying directly for a service. In the case of private sec-

#### Example 16. Embedded services and marketing companies PROARTE Craft Marketing in Nicaragua

PROARTE, a Nicaraguan handicraft company initiated by MEDA, a Northern based NGO, markets traditional handicrafts for around 100 rural artisans. Founded in 1996 as a quasi-private sector firm with venture capital from MEDA, and other public and private investors, PROARTE operated at approximately 15% profitability in 1997, receiving no operating subsidies. PROARTE offers minimal training services to its suppliers, relying heavily on other non-profit groups to provide these services. The costs of services it supplies are embedded in product mark-up costs.

Mikkelsen, Lene, “Good Practice in Microenterprise Marketing: Cases from Latin America,” Donor Committee Conference on Building a Modern and Effective Business Development Services Industry for Small Enterprises, Brazil, March, 1999. Website: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>

<sup>37</sup> Hileman and Tanburn, 2000; Goldmark 1999.

### Example 17. Cross subsidies Grameen Village Phone: Bangladesh

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

1. Grameen Bank formed a telecommunications non-profit, Grameen Telecom (GT). GT in turn formed a for-profit company, Grameen Phone (GP), in partnership with international private and public investors. GP won a bid to the rights to provide cellular phone services in Bangladesh.
2. GP provides cell phone services to upper income individuals in urban areas. Profits are

channeled into GT to the Village Phone Project.

3. The Village Phone Project selects, from its pool of interested borrowers, individuals to start village-level telecommunication businesses, often run out of homes or existing businesses. The individuals receive financing, training, hardware and cell phone services. Loans carry an interest rate of 22%.
4. 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 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: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

tor marketing companies, if the company provides ineffective services, such as a product design that doesn't sell, the company's bottom line will be affected and the company will adjust. However, if a non-profit marketing company is subsidized, then there are opportunities for the company to provide services, such as general skill training, that may not be demand-driven. Thus, it is important for non-profit marketing companies to be held accountable to the same market pressures as for-profit companies.<sup>38</sup>

There is another cautionary note in this strategy. In many cases the start-up of non-profit marketing companies is subsidized in markets where there is a lack of private sector trade channels, or there are monopoly traders in the private sector. The companies are designed to create competition where there is none. However, if the non-profit company crowds out the private sector firm, it then becomes another monopoly, which opens up opportunities for individuals to exploit the SEs that the company was designed to serve. Instead, a market development approach to this strategy would be to try to reform the private sector traders, or to support the develop-

ment of several marketing companies so that there is competition.

### Cross-subsidies

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

1. Supplying BDS to larger businesses that can pay profitable rates, and using the profits to supply the service to smaller businesses.
2. Operating a completely unrelated business and using those profits to subsidize BDS activities.
3. Using income from a viable BDS to cover the costs 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.

<sup>38</sup> Mikkelsen, 1999. Litrell, 1999.

The advantage of this strategy is that an entire BDS institution can be sustainable, whether or not particular services are. Subsidies can be provided without long-term commitment of governments and donors. One disadvantage, however, is that there may be other private sector suppliers that would enter the market to supply the subsidized BDS, but the subsidies may crowd out the private sector. Another disadvantage is that market signals may be distorted if SEs pay 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 that subsidize services to SE with contracts from donors to build the capacity of other BDS suppliers.<sup>39</sup>

### Mutually beneficial services

A variation on cross-subsidies, but a much more viable strategy, is to identify and deliver business services that are mutually beneficial to both small and large firms, and to have large firms pay the fees. The best example of this is 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 and 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 papers that have some large-scale advertisers. One could also imagine how other mutually beneficial services, such as sub-contracting services or programs that help craft purchasers, like Pier One, to access products, might be financed in this way.

### Sustainable, relationship-based BDS

Sometimes, firms in the private sector receive free BDS through their own business networks. Business people develop mutual assistance or mentoring relationships that do not cost either entrepreneur anything except

<sup>39</sup> Bissegger, 2000.

### Example 18. Mutually beneficial 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 paid for by a telecommunications firm and a bank that serves small businesses. 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, forthcoming ILO Working Paper, June, 2001.

the transportation and communications costs to develop and maintain the relationship. For example, complementary businesses may refer clients to each other or large enterprises may provide market information to complementary small enterprises as part of their involvement in a business association.

Some BDS programs are designed to take advantage of these informal BDS by helping to facilitate relationships that are then a sustainable source of BDS for SEs. The advantage of this approach is minimal costs and high quality information exchange, because private sector players usually are best positioned to provide training and information to other entrepreneurs. The challenge is to identify ways to sustain the linkage service itself, which can be seen either as a facilitation activity, and therefore worthy of subsidy, or as a BDS that should also be demand-driven.

### Piggy-Backing on Microfinance

One strategy receiving increasing attention is known as "piggy-backing," that is, disseminating a BDS through a micro-finance institution. Despite the poor performance of past

### Example 19. Sustainable, relationship-based services CARE Egypt and Information Services of the AgReform Project

For decades, Egyptian farmers received information about what to produce, how much and when from the Ministry of Agriculture, which in turn purchased their crops and marketed them in urban areas. When this system became financially untenable, and when policies to encourage the development of private sector markets were implemented, isolated Egyptian farmers were left without much market and production information. CARE Egypt found that significant, relevant information was stored in the vast resources of universities, associations and government Ministries in Cairo. Rather than build up a staff of agricultural extension officers, CARE started the

AgReform project to help farmers build relationships with information sources, and access information on their own. CARE facilitated the formation of groups, and trained leaders to conduct PRA to identify information gaps. CARE helped groups to identify and physically visit information sources, such as universities, seed suppliers and buyers. The farmers built relationships with these information sources, and skills to repeat the process. CARE published a directory of information sources, and then continued to facilitate new groups. Older farmers groups access information sustainably for only the cost of a trip to the city.

McVay, Mary, "Microenterprise Marketing: Trends, Lessons Learned and Challenges," SEEP 1999. Website: [www.seepnetwork.org](http://www.seepnetwork.org)

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. The more successful programs use credit meetings to disseminate information about a BDS, but offer the BDS 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:

1. Promotion costs are minimal because there is a captive audience in credit meetings who can hear and spread the word about available services.
2. Clients have access to finance to pay the fees for a BDS.
3. For training services in some cases, costs for both supplier and entrepreneur can be kept to a minimum because the training is delivered during a loan committee meeting or using microfinance facilities during off-hours.
4. Overhead is minimized because costs are shared and, in general, cross-subsidized by the micro-finance program.

There are also potential disadvantages of this approach:

1. Clients may feel compelled to purchase the service, thinking their loans will be considered favorably if they do so.

2. There is some evidence that the primary clients for training are not the same as micro-finance clients.<sup>40</sup>
3. Staff may become distracted with too many activities, and skills may be diluted if the same staff members are required to be loan officers and trainers, for example.
4. There is a danger of cross-subsidizing low-demand services with lucrative micro-finance services, thus compromising institutional profitability.
5. 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 to entrepreneurs for that reason.

There may be significant lessons to be learned from additional research into this practice. Currently, there are few cases that document experience with the practice of "piggy-backing." One, Swisscontact in Tanzania, involves a non-governmental organization developing and franchising new services. Another strategy, attempted by PRIDE Africa, was for the microfinance institution to provide a directory and referral service to area BDS suppliers. Yet another developed a market information service that is sold and delivered separately to microfinance clients in Bosnia. Enhancing this concept with the market devel-

<sup>40</sup> Goldmark, 1999b.

### Example 20. Piggy-backing on microfinance services CARE-Bosnia's Market linkage Services

CARE Bosnia supported the development of a non-governmental microfinance organization in war-torn Bosnia. A few years after its inception, CARE attempted to initiate some market-linkage services through the microfinance institution. The microfinance institution was not interested and felt that the service would adversely affect its financial viability. So, CARE Bosnia initiated the service itself. It is an information-based market linkage service in which a business officer helps firms identify businesses to buy from and sell to. The service was particularly relevant as many

Mary Morgan, Presentation to the SEEP Network, October, 2000.

business relationships were severed during the war. The business officer visits a business, and, using a palm pilot, enters into a database the items that the client buys and sells. The business officer then pulls from the data base businesses that buy what the client sells and sells what the client buys. For every contact that the client takes from the business officer, the client pays a fee. Once the service was up and running, it became financially sustainable and the microfinance institution allowed CARE to market the services to its clients, which dramatically improved outreach.

opment perspective, a BDS facilitator could facilitate commercial, mutually beneficial partnerships between BDS suppliers and microfinance institutions.

#### Can public sector financing of BDS be sustainable?

Public sector financing may not be considered “sustainable” by some analysts, but is considered here because there are programs that have used this strategy, endured for long periods of time and reached large numbers of clients. Given the history of governments in providing subsidized, politicized services, it must be approached with caution. Nevertheless, some are public goods, for which is it difficult to capture costs from individual SEs, that may be appropriately funded through particular types of government levies. The key to the success of such a strategy is to identify long-term sources of finance related to the SE sector, which can self-finance services for SEs. For example, fees for municipal markets are used to develop and service market space for informal sector businesses. There are several requirements for achieving success in these endeavors:

1. A local government must be legitimate and accountable to its constituency;
2. Local government must have the capacity to manage public funds and the capacity to administer simple transfers.
3. The local government or, in the case of a democracy, the local population must consider the service to be a public good, something that benefits society but for which is it difficult to recover costs.
4. Often, interested constituencies must advocate to gain general acceptance of the services as a public good.

The advantage of permanent public financing of the supply of BDS is that governments are in a position to have a widespread impact throughout the country. The risks are many and well-known: fund allocation may become politicized or corrupt, limited funds may be allocated so that limited numbers of SEs benefit, and subsidies may compete with the private sector. Yet, depending on the financial and political climate, there are cases in which large numbers of poor people may benefit significantly over long periods of time from such public sector subsidies.

### **Example 21. Public sector funding NASFAM Agricultural Associations in Malawi**

The National Association of Smallscale Farmers of Malawi (NASFAM) emerged from a development project that assisted over 60,000 Malawian farmers in organizing 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 themselves do not receive subsidies. Rather they operate as businesses, primarily linking farmers to existing private sector sources of BDS. For example, a major activity of NASFAM is to advise associations on contracting processes when hiring private transporters to haul tobacco to market.

NASFAM collects membership fees for its services to associations, but the fees do not cover the entire cost of operation, which includes significant promotional, information and organizing activities for which it is difficult to charge fees. Instead, NASFAM advocated to receive an allocation of a tobacco levy that is collected on the auction floor. This has become NASFAM's main source of finance, in addition to membership fees. Although the BDS is dependant 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](http://www.seepnetwork.org)

## 7. What strategies can be used to develop BDS markets?

The BDS market development approach as an explicit development strategy is still young. 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 specific market problem or take advantage of a specific market opportunity. However, practitioners are finding that there is often more than one way to address a specific market issue. More experience and experimentation are needed before the field can clearly outline which specific 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 distorting it as little as possible. By targeting a specific problem and intervening only enough to address the problem, programs run the least risk of distorting the market.

