

# **Seminar Reader**

**Developing Markets for  
Business Development Services:  
Pioneering Systemic Approaches**

## **BDS UPDATE**

**Fifth Annual BDS Seminar  
Chiang Mai, Thailand  
September 2004**

By: Alexandra Miehlsbradt and Mary McVay  
for the  
Small Enterprise Development Programme  
of the  
International Labour Organization

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# FOREWORD

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

As part of that work, an Update is prepared each year, to give BDS practitioners a quick guide to the latest developments around the world; our particular thanks go to the Swiss Agency for Development and Cooperation (SDC) for financing the preparation and publication of the Update this year, to be published in three languages. Our thanks also go to the authors, Mary McVay and Alexandra O. Miehlsbradt, who have again synthesised a mass of material into a succinct and fresh guide to global developments in BDS.

The Update is linked with the Annual BDS Seminar, which has become an important event for BDS practitioners around the world, attracting participants from over 90 countries. All of them share a keen interest in new ideas and approaches that may increase effectiveness. In addition to the presentations, participants also appreciate the networking opportunities during the breaks, and many continue their discussions by e-mail long after the Seminar ends. We take this opportunity to acknowledge also the instrumental roles played by Jim Tanburn and Peter Tomlinson in organizing the Seminar each year.

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

Gerry Finnegan,  
Director a.i.,  
SEED Programme on Boosting Employment through  
Small Enterprise Development,  
ILO Geneva, Switzerland

Frans Lenglet,  
Director,  
Training Department,  
International Training Centre,  
ILO Turin, Italy

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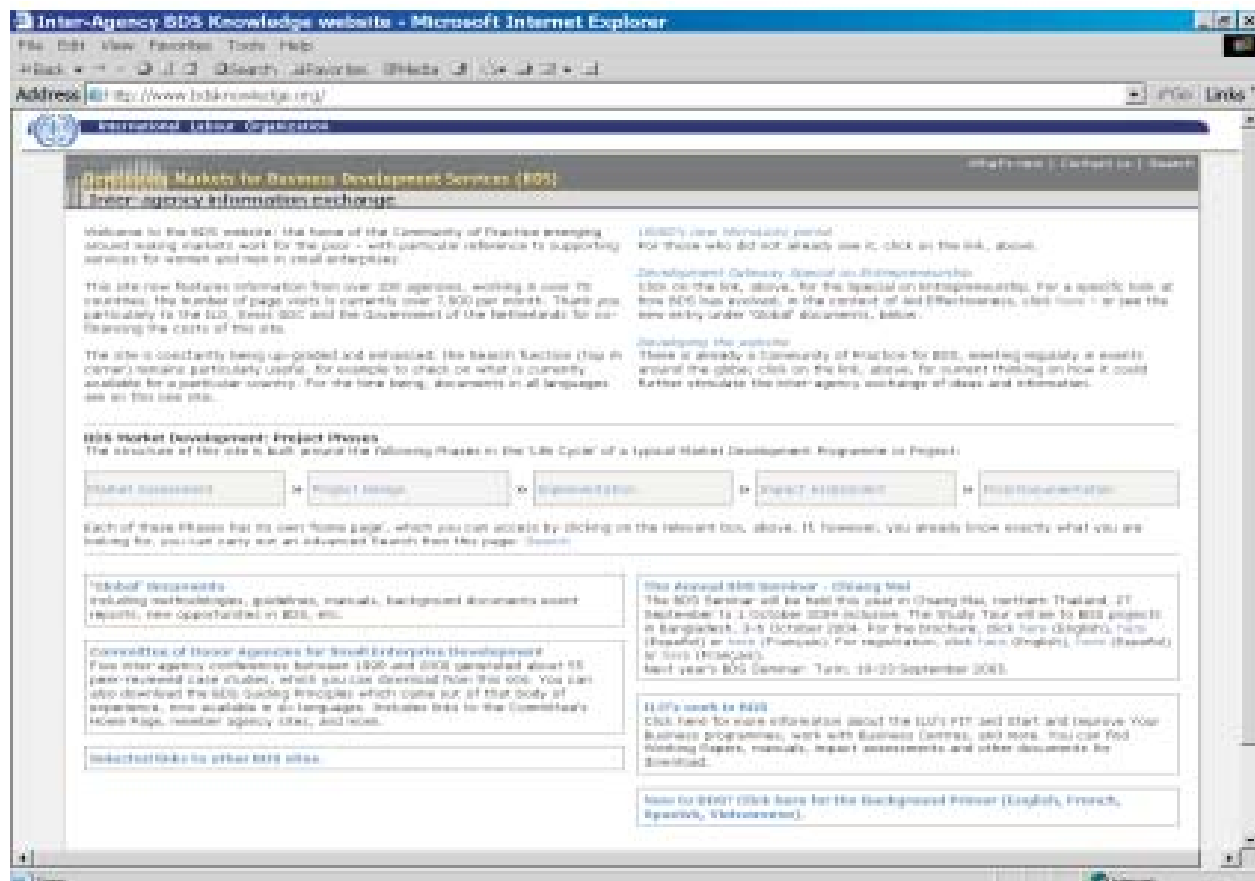
The authors are grateful to the practitioners, researchers, and donors whose hard work, innovative thinking, and often heart-felt efforts we attempt to capture in the BDS Reader. Their willingness to share information on their programs, innovations, challenges, and lessons learned is greatly appreciated.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