### *Where should interventions focus?*

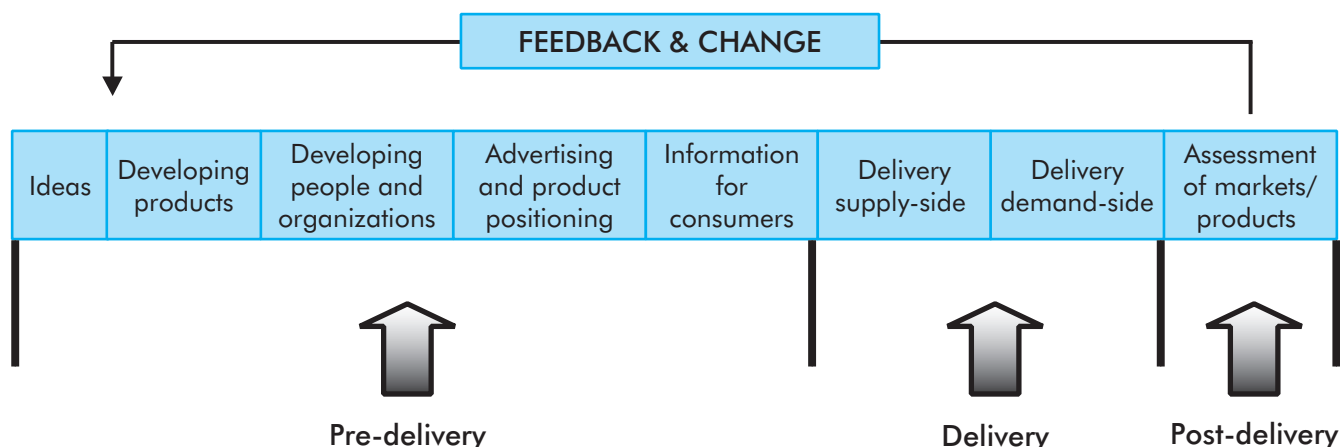
The Diagram 5,<sup>41</sup> shows the functions in a BDS market. Traditionally, donors have supported programs that intervened at the delivery

stage, most often by directly supplying services. However, it is usually less distorting to intervene at the pre-delivery and post delivery stages. Intervening at the delivery stage usually causes considerable distortion.<sup>42</sup> The distortion is 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 be sending to suppliers. Market distortion is less when practitioners support the relationship between suppliers and SE buyers, for example by providing 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.

### *How do programs work with suppliers?*

Many interventions involve partnerships between a facilitator or a 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

Diagram 5. Functions in a BDS market



<sup>41</sup> Springfield Center BDS 2000 Training Course

<sup>42</sup> Springfield Center, BDS 2000 Training Course

Table 3: Support to One Supplier Vs. Promoting Competition Among Suppliers<sup>1</sup>

| 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 usually develop and monitor relationships with multiple suppliers.         |
| Strategies for achieving program targets | Targets for outreach – such as total number and percent women- are all placed on one supplier, effectively dictating the supplier's client focus.   | Targets for outreach can be spread over many suppliers, allowing each supplier more leeway in choice of clients.   |
| Intervention intensity per supplier      | The 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 are more at liberty 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 promotes donors maintaining relationships and subsidies even when programs are not effective.                               | Suppliers can be added or dropped from the program; which enables the donor/facilitator to have a more business-like relationship with suppliers.  |

<sup>1</sup> Adapted from Springfield Centre, BDS 2000 Training Course

life of a program and opening access to the opportunities donors offer to a range of suppliers. It does not exclude working with one supplier at some points in a program, for example to test a new service product. Table 3 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:<sup>43</sup>

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

This business-like approach has a number of advantages:<sup>44</sup>

- Requiring that the majority of an investment for an initiative comes from private sector suppliers means that the financial scale of the initiative will generally fit the capacity of the market. Experience shows that this is likely to be more sustainable than initiatives with heavy donor support, that tend to be out of proportion with suppliers' costs and SE capacity to pay.
- Business-like relationships foster business-like incentives, behavior and attitudes among both suppliers and facilitators.

<sup>43</sup> Unpublished correspondence on the Swisscontact Indonesia Business Centres, Springfield Centre BDS 2000 Training Course

<sup>44</sup> Tanburn unpublished, 2000; Springfield Centre, BDS 2000 Training Course



- 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 the 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.

### *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 are often finding 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 have provided SEs with services that experts thought they needed, regardless of what the SEs thought. 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 SEs understanding of what the service can offer. Then, SEs can make a better informed decision about whether they want the service or not. If SEs generally produce a service in-house, a program may subsidize supplier marketing efforts which show why outsourcing a service can be a cheaper alternative. Again, this strategy helps SEs make informed choices about purchasing services.

### *What interventions develop markets?*

A variety of market development interventions are used in practice. Each strategy aims to address one or several weaknesses in a BDS market. Some address primarily demand-side weaknesses in BDS markets; some address primarily supply-side weaknesses, but most interventions affect both sides of the market. Some programs are finding it necessary to combine several market development strategies, particularly if there are several interrelated problems

in a market. There is often more than one way to address a particular market issue.

Table 4 shows some market constraints and strategies to address them.

The strategies used most commonly to date are described below.

1. **Vouchers and Matching Grants** 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(s).
2. **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.
3. **Clusters or Networks** address SE lack of ability to pay for services and supplier inability or unwillingness to sell services in small enough quantities for individual SEs. The aim is to help SEs overcome diseconomies of scale in purchasing BDS by enabling them to purchase services in groups.
4. **Business Linkages** 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.
5. **Technical Assistance** 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.
6. **Product Development and Commercialization** addresses a lack of appropriate 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 or service businesses.
7. **Social Venture Capital** 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.

Table 4. Matching BDS market problems with interventions<sup>1</sup>

| Market problem   | Possible interventions  |
|--|---|
| <b>Demand-side problems</b>  |   |
| Consumers lack information about services  | <ul style="list-style-type: none"> <li>● Develop a BDS yellow pages</li> <li>● Open a BDS consumers' bureau or information center</li> <li>● Help suppliers improve their marketing</li> <li>● Implement a voucher scheme</li> </ul>  |
| Consumers are unable to effectively identify their business problems   | <ul style="list-style-type: none"> <li>● Develop an awareness raising campaign about typical business problems and BDS that can help</li> <li>● Help suppliers create marketing campaigns that help SEs identify business problems</li> </ul>   |
| Consumers do not have the capacity to pay for services up front  | <ul style="list-style-type: none"> <li>● Assist suppliers in developing payment options</li> <li>● Promote embedded services</li> <li>● Promote services financed by large firms</li> <li>● Help consumers form clusters to purchase services in groups</li> </ul>  |
| Consumers are risk averse to trying services.  | <ul style="list-style-type: none"> <li>● Provide suppliers with technical assistance to improve trial inducing strategies</li> <li>● Implement a voucher scheme</li> <li>● Promote business linkages for embedded services</li> </ul>   |
| Consumers do not see the value of services   | <ul style="list-style-type: none"> <li>● Assist suppliers in improving advertising</li> <li>● Assist suppliers in developing customer referral programs</li> <li>● Conduct general advertising for the service</li> <li>● Help suppliers to test and demonstrate quality of services</li> </ul>                                       |
| Consumers want services packaged together  | <ul style="list-style-type: none"> <li>● Broker agreements among suppliers to develop packages of services</li> <li>● Provide venture capital and technical assistance for suppliers to diversify</li> </ul>  |
| <b>Supply-Side Problems</b>  |   |
| Service products lack the benefits and features that consumers want  | <ul style="list-style-type: none"> <li>● Assist suppliers in developing and commercializing new products</li> <li>● Bring in suppliers from other countries to adapt and franchise appropriate products</li> </ul>  |
| Suppliers are risk averse to targeting new consumer segments, such as women, micro enterprises or the service sector | <ul style="list-style-type: none"> <li>● Provide suppliers with information on the viability of a new consumer segment</li> <li>● Subsidize some of the costs in targeting new consumer segments, such as test marketing</li> <li>● Use market research to identify promising opportunities to serve new consumer segments</li> </ul> |
| Suppliers lack market information  | <ul style="list-style-type: none"> <li>● Develop or improve marketing research services/suppliers</li> <li>● Provide suppliers with market information</li> <li>● Teach suppliers how to gather market information</li> </ul>   |
| Suppliers lack business or technical skills  | <ul style="list-style-type: none"> <li>● Provide training and technical assistance to suppliers</li> <li>● Assist training suppliers in developing and selling appropriate products to other BDS suppliers</li> </ul>   |
| There is insufficient supply in the market   | <ul style="list-style-type: none"> <li>● Provide venture capital to suppliers to expand</li> <li>● Design a program to assist start-up suppliers</li> </ul>   |
| Variable quality of services is harming suppliers' reputations   | <ul style="list-style-type: none"> <li>● Provide quality assurance services</li> <li>● Assist supplier to improve consistency in service provision</li> <li>● Help suppliers form associations with certification processes</li> </ul>  |
| <b>Market environment problems</b>   |   |
| Free services are distorting the BDS market  | <ul style="list-style-type: none"> <li>● Advocate with government and/or other donors to rationalize BDS subsidies</li> </ul>   |
| Regulations adversely affect the BDS market.   | <ul style="list-style-type: none"> <li>● Advocate for changes in the regulations</li> <li>● Organize SE suppliers to advocate for changes in regulations affecting the BDS market</li> </ul>  |

<sup>1</sup> Miehlabradt, 2001 with input from Jeanne Downing and SEEP's Guide to BDS and Resources.

### Example 22. 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 their 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 clients with planning; facilitated contact between firms and suitable private consultants, helped clients to complete grant applications, advised clients on how to maximize benefits from consulting services and adminis-

tered approvals and disbursement of funds. All projects were subsidized by 50%.

After four years of operation, the program had supported 225 projects in 153 firms. Including firm contributions, the cost of services provided reached US\$5.1 million. 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.

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: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>

### Vouchers and matching grants

Two market development strategies are designed to increase demand for BDS by offering vouchers or matching grants to qualified SEs who then procure discounted BDS from private sector BDS 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 both voucher programs and matching grant programs, the strategy is to provide information and temporary subsidies to firms who do not commonly use BDS, and to link these firms with BDS suppliers in the market who do not commonly 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.

**Matching grants** have been in use for over a decade, primarily in export-development programs serving medium-sized firms. In these programs, selected, small numbers of 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 assist it with its project, the agent assesses the firm and registers it as a supplier, as long as the firm 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. Example 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.<sup>45</sup> Some experts also question the need for the intervention, because the 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

<sup>45</sup> Gibson, 1999; Crissafulli, 2000.

### Example 23. Voucher Training Program in Paraguay

Operating intermittently from 1995 through 1999, the Paraguay voucher program has provided over 30,000 vouchers to approximately 13,700 microenterprises that purchased training from over 40 primarily private sector suppliers. The program was designed by a consulting firm, *Grupo de Asesoría Multidisciplinaria (GAMA)* and implemented by the Ministry of Justice and Labor of Paraguay, with funding from the IDB.

Under the IDB sponsored program, qualified training institutions could join the program at any time provided they agreed to basic rules. They had to offer courses of at least 15 hours, keep class size below 25 students, submit the resumes of trainers 15 days prior to class start, charge a fee above the amount of the voucher, and submit to spontaneous, on-site monitoring visits. To obtain a voucher, microentrepreneurs went to

several centers located around the country, offered proof of business ownership and submitted to a brief verification screening. Each firm was allowed 6 vouchers valued at \$20 each. At the centers, information on the trainers available in the area was publicized, along with the attendance rates of different suppliers. Most voucher users were from the smallest microenterprises with five or fewer workers. Approximately 72% of users were women. Around 52% percent of businesses in the program used more than one voucher, indicating satisfaction with the first training course they purchased.