Alexandra Miehlbradt  
Mary McVay  
Small Enterprise Development Consultants

# THE BDS WEBSITE

Everyone agrees that sharing information is a Good Thing, and indeed most enjoy receiving information that they can use to improve their work. But there are many pressures for the development 'industry' to work in a fragmented way, and relatively few rewards in the short term for supplying project information that is totally objective. The BDS field has distinguished itself by establishing a tradition of open exchange; the BDS Update and Seminar are specifically designed to build on, and enhance, that tradition. But both the Update and the Seminar are annual events, and there is clearly need for various mechanisms to promote exchange year-round.

To address this need, a website has been established at [www.bdsknowledge.org](http://www.bdsknowledge.org) which acts as an information for the BDS field. Most of the documents referred to in this Update can be downloaded from that site; the graphic below shows how the 'home page' for the site currently looks. There are five main categories of database entry, which correspond to the typical phases of a project: Market Assessment, Project Design, Implementation, Impact Assessment and Final Documentation (which includes case studies about project experiences etc.) Each phase lists all the entries, with the most recent first; key documents for that phase are included down the left-hand side. The sixth category in the database, Global documents, includes synthesis documents covering experiences in many countries. The Committee of Donor Agencies for Small Enterprise Development also has all of its BDS documents on this site.



Site users can follow an individual project through its phases as each entry lists related entries. All entries include a very brief summary of available documents to help users find the content they want, before downloading whole papers. The site contains minimal graphics, to aid users with low bandwidth.

The Search function (top right hand corner) is particularly useful, as it accesses all elements of the database; it also gives you drop-down menus with listings of all the implementing agencies and countries. There is a What's New page, currently set to show you all the documents that have been entered, or changed, in the last 30 days. There are also 'top ten' pages (under Global documents), showing which were the most popular documents since the website started, one year ago, and in the last month.

New entries are welcome at any time; the criteria for posting is that the document or project clearly relates to developing commercially sustainable business service markets for small enterprises. This includes work with both value chains and cross-sector service markets, as well as with broader projects, for example in agriculture or private sector development, where service markets are also being developed. Entries include project documents, market assessment reports, progress reports, evaluation reports, case studies, workshop synthesis and theoretical papers in the BDS field. To facilitate sharing of current work, both final publications and work in progress are welcome. Any comment on the site is also welcome, particularly to update contact details for the people, organisations and websites referred to.

Jim Tanburn  
jim@tanburn.com

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# 1. Introduction

This is the fifth year that the ILO has published an annual synthesis of work in the field of Business Development Services (BDS) in conjunction with its annual BDS seminar. This publication, the 2004 BDS Reader Update, focuses on the latest trends, promising innovations, current debates, and challenges facing the field. It is illustrated with examples from programs around the world. A companion publication, the BDS Primer, published in 2003, presents the fundamental principles of BDS market development and summarizes key tools in use for this approach.<sup>1</sup> The BDS Primer illustrates how these principles and tools are applied in practice.

Perhaps the most significant trend in the field in 2004 is that BDS market development initiatives are increasingly part of broad development initiatives rather than stand-alone programs. These broad programs aim to improve sector competitiveness, develop the private sector, strengthen the agricultural sector, help microenterprises compete in global markets, reduce poverty, create jobs, or empower disenfranchised groups. More and more, the BDS and other development fields are approaching development in a similar manner – focusing on long-term, sustainable change in markets, institutions, and social structures, rather than just short-term results. With these trends, a wide range of development professionals is becoming interested in BDS and those involved in BDS initiatives want to understand how developing markets for business services contributes to broad development goals. In recognition of the needs of both groups, this Update targets both BDS practitioners and donors, and other development professionals who see promise in the idea and practice of developing markets.

## 1.1 The BDS field in 2004 - Progress and Challenges

The field is beginning to mature. Though many programs are relatively new and there is still much to learn about how to develop BDS markets effectively, many projects show promising results in reaching out to SEs, deepening BDS markets to serve the poor or disadvantaged, developing sustainable market structures that incorporate SEs, and contributing to broader development goals. The projects described in Example 1 briefly illustrate specific developments in the field and most are profiled in more detail elsewhere in the document.

Innovative services, business models for service delivery, interventions to stimulate BDS markets, and institutional roles in programs have helped to accomplish results and sustainable market changes such as those cited above. The practical lessons learned from both maturing and new programs are continuing to push the field toward achieving its potential for higher levels of outreach and sustainability. However, these lessons do not create blue prints. Rather, they underscore the importance that technical rigor and entrepreneurial flair play in effectively developing both BDS and other private sector markets that incorporate and benefit SEs.

While progress has been made, the context for BDS market development has been shifting – providing new opportunities and challenges. In particular, two contextual changes are having a significant influence on the field. First, BDS market development increasingly is implemented in support of efforts to change broader systems:

- local, regional, and global market structures,
- relationships between the public and private sectors, and
- cultural and social norms.

<sup>1</sup> The BDS Primer is available on the BDS information sharing website: [www.bdsknowledge.org](http://www.bdsknowledge.org). Access it by clicking the bottom right hand button on the home page, which asks if you are new to BDS. The Primer is an introductory resource for newcomers to the field and a useful reference for experienced BDS professionals.

## Example 1: Progress in the BDS Field

### Kenya BDS

The Kenya BDS project, funded by USAID and implemented by Deloitte Emerging Markets, reports that after a year and a half of project implementation, approximately 14,000 MSEs are accessing commercial business services in project areas with over 250 business service providers participating in the project.

Deloitte Emerging Markets – Kenya BDS, 2004  
For more information, see [www.kenyabds.com](http://www.kenyabds.com)

### Business Information in Sri Lanka

GTZ reports that, with assistance from the Enterprise Information Project funded by BMZ, nine business information service providers conducted 78,689 transactions with SEs in 2003. The providers — mainly chambers of commerce — offer a range of general and tailored business information for SEs.

Gärtner, 2004  
For more information, see [www.bis-asia.net](http://www.bis-asia.net) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

### 10 Years of SE Promotion in Peru

A recent evaluation of the DESIDE program, implemented by Swisscontact with funding from SDC, found that, through work at the policy, BDS market, and institutional levels, DESIDE accelerated the introduction of the market approach in SE development up to the point of being mainstreamed in government and development programming.

Reichmuth, 2004  
For more information, see [www.swisscontact.ch](http://www.swisscontact.ch)

### Reaching Poor Farmers in India

In India, IDE is reaching over 450,000 poor farmers with micro-irrigation systems and other agricultural services through 2,000 profitable providers. In the state of Maharashtra, IDE, with funds from USAID, has reached 21,000 small and marginal farmers in 2.5 years and has also partnered with Agriwatch – a large commercial agro-information service provider – to help them profitably take their services to small farmers.