Late in 1999, the Paraguayan government started a voucher scheme independently. The program currently runs on IDB financing; the government plans to continue the program with tax revenues.

Schor and Goldmark, 1999, Botelho and Goldmark, "Paraguay Vouchers Revisited: Strategies for the Development of Training Markets" Development Alternatives, Inc./USAID Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance." April 2000. Website: [www.ilo.org/employment/sedonors](http://www.ilo.org/employment/sedonors).

sector BDS suppliers to serve microenterprises by strengthening the demand for training services.<sup>46</sup> 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%.<sup>47</sup> The agency distributing the vouchers also supplies information to SEs about the available trainers, including brief descriptions of trainers and courses and the number of SEs that have purchased their courses.

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 were often practical, hands-on learning opportunities accessible to illiterate people. The most popular trainers were private sector firms, often entrepreneurs who manage a small business and offered training specific to their business.<sup>48</sup>

Challenges to the implementation of voucher programs have included:

- appropriate selection of a credible, impartial facilitator and adequate supervision to avoid corruption and politicization of voucher distribution and supplier registration;
- ensuring strong program management so that vouchers are available when and where they are demanded and suppliers are accredited and paid on time;
- defining strategies to build capacity of training institutions and to provide financing to trainers to support new services and physical development;
- designing effective exit strategies (no voucher program has yet finished on schedule, at least partly due to their popularity with governments).

Although training voucher programs have helped large numbers of microenterprises link with large numbers of BDS suppliers, there is growing concern about the sustainability of the positive market changes on both the demand and supply side.

<sup>46</sup> Information on vouchers is primarily from Botelho and Goldmark, 2000; Schor and Goldmark, 1999

<sup>47</sup> Goldmark, 1999b.

<sup>48</sup> Goldmark, 1999b

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.<sup>49</sup>

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.<sup>50</sup>

- "Entrepreneurial/Expanding Diversifiers" used the program to expand and diversify their training courses and continued this strategy even when vouchers were not available.
- "Risk-Averse Diversifiers" also expanded and diversified their courses under the program but curtailed investments during periods of market adversity.
- "Do-Gooders," suppliers with a social mission, whose course prices do not cover costs, tended not to respond as much to the program and tended not to 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 vouchers.

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

### **Example 24. Vouchers for BDS NEWBIZNET and BIZPRO in the Ukraine**

Two voucher programs in Ukraine were designed to be temporary, to "spike demand" over a 6-18 month period, and then withdraw from the market. 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 linkage 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 services providers, meanwhile, valued their new relationship with the business associations that administered the program, because these associations kept them in touch with the requirement 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 Hitchens and Marshall Bear, "BDS Market Development: A Guide for Agencies," forthcoming from the USAID Microenterprise Best Practices Project managed by Development Alternatives, Inc. Website: [www.mip.org](http://www.mip.org). Original study "Business Services Centers in the Ukraine," Yo Mi Lee, 1999.

Mike Field and David Knopp, "Seeding the Demand for Training," Presentation at the MBP-IDB-SEEP Business Development Services Seminar Washington, D.C. April 30, 2001.

program will go to consumers, the SEs. However, if the supply of training is inelastic – because there are few training suppliers in the market, for example – 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.<sup>51</sup>

<sup>49</sup> Botelho and Goldmark, 2000.

<sup>50</sup> Botelho and Goldmark, 2000.

<sup>51</sup> Hallberg, 2000.

### Example 25. "Seven Deadly Sins" of voucher programs

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

1. "Guestimate" the market: instead, rigorous consumer research is recommended to understand demand, and assess whether there is a critical mass of existing suppliers.
2. Assume the program will sell itself: instead, the program must be promoted to suppliers and SE consumers by a trusted, objective facilitator.
3. Let suppliers distribute vouchers: rather, 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.
4. 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 that that discount is a one-time, trial offer.
5. Internalize the audit function: voucher programs are at risk of fraud if not carefully monitored by an external auditor.
6. Try to control supplier participation: rather, the pool of suppliers should be as large as possible so that consumers may select the suppliers that most meet their needs. The role of the program is to supply as much information - including customer satisfaction data, on the suppliers as possible.
7. Worry later about exit strategy: Most voucher programs have yet to develop exit strategies, but in principle are designed to be temporary. Some experts recommend phasing vouchers out over time, by reducing the value of vouchers gradually. 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.

### Providing information to consumers

Many developing country markets for BDS 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 – "Yellow Pages" listing service suppliers,
- using media such as radio or newspapers to promote services,

### Example 26. 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 SEs 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 from the UK, the FIT project created Business Connect magazine. This magazine offers the chance for SEs to advertise their products beyond local mar-

kets and for large firms and BDS suppliers to advertise their products and services to SEs. The magazine has been successful in linking BDS suppliers, such as a security firm and an insurance broker, to SEs. Circulation of the magazine is now approximately 10,000 businesses. The number of advertisers is approximately 320 enterprises, 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, pays 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](http://www.ilo.org/seed); and Business Connect at website: [www.businessconnect.co.zw](http://www.businessconnect.co.zw)

- organizing events to bring together SEs and service suppliers,
- introducing social marketing campaigns that explain the benefits of services,
- facilitating information exchange in voucher and matching grant programs,
- facilitating business linkages that provide information,
- producing small enterprise radio programs,
- helping small enterprise associations to circulate newsletters, hold conferences, and host networking events.

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. This strategy alone is not effective, however, if suppliers do not offer appropriate, affordable BDS for SEs.

### Forming clusters or networks

For some services, it is difficult to make products that are affordable for an individual small business. Often, the quantity of the BDS that SEs need is too small for suppliers to bother developing products. As a result, SEs cannot afford the available services. A strategy to address this problem borrows from the cooperative movement. In these programs, a facilitator helps SEs to form groups, called networks or clusters, that jointly purchase BDS. Networks of SEs can often access services such as consulting, technology, transportation, marketing intermediation or training that they could

### Example 27. UNIDO SE cluster and network development

UNIDO is attempting to replicate the success of industry clusters from some Western countries with SEs in developing countries. UNIDO is implementing this strategy in Honduras, Nicaragua, Mexico, Jamaica and India. Common elements among the programs are:

- Identifying the collective competitive advantage of each SE industry cluster and an overarching plan to build local capacity to realize this advantage.
- Hiring consultants, at cost to the project, to help SEs form groups. The groups are trained and exposed to best practice in industry clusters. Clients pay a fee to join the groups, and that fee contributes to the facilitator costs.
- Identifying activities that will directly add value to businesses in the group and that the enterprises could not achieve independently.
- Linking groups to sources of BDS, rather than the program providing BDS.
- In some cases, initially helping suppliers respond to SE demand by tailoring BDS products to the SE groups.

- Monitoring progress in terms of group activity as well as business growth.

UNIDO has found that it is important to allow each group to follow its own path. UNIDO responds to group requests, rather than directing the groups. UNIDO also found that suppliers were, in some cases, initially reluctant to or incapable of providing tailored BDS to the groups, so reducing their risks by assisting with product development was important.

A UNIDO assisted, local business association in India – “the Knitwear Development Group” wanted to use ICT equipment to enhance their communication and networking capacity. The group approached local providers and was able to negotiate a contract to adapt an ICT training course to its needs. They were also able to obtain favorable terms from a national IT supplier for the delivery of hardware and tailored software packages to individual businesses. It emerged that over 500 hosiery businesses in the region were in a position to integrate ICTs into their businesses.

Ceglie, Giovanna and Marco Dini, “Clusters and Network Development in Developing Countries,” 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. <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

Michele Clara, Fabio Russo and Mukesh Gulati, “Cluster Development and BDS Promotion: UNIDO’s Experience in India” “Clusters and Network Development in Developing Countries,” Prepared for the Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance; Hanoi, Vietnam, April 2000. <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

Richard Duncombe and Richard Heeks, “Enterprise Development and Information and Communication Technologies in Developing Countries: ICT-Flyers,” University of Manchester for DFID, 2001.

For more information, see the UNIDO website: <http://www.unido.org/doc/331112.htmls>

### Example 28. 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 takes responsibility for the design of products and selection of raw materials 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 showrooms and understand the organization of the export trade. The company employs a group of 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 the development of the clusters themselves.

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: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>

not afford individually. Traditionally, non-profit BDS providers not only organized groups, but also provided subsidized BDS to them. 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.

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 the entrepreneurs in the groups. 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 among 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.<sup>52</sup> 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 the group organizing as a market building strategy because the groups then marketed services to their members and were able to pay for services.<sup>53</sup> In other cases, for-profit enterprises have provided some organizing services to clusters with which they have business relationships. Recent research suggests that where innovative service suppliers and/or private enterprises that have 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.<sup>54</sup>

### Promoting business linkages and embedded services

Embedded services are a major source of BDS for SEs. Inter-firm linkages 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 linkages focuses on disseminating information about players in the market so that they may develop relationships. Examples of such interventions include:

- Identifying opportunities for profitable business linkages, usually between large enterprises and SEs but including other relationships that will benefit SEs;

<sup>52</sup> Clara, Russo and Gulati, 2000.

<sup>53</sup> Field, Hitchins and Bear, 2000.

<sup>54</sup> Sandee and van Hulsen, 2000.



### Example 29. 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 dominates. The project's 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, and

- help ensure that small firms benefit from the relationships.

Any capacity building - training, raw materials, access to technology, etc. - that small firms require is supplied by the large firm buyers. In its initial five years, the MBLP has facilitated 110 business linkages between large and small firms. All are still intact and none of the small businesses have folded, despite a 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. Rather, over time, large firms are increasingly taking responsibility for and bearing the cost of facilitating their own business linkages. Increasing numbers of firms are engaging in outsourcing as the practice becomes common in the region.

McVay, Mary, "Manicaland Business Linkage Project, Shorebank Advisory Services, DRAFT, 2001.

- 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 large business associations, particularly those that include SEs and larger businesses; and
- Building supplier capacity for those enterprises that provide embedded services to many SEs.

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), by gaining lower-cost, flexible production (in the case of subcontractors), or by building a supply network (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 will only provide embedded services to a few SEs, it may not be cost-effective for a program to generate the linkages. Programs tend to focus on those large enterprises that have the potential to interact with many SEs. Programs also rely on astute facilitators who can find the business opportunities where there is potential for profitable linkages between firms. A potential disadvantage of this strategy is that large enterprises sometimes exploit SEs within their business relationships. A challenge for these programs is to develop methods of reducing this risk and promoting balanced relationships.

#### Technical assistance to suppliers

Many of the strategies mentioned above focus on linking SEs to existing BDS supply, and are only effective with a sufficient supply of services in the market. What if the supply is insufficient, as is common in so many BDS markets? Providing technical assistance to suppliers can address a range of supply-side constraints that are limiting 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. As such, this

### Example 30: Technical assistance to suppliers GTZ and Information Services in Sri Lanka

In Sri Lanka, GTZ is helping selected business support organizations develop and sell new or improved business information services based on modern information technology. The program has two main components:

1. Upgrading the information technology and technical skills that provide the basis for marketable service products.
2. Developing and supporting commercialization of business information services for SEs, large enterprises and other organizations.

The information services that the business support organizations sold prior to the program were either raw data at nominal rates or sophisticated, high priced consultancies. Market research conducted by GTZ showed that there was unmet demand for other information services and that the quality of existing products was not always satisfactory to consumers.

GTZ also found that suppliers did not have adequate hardware, technical skills or information links to deliver better information services.

To date, GTZ has supported the development or improvement of a range of business information services, including:

- Provision of available information over the counter on request
- Information searches to address customers' requests
- Brokering business links through information provision
- Subscriptions for regular information updates at fixed rates
- Information based consultancy

GTZ's technical assistance package to suppliers addresses both internal capacity such as technical and data management skills as well as product development issues such as market information, product design, marketing, costing and pricing.

Gaertner, Udo and Roshanjith Siriniwasa, "Commercial ICT-based Business Information Services for MSME Development," GTZ. Donor Committee Conference on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance." Hanoi, Vietnam, April 2000. Website: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>

strategy overlaps with product development and commercialization, the strategy described in the next section. Providing technical assistance to help potential entrepreneurs start BDS enterprises is one way of creating new suppliers and thus increasing supply. While some programs provide technical assistance without financial support, others combine the two.

Technical assistance programs are designed in response to specific problems found among suppliers, for example:<sup>55</sup>

- a lack of the technical skills that suppliers need to provide quality services to SEs,
- a lack of business skills such as marketing, pricing and management,
- limited information about SE consumers' desired service benefits and features,
- limited ability or experience in designing services for SEs.

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 is starting to provide training to suppliers in order to help them respond to the increases in SE demand with courses appropriate for SEs.<sup>56</sup> Donors report that the increased technical assistance required under the market development approach is a key change from previous programs, which concentrated more on financial assistance.<sup>57</sup>

A key advantage of technical assistance is that it allows facilitators to target specific problems in supply. However, a disadvantage of the approach is its potential to distort markets by working with only a few suppliers. In markets

<sup>55</sup> Field, Hitchins and Bear, 2000.

<sup>56</sup> Botelho and Goldmark, 2000.

<sup>57</sup> Tomecko, 2000.

where there are many suppliers, it may be difficult for a facilitator to offer equal access to technical assistance. Technical assistance to a few may offer them an unfair advantage. However, proponents of the approach argue that even in this case, market development may follow if other suppliers then copy business strategies developed by those that received assistance.

A particular challenge of the approach is making it cost-effective. Providing individualized technical assistance to small suppliers that reach only a limited number of SEs is not likely to be cost-effective. Programs can instead take one of two routes:

- Finding ways to provide technical assistance or training to many suppliers at once. This will work if many suppliers in a market have the same problems.
- Targeting large suppliers that reach many SEs. While cost-effective, this strategy discriminates against small BDS suppliers and thus distorts the market.

In the long run, the answer may be to develop the capacity of the private sector itself to provide technical assistance to suppliers. In other words, programs will see BDS suppliers also as consumers of BDS products and develop those markets that can provide BDS suppliers with the services they want to grow and develop.

### Product development and commercialization

A strategy that is gaining popularity is product development and commercialization. This strategy responds to a lack of appropriate products for SEs in the market, as well as a lack of innovation on the part of suppliers. The strategy was first used with appropriate technology. Now agencies are experimenting with product development and commercialization in a wide range of services including training, information services, advertising and financial advisory services.

The appropriate technology (AT) movement attempts to assist low-income people in developing countries in adopting technology that would improve their lives. Looking for a way to increase the scale of programs, appropriate technology organizations began experimenting with distributing technology through the private sector. Now, the role of appropriate technology organizations has evolved from direct technology provision to research and development, identification and training of manufacturers and distributors, promotion,

and monitoring and evaluation. In short, AT organizations play a “facilitation” role, for private sector technology suppliers.

Facilitators have copied this approach in markets for other services. These facilitators perform roles that private sector firms are reluctant or unable to take on, for example research and development, publicizing new services, or quality control of services. 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 virtually nonexistent. In addition, suppliers in some markets are not skilled innovators. They lack both the knowledge and the experience to develop new and attractive service products.

There are now several different types of product development interventions:<sup>58</sup>

- Transfer of standardized products (franchise-style), such as the ILO’s Start and Improve Your Business training courses and GTZ’s CEFE training courses. A facilitator trains suppliers in the provision of these courses, accredits suppliers and monitors provision of courses to ensure quality.
- Market research to identify and provide information on market niches and product opportunities to service suppliers. This may include general market research, which is then provided to suppliers to promote innovation or market research specific to a new product idea.
- Permanent or long-term market-based facilitators 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 that are often overlooked by traditional BDS programs because the suppliers are small and/or operate in the informal sector. Experience has shown that trainers want training in new courses to offer SEs as well as courses in new skills and training methodologies. In order to make the training of trainers courses appealing to suppliers, facilitators develop and test the courses to ensure that they are marketable.
- Promoting franchising of appropriate products by bringing foreign suppliers into a country and linking them with local suppliers. The facilitator also helps the foreign

<sup>58</sup> Field, Hitchens and Bear, 2000.

### Example 31. Product development and commercialization ApproTEC and IDE-Irrigation Technology: The treadle pump

The treadle pump is a manual water pump designed and adapted to various country contexts by appropriate technology organizations. It has now been disseminated in a variety of countries in Asia and Africa including Bangladesh, Eastern India, Nepal, Kenya, Tanzania and Uganda. The pumps are treadle operated, portable, and generally manufactured in medium scale workshops. Named the "MoneyMaker" by ApproTEC in East Africa, farmers can readily increase their incomes by fourfold or more by irrigating farms using the pump.

IDE developed and is disseminating the pump in Bangladesh. There are now over one million treadle pump users in Bangladesh. IDE's benefit to cost ratio is 33 to 1. ApproTEC has been disseminating treadle pumps in Kenya for four years. Approximately 6,000 pumps have been sold in Kenya, Tanzania and Uganda, generating an estimated \$14 million in income and creating some 8,000 jobs. ApproTEC's benefit-cost ratio in a recent pump dissemination project, not including research and development costs, was approximately 27 to 1. Both AT organizations manufacture, promote and distribute the pumps through the private sector. For example, in 2000,

the pump delivery channel in Bangladesh consisted of 65 manufacturers, 700 dealers and 5,000 installers.

ApproTEC has found that private sector businesses are willing to manufacture and sell pumps, but only when they can be assured of a sufficient volume of sales. Similarly, dealers are willing to sell pumps, but are less willing to risk investing in marketing and promotion of a new item, and often need access to some credit to get started in pump sales. ApproTEC has found that the market develops most effectively, reaching lower income people with affordable technology, when ApproTEC carries out and subsidizes marketing, promotion, quality and price control and distribution activities. ApproTEC's long-term vision is that, when the market matures, private business will take over ApproTEC's activities and affordable technology will become sustainable in the market at a large scale.

Despite the impressive numbers, the pumps are still only reaching a small percentage of potential users. 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.

Write, David, "ApproTEC: Developing Technology Based Business Opportunities," Donor Committee Conference on Business Development Services: How sustainable cant they really be?" Harare, Zimbabwe, March, 1998. Website: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

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 on Business Services for Small Enterprises in Asia: Developing Markets and Measuring Performance. Hanoi, Vietnam, April 2000. Website: <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

ApproTEC Annual Report, 1999-2000 [www.approtec.org](http://www.approtec.org) .

and local suppliers to adapt a service to the local conditions and test-market it.

Managers implementing product development strategies have found that the facilitator must usually play a key role in:

- defining the product concept,
- gathering market information (survey, simple research),
- building supplier capacity to research and deliver new products,
- creating awareness and understanding among consumers about a new product, and
- conducting marketing trials.<sup>59</sup>

A key 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. However, programs have encountered a number of challenges. Costs in product development can be high. Suppliers may not initially be interested in targeting new markets, particularly if their current markets are profitable. Promoting demand is often essential to success and must usually be subsidized both to reduce supplier

<sup>59</sup> Tomecko, PowerPoint 2000.



### Example 33. Social venture capital: Swisscontact and Business Centres

Swisscontact, a Swiss NGO with major funding from SDC, is helping to create business centres in a variety of countries including Indonesia, Philippines, Bangladesh, Colombia, Ecuador and Peru. Some of the business centres cater to a specific subsector providing services such as a retail outlet, bulk buying of inputs, common service facilities and marketing assistance mainly to SEs. Others serve a variety of enterprises, providing a range of services such as training, consulting and administrative services to SEs and often larger enterprises as well.

Swisscontact provides the centres with a package of start-up services including both financial and technical assistance. The philosophy of Swisscontact is that the development of commercially sustainable centres takes place only if business practices are used from the beginning. The business centres are selected through a bidding process that includes detailed business plans and a financial commitment from the 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. The contract 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 centre is meeting its targets) on a declining basis for one to five years. Financial indicators for the centres include financial sustainability, cost effectiveness and gross margins for various services. Technical assistance provided may include advice, market surveys, new product ideas, networking with other business centres, 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. <http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

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

order to maintain some control over their business strategies and the services they develop and offer to SEs. This strategy has been used not only with BDS suppliers in order to increase the quantity of supply but also with BDS facilitators in order to commercialize new products for SEs.

Social venture capital is appropriate in markets where there is a quantitative lack of supply. Suppliers may be offering appropriate products but consumers can not get as much as they want when they want it. 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.

The key difference between social venture capital and previous types of financial assistance to suppliers is the transactional nature of assistance. Rather than grants, donors or facilitators either invest in suppliers or make finan-

cial support dependent on the achievement of agreed-upon activities and objectives. Generally, programs offering venture capital provide only part of the needed investments, while suppliers contribute the other part. 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.

Social venture 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 social venture capital outweighs the market distortion impact.

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## 8. How is BDS program performance being measured?

There is still considerable debate about how to measure performance for BDS programs, in either more traditional programs or market development programs. But lessons are beginning to emerge about how performance measurement might be different using a market development approach. Consensus is developing around what should be measured and work on a common performance measurement framework is on-going. There is also some agreement on what research needs to be done in order to improve performance measurement in the field.

### Trends in 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 changed, such as measuring market development. More attention is also being paid to who should measure what kinds of performance and for what reasons, as well as how to measure performance.

### What to measure?

The key elements of performance in SE programs have not changed:

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

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 only be measured regularly on a limited basis. Understanding the impact of programs on SEs and the wider environment in depth requires quite expensive and rigorous studies that can only be performed infrequently. For regular monitoring, experts are exploring the use of proxies, indicators that are easier to measure than final impact but 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 services.<sup>61</sup>

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 performance indicator would be the change in the proportion of SEs that are aware of the service and suppliers for that service.<sup>62</sup> If the market problem is a lack of appropriate products for SEs, useful indicators might be the change in the number of SEs purchasing services and the change in the proportion of SEs customers that are satisfied with services.

### Who should measure what and why?

There is agreement that the main reasons for measuring performance are to improve programs and to prove that programs are having the desired impact. However,

there is increasing debate over who should carry out what types of performance and impact assessment, and who should pay for these activities. Some experts feel that different players have different interests in terms of performance measurement, and that the players who care most about particular information should pay for that information.