Manaktala, 2003, 2004  
For more information, email [shivani@ide-india.org](mailto:shivani@ide-india.org) or see [www.ide-india.org](http://www.ide-india.org) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

### Agribusiness in the Philippines

Strategic Development Corporation Asia reports that their USAID and Swisscontact funded project in Mindanao has reached over 2,000 enterprises in 2 years in the agribusiness sector through 110 providers and 5 small and medium processors/intermediaries. Providers supported early in the project are now independently innovating service content, delivery and payment schemes and replicating strategies in other product categories. An increasing number of household based semi-processors are linked to mainstream markets through transactional relationships.

Idrovo and Boquiren, 2004

For more information, email [mb@sdcasia.ph](mailto:mb@sdcasia.ph) or see [www.sdcasia.ph](http://www.sdcasia.ph) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

### Radio Shows in Uganda

Eleven commercial radio stations in Uganda have now chosen to broadcast regular programmes for MSEs, triggered by technical inputs from the ILO FIT/SEMA project, with funding from Sida, DFID and others. Another 7 commercial stations have replicated the basic format on their own. The programmes offer MSEs a range of business information, tips and advice, platforms for debate on business issues and a vehicle through which businesses can advocate for policy change; around 7 million Ugandans are listening on a regular basis.

Anderson, 2004

For more information, see [www.bdsknowledge.org](http://www.bdsknowledge.org)

The emphasis is often on both facilitating systemic change – a key goal of BDS market development since its inception, and achieving short-term results. This trend provides opportunities for BDS market development to be an integral part of improving the enabling environment for private sector growth; of integrating the poor into productive global markets; and of having a wider impact on overall development goals. At the same time, it presents new challenges for those involved in both the BDS and other development fields. How can practitioners and donors take advantage of the opportunities these broader projects offer without losing focus? How can they facilitate change in market structures that include SEs and benefit the poor over the long term? And, how can programs balance the dual goals of contributing to systemic change while also achieving short-term results?

The second trend concerns the ever-increasing pace of globalization and intensity of global competition and the related interest many corporations have in integrating the poor into global markets as suppliers or customers – sometimes with sustainable development intentions. This also presents opportunities and challenges for development professionals concerned with BDS. How can they develop markets that help local SEs benefit, rather than suffer, from globalization? How can they

### Agro-Tools Fair in Bangladesh

The KATALYST project, supported by DFID, SDC, and Sida, and implemented by Swisscontact and GTZ International Services, assisted a commercial trade fair company to organize an agro-tools fair in Bangladesh. The fair had 56 stalls and attracted 25,000 participants. The turn-out was so overwhelming that the company is already planning another fair next year without support from KATALYST

Katalyst, 2004

For more information, see [www.katalystbd.com](http://www.katalystbd.com)

engage corporations as partners and broker win/win links that not only strengthen markets for consumer products and services, but also for sustainable business development services? These are just a few of the critical issues facing the BDS field in 2004 that are highlighted in this year's Update.

## 1.2 Purpose of the Reader

In the face of rapid changes to the field; the growing pace of innovation; and the mushrooming of readily available information on projects, the Reader aims to help BDS and other development practitioners, donors, and researchers keep up with the latest trends, innovations, challenges, and debates. The Update does not go into depth on any one topic, but presents an overview of key issues and recent experience with references and examples to help readers find more information on the topics that interest them.

Another useful resource is the BDS information sharing website, [www.bdsknowledge.org](http://www.bdsknowledge.org). In addition to many of the projects and papers profiled in the Reader, it contains material on a wide variety of other BDS programs, research initiatives, and events. The site offers a searchable and constantly growing database of more than 500 project documents, papers, and conference reports from 78 countries contributed by 106 agencies (as of July 2004). This website is one of several new sites, conferences, and training courses designed to share information and promote dialogue. All are profiled in **ANNEX A**.

The Update is meant for those working in a variety of development disciplines — private sector development, poverty alleviation, income generation, and others — and it is assumed that the reader is familiar with common terminology in the BDS field and with the principles of the BDS market development approach. For those who are new to this field, the Primer provides a useful reference.<sup>2</sup>

## 1.3 Outline to the Reader Update

The Update begins with the macro issues affecting the BDS field and then proceeds to discuss more specific trends and innovations among, and within, projects. The following key topics are discussed:

**Chapter 2:** This chapter discusses the inclusion of BDS market development in broader development projects as well as the increasing focus of development projects on creating systemic change. It considers both the reasons for these trends and their practical implications.

**Chapter 3:** Reaching the poor continues to be a key focus and challenge for market development projects. This chapter discusses both trends in approaches and promising new innovations in integrating the poor into regional, global, and BDS markets.

**Chapter 4:** Market assessment and the project design process are evolving to support the increasing focus of projects on systemic change. This chapter discusses the ways in which practitioners and donors are making market assessment more useful for project design and more relevant for programs working with the poor in weak markets.

**Chapter 5:** BDS programs continue to reflect innovations in business service offerings and new business models to deliver services. This chapter discusses the trends in the types of business services being promoted and provides examples of innovative new services on offer. It also outlines some unique business models and partnerships for delivering BDS to Ses.

<sup>2</sup> The BDS Primer is available at [www.bdsknowledge.org](http://www.bdsknowledge.org) from the “New to BDS?” button on the home page.

**Chapter 6:** Interventions to develop BDS markets are becoming more focused, flexible, and effective and development agencies increasingly are involving other institutions in BDS market facilitation. This chapter discusses innovative interventions and institutional partnerships for developing BDS markets.

**Chapter 7:** Performance assessment and evaluation still present one of the most difficult and persistent challenges to BDS market development projects. This chapter presents the latest thinking and experience in BDS program assessment and evaluation.

**Chapter 8:** In order to share experience and promote progress, the BDS field has developed a “community of practice” that comes together at various annual events and, increasingly, through

virtual fora. However, as the field matures, there are challenges to promoting excellence as well as inclusion. This chapter discusses those challenges and how the field is attempting to move forward effectively.

These trends and innovations are illustrated with 45 examples from projects around the world. Throughout this Reader, the authors present *Key Questions* — pressing issues and debates — for readers to consider. The Annexes include relevant websites and training programs new to the BDS field in the last year,<sup>3</sup> an extensive bibliography, and lists of the examples, figures, and acronyms. The Update is designed to reflect, to the best of the authors’ ability, trends in the field and to promote continuing dialogue that furthers learning and innovation in support of SE stabilization, growth, and integration into markets around the globe.

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<sup>3</sup> The BDS Primer (available at [www.bdsknowledge.org](http://www.bdsknowledge.org) from the “New to BDS?” button on the home page) contains a more comprehensive list of useful publications, websites, and training programs.

## 2. Enhancing Development Goals - Converging Market Development Approaches

As described in the Introduction, two significant trends are influencing BDS initiatives and raising critical issues in the broader context of development.

- 1) BDS is increasingly one component of broad-based development programs, rather than the sole strategy of single-focus projects.
- 2) Multi-faceted programs attempt to achieve sustainable change in a range of systems that may include markets, civil society and government relations, social structures, and education.

This chapter looks at the role BDS market development plays in these initiatives and the challenges associated with achieving both systemic change and short-term results. These themes run through a majority of market assessment, program design, implementation, and evaluation efforts and they are a focus of this Update.

### 2.1 The Role of BDS Markets in Broad Development Programs

The cross-fertilization that has been occurring between BDS and other development fields holds potential for enhancing the impact of a variety of development initiatives. Some programs incorporate BDS market development as one component of extensive market development strategies. This approach is most evident in private sector development projects such as trade promotion and agricultural sector development, which traditionally focus on developing markets in specific product sectors or geographical areas.<sup>4</sup> In addition, BDS programs increasingly use market development as a

#### **Key Question:**

#### **What should we call BDS?**

*As BDS engages more with other development fields, its terminology is coming under scrutiny. Some suggest that BDS are simple “business services” and are better understood by private sector specialists when this language is used. Others prefer to keep the development focus in BDS and use terms like “livelihood development services” to communicate with professionals in poverty focused fields. For those working on “sub-sector” development, “sub-sector” is out and “value chain” is in! Is it a word game? Perhaps, but many feel that the right words help communicate the message and power of BDS market development.*

The SEEP Network is hosting an on-line dialogue on this topic from September – December 2004.

For more information, see:

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

strategy to achieve broader goals, like developing a specific product sector or value chain.<sup>5</sup> A minor theme in last year’s Update, this trend is common in the majority of BDS initiatives profiled this year.