Some experts feel that different players have different interests in terms of performance measurement, and that the players who care most about particular information should pay for that information. For example, providers would pay for management information that can help them expand their markets, improve their services and increase their profits. Facilitators might be more interested in understanding the expansion of the market for a BDS and, sometimes, the performance of suppliers with whom they are working. Donors might be most concerned with how funds are used, ultimate impact of services on SEs, and wider economic and social goals.<sup>63</sup>

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<sup>61</sup> Gibson, 2001; Canedo, 2000; Michlbradt, 2001b; McVay 2001.

<sup>62</sup> Gibson, Hitchens, Bear, 2001.

<sup>63</sup> Committee of Donor Agencies, 2001

On the other hand, many suppliers, facilitators and donors are interested in most aspects of performance. And, the PMF Field Research team is discovering that from a practical perspective, basic performance information may be best gathered by one institution, because data for different aspects of performance are often gathered in similar surveys, and because one aspect of performance shouldn't be interpreted in isolation of other aspects. For example, a BDS market survey provides information about whether the market in general is expanding and about the market position of particular service providers. Also, whether some providers have achieved sustainability should not be considered a success unless outreach is also high and the service is demonstrated to have a positive impact. The PMF Field Research is identifying practical and valid ways for practitioners at the facilitator and large-scale supplier level to gather and collect basic performance data.<sup>64</sup> Of course, any in-depth market analysis or impact assessment may indeed still need to be carried out and funded independently. The debate continues and the PMF Field Research should continue to shed light on this topic.

### *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 still agreement that it is important to use participatory approaches that take into account the view points of various stakeholders in programs.<sup>65</sup> However, experts and practitioners are working on more efficient and effective ways of measuring performance.<sup>66</sup> There is increasing interest in and use of private sector tools for performance measurement, such as 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 logframes – the logical

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

series of events by which program strategies produce results – and to develop performance monitoring indicators and systems based on a program's logframe.<sup>67</sup>

### **Developing a common performance measurement framework**

There is considerable support in the BDS field for a common performance measurement system that would begin to allow some comparison among different BDS projects and help the field extract lessons learned from a range of programs. In 1998, USAID's Microenterprise Best Practices (MBP) project and the SEEP Network<sup>68</sup> initiated an effort to develop a common performance measurement system, called the Performance Measurement Framework (PMF). The PMF started as a collection of best practice performance indicators in-use by BDS practitioners. The Donor Committee on Small Enterprise Development, with leadership from the ILO and USAID, supported further development of the framework through a virtual conference of over 100 BDS practitioners, researchers and donors in 1999. Several programs developed case studies using the resulting framework and presented their findings at the Donor Conference in Hanoi in April, 2000. Now, the framework is being further developed via the PMF Field Research<sup>69</sup> initiative, which is comprised of practitioners and technical experts applying the framework around the world, and is advised by the Donor Committee.

The PMF 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 some comparison of program performance;
- Help identify and synthesize best practices;
- Provide important information to improve services for SEs;
- Contribute to the development of fair funding allocation decisions and fair performance standards.

The PMF is changing as the BDS field changes. Changes are expected before the

<sup>67</sup> Gibson, 2001.

<sup>68</sup> Small Enterprise Education and Promotion Network, an association of US and Canada-base NGOs that develop small enterprises in developing and transitional economies. [www.seepnetwork.org](http://www.seepnetwork.org)

<sup>69</sup> [www.mip.org/pubs/MBP/BDSFramework.htm](http://www.mip.org/pubs/MBP/BDSFramework.htm)

<sup>64</sup> Canedo, 2000; Miehlebradt, 2001b; McVay 2001.

<sup>65</sup> DFID, 2001.

<sup>66</sup> Gibson, Hitchins, Bear, 2001.



Table 5. PMF Field Research Participating Programs<sup>1</sup>

| Program                     | Location             | Services   | Type of BDS organization  |
|-----------------------------|----------------------|--|---|
| SEEDS                       | Rural<br>Sri Lanka   | Technical training;<br>Business<br>Management<br>Training      | Direct, NGO service provider. Community development organization with separate microfinance and BDS units.                        |
| Swisscontact<br>Philippines | Urban<br>Philippines | Business Services<br>Centers – training,<br>trade shows        | International NGO facilitator, supporting business centers that are part of business associations, NGOs and private sector firms. |
| Swisscontact<br>Peru        | Urban<br>Peru        | Management<br>training, Consulting<br>services                 | International NGO facilitator supporting NGOs and private sector BDS suppliers.   |
| CECI/MARD                   | Rural<br>Nepal       | Agricultural training<br>and marketing,<br>veterinary services | International NGO facilitator supporting ngo, cooperative and private entrepreneurial service providers.                          |
| IEDI                        | Urban<br>Nepal       | Management<br>training   | Direct NGO service provider   |
| FAIDA                       | Rural<br>Tanzania    | Management<br>Training   | Tanzanian facilitator supporting private sector suppliers.  |

<sup>1</sup> Collaborating organizations include Action for Enterprise Mali, ILO FIT and voucher programs supported by USAID.

PMF can begin to achieve these objectives. However, donors and practitioners recognize the importance of this initiative to help move the field forward.

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

1. outreach (both scale and access),
2. cost-effectiveness of program activities and sustainability of services and providers, and
3. impact on SE clients.

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

- 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.
- Impact
  - Increase consumer acquisition of BDS.
  - Increase customer use of BDS.
  - Increase customer benefits from BDS.

The PMF contains general guidance and rational 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.<sup>70</sup> A report of the PMF Field Research findings will be available in September, 2001.

### 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. Some of the typical challenges that the monitoring and evaluation field is grappling with include:

- Collecting impact data from informal sector firms.
- Even if such data is collected, attributing changes to a specific intervention.
- Determining negative impacts, such as benefits for one SE occurring at the expense of another, unassisted SE.
- Developing standard definitions for such things as firm size and location (rural, urban, peri-urban, and “poor” clients).

<sup>70</sup> McVay, 1999a.

Table 6. BDS performance measurement framework

| <b>Goal 1. Increase Outreach (scale and access)</b>                     |  |
|---|--|
| <b>BDS market development indicators</b>                                |  |
| <b>Objective</b>  | <b>Indicators<br/>(Report for the overall market and for the BDS program's contribution to the market)</b>   |
| Expand the market for business development services                     | <ul style="list-style-type: none"> <li>● Number of SEs acquiring a service through any method and purchasing a service through commercial transactions.*</li> <li>● Amount of sales by BDS suppliers.*</li> <li>● Market penetration: % of potential SE market acquiring a service through any method and purchasing a service.</li> <li>● A program's market share of all services acquired through any method and all services purchased.</li> <li>● Awareness: % of SEs aware of a service.</li> <li>● Reach: % of those aware who have purchased a service at least once.</li> </ul> |
| Develop a high-quality, diverse, competitive market                     | <ul style="list-style-type: none"> <li>● Number of BDS suppliers*</li> <li>● Number of BDS products</li> <li>● Retention: % of multiple-purchasers out of all purchasers.</li> <li>● Satisfaction with last service purchase.</li> <li>● Reasons for purchase, non-purchase and choice of supplier</li> </ul>  |
| Increase access of under-served groups to business development services | <ul style="list-style-type: none"> <li>● Extent of access: % of SE customers purchasing a service that represent targeted populations (women, microenterprises, exporters, etc.)*</li> <li>● Target market penetration: % of potential SE targeted markets (women, microenterprises, exporters, etc.) acquiring a service through any method and purchasing a service.</li> </ul>  |
| <b>Goal 2. Sustainability and cost-effectiveness</b>                    |  |
| <b>Assessing BDS suppliers</b>  |  |
| <b>Objective</b>  | <b>Indicators</b>  |
| Achieve supplier sustainability   | <ul style="list-style-type: none"> <li>● BDS supplier financial sustainability (non-donor revenues/total expenses)*</li> <li>● BDS contribution margin ((SE revenues from a service - direct expenses for the service) / total expenses)</li> <li>● BDS viability (revenues from a service / direct expenses for the service)</li> </ul>   |
| Improve program cost-effectiveness                                      | <ul style="list-style-type: none"> <li>● Simplified cost-benefit assessment comparing annual program costs to aggregate annual program benefits for entrepreneurs*</li> <li>● Annual program expenses per customer served*</li> <li>● Annual program expenses per supplier assisted*</li> <li>● Annual program expenses per firm that "used" a service.</li> <li>● Annual program expenses per firm that reported "benefiting from" a service.</li> </ul>  |
| <b>Goal 3. Impact</b>   |  |
| <b>Assessing BDS customers, SEs</b>                                     |  |
| <b>Objective</b>  | <b>Indicators</b>  |
| Increase customer acquisition of business development services          | <ul style="list-style-type: none"> <li>● Customer satisfaction with a business development service*</li> <li>● Repeat customers (percent of customers who buy more than once)*</li> </ul>  |
| Increase customer use of business development services                  | <ul style="list-style-type: none"> <li>● Percent of customers who improve business practices, as defined by the supplier*</li> </ul>   |
| Increase customer benefits from business development services           | <ul style="list-style-type: none"> <li>● Change in gross profit.*</li> </ul>   |

\* These indicators are in use in a fair number of BDS programs. Note that the indicators under "market development" with an asterisk are mainly used to assess the outreach of particular programs but are not widely used to assess the BDS market in general.

- 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 quality of data.
- Interpreting findings across vastly different economic, political and cultural contexts.

In addition, the BDS field is grappling with particular concerns:

- How to define BDS markets.
  - How to count BDS suppliers when so many are informal and so much BDS is non-transactional.
  - How to define a BDS in order to identify and analyze the market.
  - How to collect comparable data across the wide range of services that constitute BDS.
  - As programs focus more on overall market development, how to collect reliable data from market players who are not affiliated with BDS programs.
  - Given the wide range of complex institutional arrangements in BDS programs, how to allocate costs in standard ways, so that sustainability and cost-effectiveness measures are valid.
  - How best to measure the ultimate impact on SE performance.
- Donors and practitioners recognize that the field needs to learn much more about program impact. A research agenda to address some of the key issues is emerging. It includes:<sup>71</sup>
- **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.** In order to measure progress toward a “developed” BDS market, organizations need a better understanding of how BDS markets behave and develop. This better understanding 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 will benefit SEs, this has not been confirmed through rigorous studies. Understanding if and how better developed BDS markets help SEs is important for donor accountability.

<sup>71</sup> This section draws on the minutes of the Committee of Donor Agencies SE Impact and Performance Working Group Meeting of March, 2001.

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## 9. What are emerging lessons in BDS market development?

The market development approach as an explicit development strategy is still new, and only a little evidence about what works and what doesn't is currently available. Nevertheless, analysis of programs that pioneered aspects of the market development approach and emerging lessons from those programs intentionally applying a market development approach provide some lessons in how to pursue BDS market development. This section highlights those emerging lessons.

### Reaching underserved groups

Because it is a priority for many SE programs, considerable work is being done to determine how a market development approach can adequately reach those SEs that are typically underserved, such as micro enterprises, women-owned enterprises and low-income enterprises. Emerging evidence is positive – there is considerable support for the idea that the market development approach can reach typically underserved SEs.<sup>72</sup> While it is true that several BDS programs, most notably Business Service Centers offering training and consulting services, have moved up-market as they attempt to become sustainable<sup>73</sup>, new research shows that some BDS suppliers can reach this segment sustainably. Some are suppliers that are informal and small-scale themselves.<sup>74</sup> Others are more formal programs. For example, a study of microenterprise marketing programs analyzed several marketing businesses that serve the poor and concluded that there was no correlation between sustainability and outreach to larger firms.<sup>75</sup> One strategy in use is to continue to identify and develop services and delivery mechanisms that reach down-market.<sup>76</sup> Another strategy is to group the poor into clusters or networks that create economies of scale and reduce costs.<sup>77</sup>

One study of microenterprise marketing programs analyzed several marketing businesses that serve the poor and concluded that there was no correlation between sustainability and outreach to larger firms.

Work on this issue is producing a number of emerging lessons about how to reach both low-income SEs and those SEs that are underserved due to gender, ethnic or other social barriers:

### Treat specific underserved groups as market niches.

Emerging evidence and analysis indicates that it is best to treat specific underserved groups as market segments with potential rather than as groups in need of charity or subsidies.<sup>78</sup> Underserved groups, such as women entrepreneurs, often have different demand for services and service features than other SEs because they face some different constraints to managing enterprises.

Underserved groups, such as women entrepreneurs, often have different demand for services and service features than other SEs because they face some different constraints to managing enterprises.

In some cases, typically underserved groups have not had access to services because suppliers have not viewed these groups as viable market niches. Convincing suppliers that these groups are a viable and growing market may be an important part of a market development program. When programs and suppliers understand these demands, they can develop service products which will appeal specifically to those SEs that are typically underserved. Offering appropriate products will help to stimulate demand from underserved groups of SEs. For example, the FIT developed business tours in East Africa were popular with women entrepreneurs because they viewed the security of travelling in groups as an important service feature.<sup>79</sup>

### Promote services appropriate for the economic sectors in which underserved SEs operate.

One way to target underserved SEs is to focus on services which appeal to entrepreneurs in the markets in which many underserved SEs operate. For example, a program aiming to reach women entrepreneurs can focus on services in which many women owned entrepreneurs operate, such as trade, restaurants, textiles or food processing.<sup>80</sup>

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<sup>72</sup> Gminder, 2001; Horizonte, 2000; McVay 1999a.

<sup>73</sup> Lee and Bear, 1999.

<sup>74</sup> Hileman and Tanburn, 2000.

<sup>75</sup> McVay, 1999a.

<sup>76</sup> Hileman and Tanburn, 2000.

<sup>77</sup> Ceglie and Dini, 1999; McVay 1999a;

<sup>78</sup> Gminder, 2001; Gibson, Hitchins, Bear, 2001.

<sup>79</sup> Unpublished correspondence with Jim Tanburn, 2001.

<sup>80</sup> Gminder, 2001.

### Example 34. Work with low-cost suppliers Women Venture in the U.S.A.

Women Venture is a service provider in St. Paul, Minnesota offering training, technical assistance and credit primarily to low-income and minority women. In order to increase its outreach, WV implemented a strategy of providing two “tracks” of services. One is intensive support; the other is minimalist services including short courses in specific subject areas. This strategy allows WV to focus on two different segments of women entrepreneurs – higher income and lower income - by providing the service features that each segment demands. While the program is not financially self-sufficient, this strategy enabled WV to decrease its costs significantly while increasing outreach to those women entrepreneurs often not accessing business development services.

Kantor, Paula, “Promoting Women’s Entrepreneurship Development based on Good Practice Programs: Some Experiences from the North to the South.” Series on Women’s Entrepreneurship Development and Gender in Enterprises – WEDGE Working Paper No. 9, International Labour Organization. Website: [www.ilo.org/seed](http://www.ilo.org/seed)

**Pay particular attention to payment mechanisms.** Underserved groups are often disadvantaged economically and, therefore, unwilling or unable to pay for services up front. For these groups it is particularly important to promote services which provide appropriate payment options. Embedded or third-party paid for services are particularly accessible to the poorest SEs because there is no financial outlay for the entrepreneur. Other payment options such as paying in installments, financing and risk sharing may also help to increase demand from underserved SEs.

**Work with low-cost suppliers.**<sup>81</sup> It is unlikely that underserved SEs that are poor will ever be able to pay the full cost of services provided by formal organizations with large overheads and sophisticated operations. There is also often a cultural gap between low-income SEs and these institutions. Small-scale suppliers with low overheads and simple operations – often those in the informal sector – are more likely to be able to serve low-income SEs profitably. Low-income SEs are more likely to feel

comfortable accessing services from these types of suppliers.

### Looking at services through consumers’ eyes

As program managers begin to apply the principles of the market development approach, they are finding how important it is to see services through consumers eyes rather than donor or program definitions. This viewpoint starts with the definition of a specific business service using the benefit that consumers get from it rather than what a program is promoting. Managers are finding that only by defining services by consumer benefits can programs promote the services consumers want. Seeing services through consumers’ eyes is one of the most important aspects of emphasizing demand in program design and implementation.

### Example 35. The SE perspective ICTs in Botswana

A recent study of the potential for information and communications technology services for small enterprises in Botswana found that computer-based information and communication technologies (ICTs) must be seen as only one means to serve enterprise demand for information. Other information-handling technologies, such as radio, TV, telephone, newspapers, books and people are equally important. The findings of the study show that ICTs are unlikely to be useful for some small enterprises who have no experience with ICTs. The priority for meeting this segment’s demand for information is to build informal information networks, develop community telecommunication channels and develop radio, TV and newspaper channels for information. The study also recommends that greater emphasis be placed on the “pull” factors that make enterprises want to use ICT based information services rather than the “push” factors that allow enterprises to use these services. The study underlines the importance of defining a service by what consumers get, “information,” than by what donors or governments might want to promote, ICTs.

Duncombe, Richard and Richard Heeks, “Information and Communication Technologies and Small Enterprise in Africa, Lessons from Botswana.” IDPM, University of Manchester for DFID. Website: <http://www.man.ac.uk/idpm/ictsmef.htm>

<sup>81</sup> Gibson, Hitchins, Bear, 2001.

### Example 36. Combining subsector and market development Action for enterprise and the handicraft subsector in Mali

Action for Enterprise, a US based NGO, is implementing a subsector based, BDS market-development program in Mali focused on the handicraft subsector. AFE's participatory subsector analysis revealed high demand for Malian products, but barriers in product development and sourcing, and regular product quality and supply. The focus of the program is to assist small-scale handicraft producers to access export markets. Rather than working directly with producers, however, AFE elected to strengthen existing export agents in their role as market intermediaries. AFE found that a number of services were needed by various types of firms in the handicraft sector in order to increase exports. These services include product design, quality assurance, technical support, training and business linkages. The program provides these services free to international handicraft buyers, Malian exporters and "master artisans" in the

handicraft sector, while building the capacity of firms in the market chain to provide services to each other. For example, the program builds the capacity of exporters to provide technical training, quality and production control, production financing and supply of raw materials to SE producers. The program trains master craftsmen to provide product development advice to exporters. Because providing these services to SEs is beneficial for exporters, they are ready to embed these services in their regular transactions with their SE suppliers. In its initial six months, the program worked with six exporters who had pre-program annual sales of around US\$40,000 each, and reached 215 artisans who had an average of five employees. Within the six months, the exporters had increased their sales by 87% and producers had increased sales through export channels by 124%.

McVay, Mary, "Shorebank Advisory Services: BDS Research in Market Access and Workforce Development Services for Small Businesses – Action for Enterprise: SEPA Program in Mali," draft, December, 2000; unpublished memo by Gavin Anderson, International Labour Organization, on an observation mission, March 2001. See the AFE website: <http://www.actionforenterprise.org/mali.htm>

### Combining subsector and market development approaches

Many SE programs focus on assisting SEs within a particular subsector such as textiles or food processing. This approach has been particularly popular since subsector analysis was introduced to the SE field in the early 1990s. Now, many program managers are wondering if and how subsector based approaches to SE development are compatible with the market development approach to BDS. Analysis of past subsector based programs is finding that some of these programs are already using some of the principles of market development. Theoretical thinking is beginning to show how these two approaches can be used in tandem.

Subsector analysis shows a program manager how SEs might be able to move into a more profitable market channel. Often this analysis points to services that SEs might need to move into this channel. For example, if SEs want to change from rural markets to urban markets, quality control and product design are two services that they might need. In some traditional subsector programs, NGOs offer these types of services free or with subsidies to SEs. Using a market development approach, the program manager would instead assess the

market for the particular services identified in the subsector analysis and design a program through which those services can be supplied to SEs through commercial channels. Using this thinking, subsector analysis is one helpful tool for choosing services to promote. Using the market development approach, these services are then promoted by strengthening the commercial service market.

Analysis of past subsector programs is showing that subsector analysis can be particularly useful in identifying the potential for promoting embedded services for SEs. One study found that using subsector analysis as a starting point may be a way to help ensure that SEs benefit from services because attention is paid to the market for SE products as well as SE demand for services.<sup>82</sup> Proponents of subsector based programs argue that using subsector analysis as a starting point may be a way to promote a greater depth of impact on SEs than purely responding to SEs demand for services. Others argue that SEs know best what services

<sup>82</sup> Unpublished memo on the Shorebank Advisory Services "BDS Research in Market Access and Workforce Development Services for Small Business," 2001.

### **Example 37. Using action research and market development GTZ's evolving market development strategies**

GTZ's market assessment showed that there was a lack of appropriate service products from both donor supported and completely private sector suppliers in several BDS markets. One of GTZ's initial strategies was to help donor supported suppliers learn more about enterprises' demand for services and to adapt service products to meet that demand. GTZ encouraged these providers to sell services directly to enterprises at profitable prices. However, GTZ found that private sector suppliers were more receptive to these efforts. Therefore, GTZ is now placing more program emphasis on working with private sector suppliers and less with donor supported suppliers.

Unpublished correspondence with GTZ Nepal staff. For information, contact Prashant Rana at [prashant.rana@gtz.org.np](mailto:prashant.rana@gtz.org.np)

### **Example 38. Commercializing facilitator functions The ILO FIT Program in Africa**

The FIT program in Africa has established commercial facilitators rather than working through non-profit organizations. These facilitators are service suppliers for the service suppliers. The primary roles they perform are gathering market information, identifying opportunities and markets for BDS suppliers and product development and testing. While the facilitators currently get payments from both from donors and service suppliers, the program's sustainability vision is that the facilitators will ultimately rely wholly on payments from suppliers and investors for their revenues.

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

are useful to them, so responding to their demand for services is sufficient insurance that services are beneficial to them.

### **Using both market assessment and action research**

Program managers are finding that while market assessment is very helpful for program design, it is not an infallible recipe that, when followed, provides all the information needed to develop a BDS market. First, in the information analysis and program design process, there is still considerable need for creativity, intuition and determination to succeed. Second, there is still a need for action research and the flexibility to change strategies that are not working in the implementation stage. Those program managers implementing market development programs recommend using both market assessment and action research.