#### **Why are other fields experimenting with adding BDS market development to their portfolios?**

Those working in different development fields are beginning to integrate a BDS market development approach into their programs in order to support broad systemic change and augment results.

<sup>4</sup> Shauket, JOBS, 2003; Freer, ComMark, 2004; Sebtsstad and Snodgrass, Kenya, 2003

<sup>5</sup> Freer, ComMark, 2004; Sebtsstad, et al, AMAP, 2004

- **Reaching Higher-Value Markets:** Projects developing other markets frequently find that enterprises need specific business services to reach higher value markets and/or improve the competitiveness of targeted sectors to ensure that the poor benefit.<sup>6</sup> Farmers may need training and grading services to be able to sell to export markets and craft producers might need market information, product design, and quality control services to compete more effectively in national or regional markets. While some agriculture or private sector development projects offer these services for free, others see BDS market development as a way to ensure the sustainable provision of these services and the long-term growth and development of their target markets.<sup>7</sup>
- **Incorporating SEs into broader market initiatives:** As trade or agriculture development initiatives seek to enhance competitiveness, they may want to incorporate SEs because of a competitive advantage or donor mandate. Managers using a direct services model often find that reaching SEs is quite difficult due to the expense and inability to work with large numbers of individual small businesses having a limited capacity to grow. They see the BDS market development approach as a potentially cost-effective alternative for incorporating SEs into broader markets.<sup>8</sup>
- **Improving Livelihood Security and Alleviating Poverty:** Organizations focused on livelihood security and poverty alleviation often engage in programs designed to enhance commercial farming and other income-generating activities. The BDS market development approach has the potential to help them increase outreach and sustainability and this can lead to an examination of how to “make markets, including BDS markets, work for the poor.”<sup>9</sup>
- **Privatization of Infrastructure Services:** These days, infrastructure development initiatives are looking to the private sector to provide services

## Example 2: Donor Strategy Incorporating Both Private Sector and BDS Market Development Goals

### USAID AMAP

The USAID Microenterprise Development Team (MD) has launched a new global research and technical assistance initiative called the “Accelerated Microenterprise Advancement Project” (AMAP). The goal of AMAP BDS is to generate economic growth while reducing poverty. To ensure that the poor are not left out of economic growth strategies, AMAP BDS research and technical assistance focuses on linking micro and small enterprises (SEs) into global, regional, and local markets (through linkages with larger firms.) To help SEs compete in these markets, AMAP BDS fosters SE access to the business links and business and financial services required by small firms if they are to compete in the global or even the domestic marketplace. AMAP BDS has moved from a focus on business service provision to a more holistic approach that considers the range of opportunities and constraints faced by micro and small firms in global and national marketplaces and their need for business and financial services and an enabling environment. BDS market development is seen as one of many tools for integrating SEs successfully into local and global markets.

AMAP strategy papers and Kula, 2004

For more information, see: [www.microLINKS.org](http://www.microLINKS.org) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

traditionally delivered by government or government-owned parastatals. Recent research reveals the potential for SEs to deliver infrastructure, especially to poor communities. Some BDS practitioners and donors are now exploring the potential for the BDS market development approach to enhance initiatives that help SEs sell these types of services.<sup>10</sup>

<sup>6</sup> Hitchins, et al, DFID, 2004

<sup>7</sup> Hitchins, et al, DFID, 2004; AMAP BDS K&P Component B stocktaking interviews, 2004

<sup>8</sup> Shauket, JOBS, 2003; Sebstad and Snodgrass, Kenya, 2003

<sup>9</sup> Hitchins, et al, DFID, 2004; SEEP BDSWG, internal planning documents, 2004

<sup>10</sup> Wakelin, Intermediate Technology Consultants, 2004; Ashoka, 1989, 1995, 1996, 2001; Small Enterprise Development Journal, Vol. 15, No. 2, June 2004; Hitchins, et al, DFID, 2004