One key limitation of market assessment is that it provides a picture of the current and past market, some indications of trends in the market and information about consumer demand for services. It does not show what will happen in the future. Therefore, the information from a market assessment must be combined with an entrepreneur's eye to the future to determine the best ways to expand and develop a market. As in the private sector, test marketing and trial

and error are still needed in program design and implementation.<sup>83</sup>

### **Planning for a new type of sustainability**

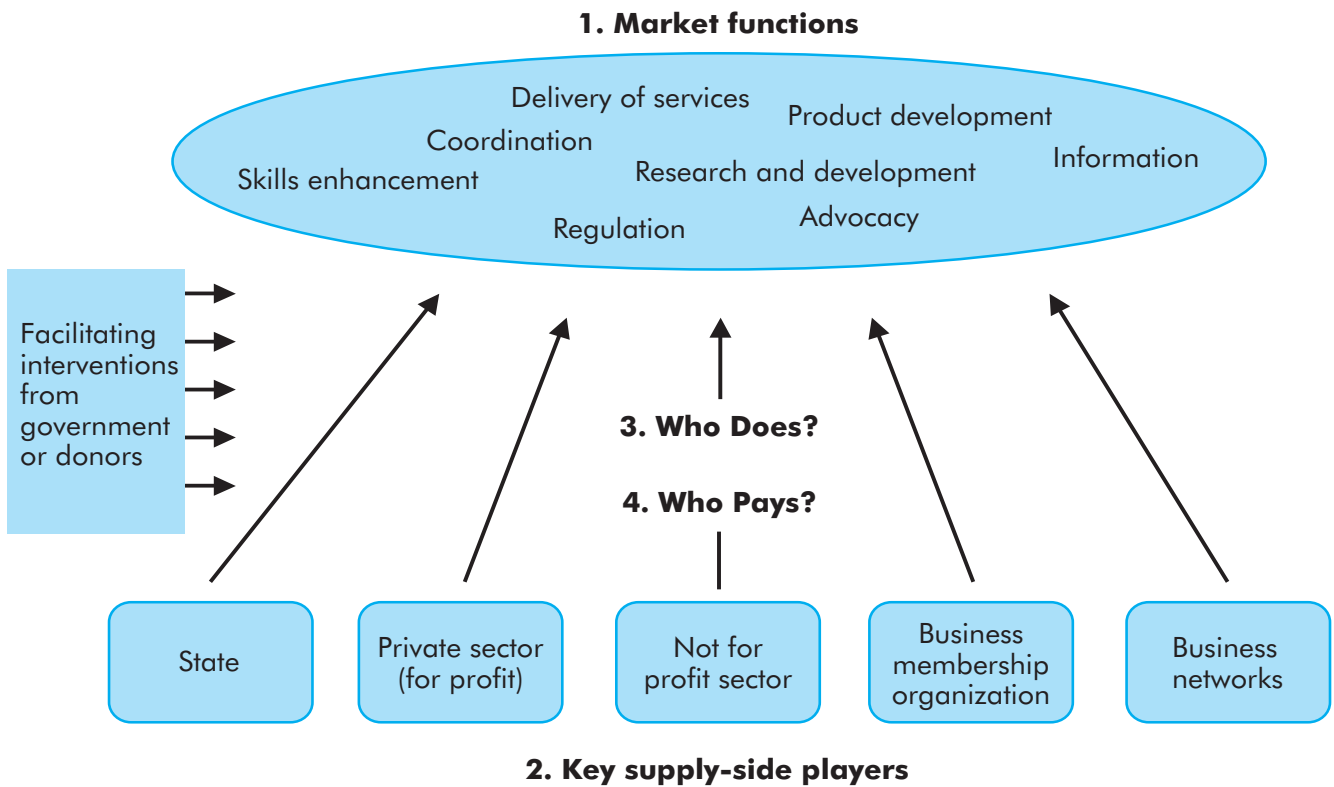
Until recently, most program managers considered sustainability at the level of SEs and at the level of service providers. However, the market development approach demands that program managers consider another level of sustainability - that of BDS markets. Key sustainability questions now being asked are, "Can the market sustain the changes promoted during a market development program?" and "Can the market continue growing and developing without intervention after a program ends?"

Experts in the BDS field have developed a framework for thinking about BDS market sustainability. The framework focuses on determining who can sustainably perform each of the key functions required in a healthy BDS market. (See Diagram 6).<sup>84</sup> The framework emphasizes not only who will perform each function but also who will pay for it to be performed. Experts now encourage program managers to use this type of framework in planning for the sustainability of market development programs.

<sup>83</sup> Miehlsbradt, 2001.

<sup>84</sup> Gibson, Hitchins, Bear, 2001.

Diagram 6. Framework for BDS market sustainability



**Example 39. SE service suppliers  
Small enterprises in the India  
software industry**

The Indian software industry – worth approximately US \$3.9 million in 1998/99 – is increasingly global, affluent and concentrated in large enterprises. However, recent research shows that there is a hidden industry of SEs underlying the sector. These SEs provide ICT services to other businesses. They 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. They are able to offer significant price-competitiveness, personalized and 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>

**Promoting SEs as service suppliers**

Most programs concentrate on SEs as consumers of BDS. However, new studies and pro-

grams are showing that SEs are also BDS suppliers. Promoting this role can help these SE suppliers as well as open opportunities for low-income people to become BDS suppliers. One strategy gaining popularity is franchising, in which a large BDS supplier sells franchises to SEs which then sell business services. This strategy is particularly common in telecommunications. For example, one program in Africa is working with a large mobile telecommunications company that is launching a "village phone" package. The telecom company provides training and support to rural entrepreneurs who use a mobile phone to start a public call business. This company has recognized the need to specifically target women for the start-up package because women-operated businesses are more likely to attract both male and female clientele. The telecom company sees the strategy as a way to expand their sales – while rural entrepreneurs have the opportunity to start a business with the backing of a large company.<sup>85</sup>

<sup>85</sup> Unpublished correspondence with Jim Tanburn, 2001.



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## 10. What are the current debates and challenges in the BDS field?

The BDS field has made significant progress over the last five years. Still, there are many unanswered questions. Is it possible to develop wholly private sector markets for all types of services? Will this new direction positively or negatively affect outreach to the poor? What types of subsidies are appropriate, and when? What should be the role of the state in facilitating BDS for SEs? The field is still facing significant challenges as it endeavors to serve larger numbers of SEs, to increase access for poor and more remote SEs, to achieve sustainability and to develop vibrant BDS markets. This section outlines some of these remaining challenges and the debates that surround them.

### The starting point and scope for BDS programs

While there is agreement that services should be demand-driven, there is considerable debate about the starting point for choosing services. Some practitioners argue that those services in most demand by a broad range of SEs should be chosen. Others argue that programs should start with a particular target group – often an under-served one – and choose the services they demand. Still others say programs should start by looking at a specific subsector and choosing the services SEs in that subsector demand. It is likely that all these routes are reasonable alternatives and the choice should depend on a program's objectives and institutional perspective.

Similarly, there is debate about the appropriate scope of BDS programs. Some practitioners argue that programs should focus on a single business service market in order to stay focused and become experts in that market. Others say that a program can be designed around a particular market problem facing different BDS services. For example, voucher programs could be extended to cover other types of BDS in addition to training services. Still others say the only way to really have an impact on SEs is to promote a range of business services at the same time so that SEs have the breadth of support services they need to grow and develop. Many subsector development programs, for example,

Some practitioners argue that programs should focus on a single business service market in order to stay focused and become experts in that market.

promote several services that help SEs gain access to better markets. More experience is needed with the different options before the field can shed light on the issues and trade-offs inherent in these choices.

### Assessing markets

While there is general agreement that it is important to assess a market before starting a BDS market development program, there is considerable debate about how extensive an assessment is needed and the best mix of tools for conducting assessments in different circumstances. A number of donors are now conducting market assessments using both quantitative and qualitative tools. Preliminary lessons from these assessments indicate that quantitative market assessment tools are very useful in many BDS markets but may not be useful in very weak BDS markets. Qualitative tools may be more appropriate for these circumstances. Programs are also experimenting with the appropriate mix of up front market assessment and on-going action research. Experts are gathering lessons learned in order to determine what types of tools are most appropriate in different market circumstances and how to maximize the cost-efficiency of market assessments.

### Ensuring that low-income, remote and other under-served SEs benefit from commercial services

Although there is broad support for the market development approach there is still debate as to whether it is appropriate for the poorest entrepreneurs. The approach is particularly questioned by those who serve SEs in remote rural areas where markets do not function well or who serve SEs that are excluded from the market due to gender, ethnic or other social barriers. These practitioners feel that market players have traditionally excluded or exploited the poor, and that it is unrealistic to think that markets will work to benefit the poor on a large scale. Proponents of the market development paradigm argue that *not* integrating marginal-

Proponents of the market development paradigm argue that *not* integrating marginalized entrepreneurs into markets will further exclude them from the benefits of economic development.

ized entrepreneurs into markets will further exclude them from the benefits of economic development. They point to progress made in learning how to reach these groups with market development programs. Proponents of the market development approach point to cases in which commercial services have reached the poorest. Additional action research and ongoing program monitoring using common performance measures may help increase understanding of how markets do, and do not, serve the poor.

### Financing BDS

A common market weakness for low-income consumers is a lack of appropriate financing when consumers cannot pay for services up front. Some solutions were presented in

There are many reasons for microfinance and BDS to remain quite separate, but the potential for offering mutually beneficial services using strategies that employ best practices in both fields is being explored.

Chapter VI. There may be more to learn from additional payment options offered by the private sector. One strategy many practitioners continue to explore is linking BDS with microfinance services. As described above in the section "piggy-backing," there are many reasons for microfinance and BDS to remain quite separate, but the potential for offering mutually beneficial services using strategies that employ best practices in both fields is being explored. As BDS markets develop, appropriate financing strategies may start to become a normal aspect of business services initiatives.

A second market weakness is the lack of finance for BDS suppliers. As BDS suppliers are expected to be sustainable and more programs work with private sector suppliers, grants no longer seem an appropriate financing instrument. Given the capital constraints in most developing countries, BDS suppliers have trouble accessing finance for expansion. BDS facilitators are often asked to finance BDS suppliers. Where grants are in use, the trend is to link grants to supplier performance in achieving financial sustainability.<sup>86</sup> Other financing mechanisms for new suppliers include equity and loan capital from donor or facilitator organizations.<sup>87</sup> In some cases, this equity is used to leverage private sector capital. Few

financing mechanisms have been developed, however, for informal, private sector suppliers. This will become a new challenge area for the market development paradigm.

### Clarifying the role of subsidies

Fundamental to the market development paradigm is a shift in thinking about subsidies. No longer is it a question of how much of a subsidy to provide for how long. Now, the challenge is how the subsidies should be channeled in order to develop, rather than distort, BDS markets. In the market development paradigm, subsidies are viewed as temporary, yet timeframes and funding strategies are not yet clearly understood. For example, should subsidies be used for start-up capital to new BDS suppliers? Should subsidies be restricted only to product development and suppliers identification and monitoring? Or, may they be used to train and build the capacity of private sector suppliers? Although the market development paradigm has challenged practitioners to get more out of each public sector dollar, and to create sustainable BDS, the era of subsidies is far from over and the challenge of how to use them most productively has only begun.

The challenge is how the subsidies should be channeled in order to develop, rather than distort, BDS markets.

### Demand vs. supply side approaches

There are clearly two sides to a market – demand and supply. Therefore, there are potentially two sides in which to intervene and develop the market. But which is best? Voucher schemes, which address the demand side, are one of the first successful market development approaches. Those in favor of demand side interventions say that increasing demand is an essential part of building a market. However, some argue that every demand side problem is actually a weakness in supply. SE lack of information about services points to supplier inability to market their products. SE inability to pay for services points to supplier lack of appropriate financing options for their products. Only by developing supplier capacities to solve demand problems will BDS markets become sustainable and grow on their own. Experience in both approaches will contribute to this debate.

<sup>86</sup> Bissegger, 2000.

<sup>87</sup> Mikkelsen, 1999.

## The timeframe for success

In theory, the private sector is more innovative, nimble and quick to respond to market opportunities than public institutions and non-profit organizations. However, in some programs that have attempted to disseminate BDS through the private sector, suppliers have been slow to respond to “opportunities” to serve SEs

What are the best ways to quickly develop private sector capacity to serve SEs, particularly microenterprises and poorer entrepreneurs? While a lot has been learned, more experimentation is needed. In theory, the private sector is more innovative, nimble and quick to respond to market opportunities than public institutions and non-profit organizations. However, in some programs that have attempted to disseminate BDS through the private sector, suppliers have been slow to respond to “opportunities” to serve SEs.<sup>88</sup> Why? Larger suppliers with strong capacity have a high incentive to serve the already under-served larger businesses. While they may be ready to implement a donor-funded program – because funds are guaranteed and there is essentially only one customer – they are more reluctant to service SEs, particularly microenterprises. Second, informal suppliers are numerous and have less capacity to serve their SE markets. It takes time to recruit, negotiate deals and train these partners. Organizations involved in product development and dissemination comment that in order to support the efforts of private sector suppliers to reach a large scale, they often have to play a role in the market, for example providing test marketing and advertising services so that suppliers will be assured of customers.<sup>89</sup> Thus, one challenge faced by BDS market developers is how to quickly and effectively build private sector capacity.

## Determining the best structure for a facilitator

The role of a market development facilitator is still quite new in BDS. Many in the field are still not sure what a good facilitator looks like. Some envision an NGO or consulting firm contracted by a donor. Others envision a facilitator much closer to or in the BDS market that the facilitator is developing. Currently, some donors act as facilitators. It appears that if a facilitator acts as a market player, it is more

likely that the roles of the facilitator can be subsumed into the private sector. Some programs have had success with commercial facilitators who operate on a for-profit basis from the start.<sup>90</sup> However, donors and practitioners are not yet sure if all roles performed by facilitators can be completely privatized.

## Changing donor operating practices

Traditionally, donors have designed and managed large programs with significant financial outflows. Much of the focus has been on achieving fixed outputs with specific inputs. However, donors implementing market development programs have found that it is important to be able to make small disbursements of funds and to respond quickly to changes in the market. They have found that while goals can be fixed, strategies and tactics must change in order to maximize opportunities for higher impact.<sup>91</sup> The challenge for donors is to change the way they operate in order to be able to effectively manage market development programs. Working through more nimble facilitator organizations, primarily NGOs, is currently a popular approach, but other are being explored.

## Defining performance standards for the field

Despite the progress in performance measurement, a common performance measurement framework and the research agenda, there remain many challenges for performance assessment. It would be helpful to have some benchmarks by which to judge the performance of different types of programs in different contexts. However, this goal is still quite far in the future. The field is still grappling with developing a common performance measurement system and confirming the impact of BDS in general. Some experts and practitioners are concerned that the BDS field is so diverse that it will be impossible to establish fair benchmarks. Others argue that only through setting standards can the field really move forward. As more experience is gained, it may

<sup>88</sup> Write, 1998; McVay, 1999c; Hileman and Tanburn, 2000.

<sup>89</sup> McKenzie, 2000.

<sup>90</sup> Hileman and Tanburn, 2000.

<sup>91</sup> Tomecko, 2000; Hileman and Tanburn, 2000.

become more clear if and how to establish standards that are appropriate for different types of programs in different contexts.

### **Disseminating lessons learned and best practices**

Major progress in this area has been made through the Donor Committee conferences, which have documented over 60 cases and studies in the last 3 years and made them available through the ILO website for quick public access.<sup>92</sup> The SEEP network

The demand for training and information is high, however, particularly for affordable, regionally-based training.

has developing an on-line Guide to Business Development Services and Resources that provides an up-to-date review of the field and gateway of information on BDS.<sup>93</sup> In addition, several institutions are offering training in new BDS strategies. These institutions include the Springfield Centre, New Hampshire College, the ILO, ICECD and the SEEP network.<sup>94</sup> Work has also begun on disseminating information through conferences in developing

countries that link local practitioners with global trends. There is still unmet demand particularly, 1) affordable, regionally-based training, 2) specific training in particular aspects of the market development approach, and 3) specific service delivery techniques.

### **Developing and documenting best practices**

The BDS field has made significant progress in identifying and categorizing large numbers of BDS, and in developing tools to identify and select demand-driven services. Again, the volume of case studies and analytical papers made available by the Donor Committee has consolidated information about current practice, and brought unparalleled opportunity for Best Practice analysis. Next steps include funding more pilot and demonstration programs using the market development approach, on-going documentation and dissemination of the lessons learned from these initiatives, and continued integration of these lessons into training initiatives.

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<sup>92</sup> The Donor Committee website provides access to all the cases: Website: [www.ilo.org/employment/seedonors](http://www.ilo.org/employment/seedonors)

<sup>93</sup> [www.seepnetwork.org/bdsguide.html](http://www.seepnetwork.org/bdsguide.html)

<sup>94</sup> A diary of training courses can be found on the Inter-coop website: [www.intercoop.ch/sed/index/htm](http://www.intercoop.ch/sed/index/htm)

### 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 the behavior of consumers)

**Consumer:** User or buyer of “offers” presented 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 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 (i.e., 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 affect 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 or government institution that provides BDS to SEs or facilitates BDS provision. Distinguished from 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 (e.g. a fax service, technical training, consulting information).

**Supply:** the quantity and type of goods or services that sellers wish to sell at any conceivable price. (Describes the behavior of suppliers)

**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** (*financial sustainability*) a BDS institution is sustainable if commercially-motivated revenues are at least as great as the full costs 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   |
| BDS         | Business Development Services  |
| BRAC        | Bangladeshi Rural Advancement Committee  |
| BusinessNOW | Business Neighborhood Organization for Women   |
| CARE        | Cooperative Assistance and Relief Everywhere   |
| CEFE        | Competency-based Economies Formation of Enterprise   |
| DFID        | United Kingdom Department for International Development  |
| FIT         | a small enterprise development program of the International Labour Organization  |
| FGD         | Focus Group Discussions  |
| GAMA        | <i>Grupo de Asesoría Multidisciplinaria</i>  |
| GEMINI      | a 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 Organisation  |
| MBP         | Microenterprise Best Practices project   |
| MFI         | Microfinance Institution   |
| MicroPED    | Microenterprise Private Enterprise Development project   |
| MPDF        | Mekong Project Development Facility  |
| NASFAM      | National Association of Smallscale Farmers of Malawi   |
| NGO         | non-governmental organization  |
| PMF         | Performance Measurement Framework  |
| PRA         | participatory rural appraisal  |
| PRIDE       | Program for Rural Initiative, Development and Entrepreneurship   |
| 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 or medium sized firm)   |
| SEEP        | Small Enterprise Education and Promotions network  |
| SEWA        | Self-employed Women's Association  |
| 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   |
| WV          | Women Venture  |

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## Annex F. List of useful reading and websites

The following is a list of useful BDS reading materials and websites. The papers and sites 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 for 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.

### 1. Books and papers

**“BDS Market Development: A Guide for Agencies.”** by A. Gibson, R. Hitchens and M. Bear. Forthcoming from United States Agency for International Development Microenterprise Best Practices Project managed by Development Alternatives, Inc. Website: [www.mip.org](http://www.mip.org)

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. It includes sections on how to choose interventions, developing a picture of sustainability, core implementation challenges and monitoring and evaluating 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.ilo.org/employment.sedonors](http://www.ilo.org/employment.sedonors)

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 the principles that the Donor Committee recommends donors follow in BDS programs.

**“Designing BDS Interventions as if Markets Matter.”** by Michael Field, Rob Hitchens and Marshall Bear. United States Agency for International Development Microenterprise Best Practices Project managed by Development Alternatives, Inc., July 2000. Website: [www.mip.org](http://www.mip.org)

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 Hitchens. Swiss Agency for Development Cooperation, SED Issue Paper 5, June 2000. Website: <http://www.intercooperation.ch/sed>

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 Organisation. March 2000. Website: [www.ilo.org/employment.sedonors](http://www.ilo.org/employment.sedonors) under the Hanoi conference.

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.

**“SEEP Guide to Business Development Services and Resources”** by the Small Enterprise Education and Promotion Network. Website: [www.seepnetwork.org/bdsguide.html](http://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. 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, forthcoming. Available from Intermediate Technology Publications.

This book will include 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. The 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 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 Organisation'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. Websites<sup>95</sup>

### **Committee of Donor Agencies for Small Enterprise Development**

<http://www.ilo.org/public/english/employment/ent/sed/bds/donor>

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.

### **Directory of Development Organizations**

[www.devdir.org](http://www.devdir.org)

“The Directory is a compilation of contact data of 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.”<sup>96</sup> The directory is organized by region, country and type of organization.

<sup>95</sup> Many of the website descriptions are from the SDC Small Enterprise Development website.

<sup>96</sup> From the Directory of Development Organizations website.

### **EnterWeb:**

#### **The Enterprise Development Website**

[www.enterweb.org](http://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.

#### **Inter-American Development Bank (IDB) Sustainable Development Department**

[www.iadb.org/sds/document.cfm/0/ENGLISH](http://www.iadb.org/sds/document.cfm/0/ENGLISH)

This site's pages are available both in English and Spanish. Select the chapter 'SME' [<http://www.iadb.org/sds/document.cfm/52/ENGLISH>] or 'Microenterprise' [<http://www.iadb.org/sds/document.cfm/51/ENGLISH>] to find information on IDB's strategies, best practices, news and publications.

#### **Intermediate Technology Publications**

[www.oneworld.org/itdg/publications.html](http://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](http://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 the following themes: policy environment, market opportunities, business development, association building, informal sector, best practices, job quality and gender equality.

##### **Microenterprise Innovation Project:**

##### **Microenterprise Best Practices Project**

[www.mip.org](http://www.mip.org) [click “Best Practices, then, Publications, then BDS]

MIP is an USAID project that conducts research and produces publications on microenterprise development, finance, policy, and impact. One component of MIP is the Microenterprise Best Practices Project, which aims to document and disseminate information about best practices in microenterprise development. The site includes papers produced under the project (in pdf format) on a variety of topics in both BDS and microfinance and a newsletter.

##### **Pact Publications**

[www.pactpub.com](http://www.pactpub.com)

Pact publishes many development related papers and books. This site includes a catalog of Pact 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/index.htm](http://www.intercoop.ch/sed/index.htm)

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. 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](http://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. 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.