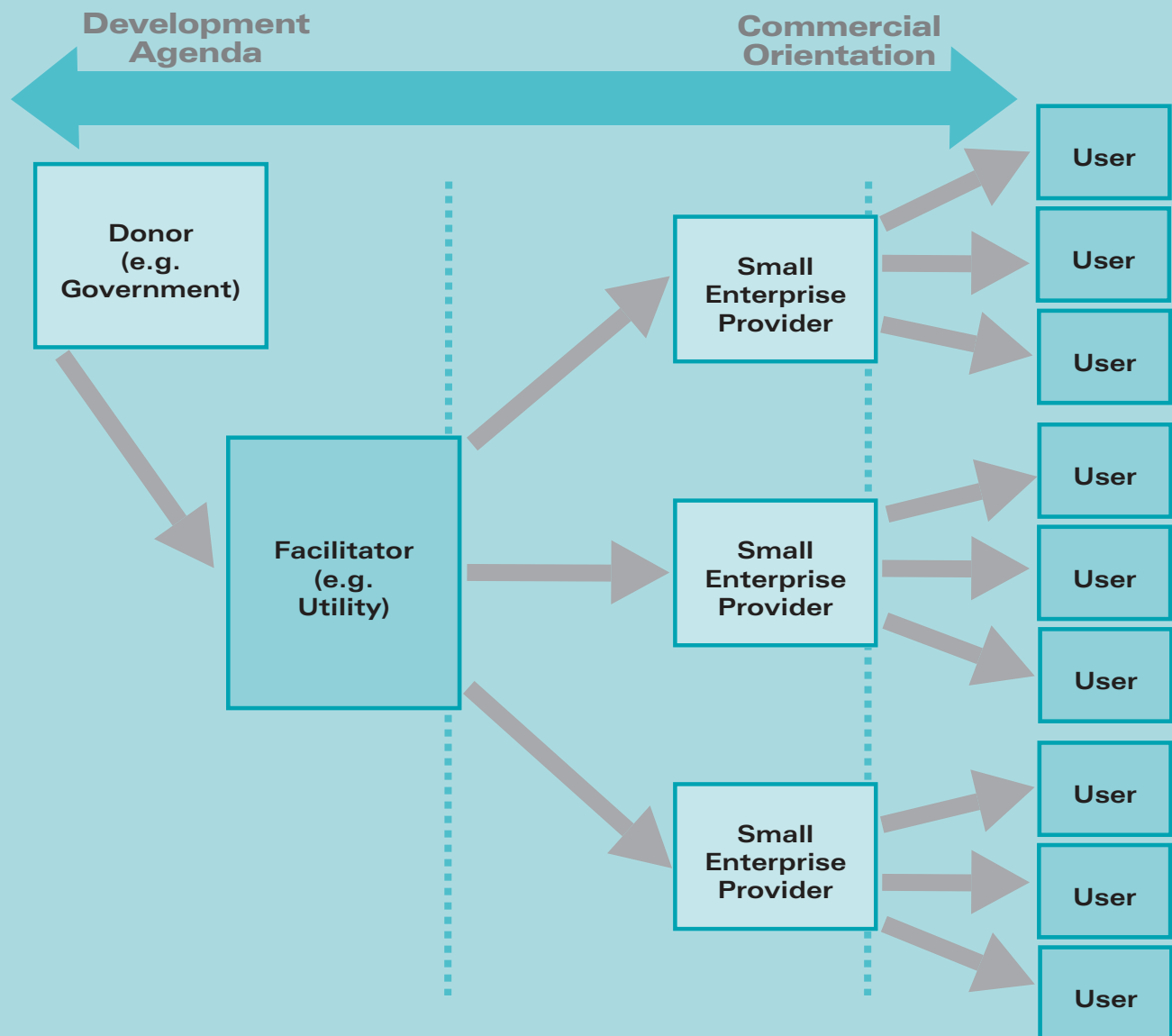
### Example 3: Infrastructure Development Incorporates BDS Market Development

#### Intermediate Technology Consultants (ITC)

ITC reports that small enterprises are increasingly involved in delivering small-scale infrastructure as a business venture. SEs deliver the following services in different parts of the world:

- City market stall management and rental in Uganda,
- Telephone services, street cleaning, ambulances, roadside and railway car parks, and electricity bill collection in India,
- Veterinary services in Kenya, Tanzania, and Azerbaijan, and
- Park maintenance services in Peru.

These sometimes occur completely independent of government and sometimes as part of a privatization initiative. ITC suggests adapting the BDS market development model to infrastructure initiatives as follows:



Intermediate Technology Consultants, presentation, 2004  
 For more information, see [www.itcltd.com](http://www.itcltd.com) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

## Why are many BDS projects incorporating broader development goals?

- **Broad impact on the private sector:** Some agencies aim for broad impact on the private sector and see BDS market development as only one of many changes needed to promote the growth and development of the private sector.<sup>11</sup>
- **Reaching the Poor:** Other agencies focused on reaching the poor have been experimenting with BDS market development for microenterprises, particularly vulnerable groups.<sup>12</sup> These agencies recognize that, for smaller enterprises, most BDS is embedded and promoting such services is one way to help them access services without direct payment. Embedded services usually come from input suppliers and buyers and this forces BDS planners to examine and try to influence the larger market systems (sub-sector or value chain) of the target population. In a recent design initiative, an MFI in Egypt seeking to help clients access BDS examined the sectors its clients worked in and found some 30% involved in animal husbandry. The MFI is focussing its BDS initiative on that sector, developing services that help customers access better veterinary services and improve their bargaining power in the market.<sup>13</sup>
- **Mainstreaming:** Some development professionals see “mainstreaming” as the most effective way to disseminate thinking on BDS market development. Rather than attempt to raise funds for separate BDS programs, they integrate BDS market development strategies into programs that already work with small enterprises.<sup>14</sup>

## Example 4: Broad Private Sector Development

### Strengthening Business Development Services, Indonesia

The Strengthening BDS program in Indonesia engaged national and local governments in implementing specific aspects of the mid-term action plan (MTAP) for SME development, which was developed with assistance from ADB. The MTAP introduced BDS market development as one component of a broader SME strategy:

*“The starting point for ADB TA Strengthening BDS was, as its name makes clear, BDS. In practice, the scope of assigned project objectives and tasks is much wider as it focuses on making specific elements of the business environment more conducive for SMEs, including non-financial (BDS) and financial services.”*

The program works at the national, provincial, and local levels to improve both the regulatory environment for SMEs and access to financial and non-financial services. The BDS initiative concentrates on:

- Creating an SME portal at the national level;
- Facilitating rural BDS markets through supplier development at the provincial level with a focus on embedded services related to access to markets;
- Linking business service providers with financial institutions in order to improve access to finance for SMEs; and
- Supporting local government as BDS market facilitators at the local level.

The Strengthening BDS program is funded by the Asian Development Bank and implemented by GFA and Swisscontact in collaboration with Ministry of Industry and Trade (MoIT), Ministry for Cooperatives and SME (SMOCSME), and Bank Indonesia.

GFA Management/ Swisscontact, Indonesia Mid-Term Report, 2003 For more information, see: <http://www.adbtasme.or.id/>

<sup>11</sup> KATALYST, 2004; Prey, GTZ, personal communications, 2004

<sup>12</sup> Bear, USAID IGP, 2004; SEEP BDSWG internal documents, 2004; Wakelin, Intermediate Technology Consultants, 2004; SEEP/PLP internal documents, 2004

<sup>13</sup> Participant, ILO Distance Learning Course, “Market-Oriented Business Development Services,” 2003

## Example 5: Embedded Services Help Reach Poor and Vulnerable Populations

### From Behind the Veil: Access to Contemporary Markets for Homebound Women Embroiderers MEDA and ECDI in Pakistan

The Mennonite Economic Development Agency (MEDA) and the Entrepreneurship Career Development Institute (ECDI) in Pakistan, participants in the USAID-funded SEEP Practitioner Learning Program (PLP) on BDS Market Assessment, assessed BDS markets for low-income women in Pakistan. They chose to focus on three promising sectors: garments, handicrafts, and ICT. However, during the assessment, they discovered a fourth sector with a good deal of potential: embroidered garments. Many of the rural, home-bound women who produce the clothing,



sell primarily to low value, traditional, rural markets through intermediaries. The study found that their products would command higher prices in urban markets if they used modern color and style trends. While urban garment makers had some awareness of and access to services, rural women operated in isolation, interacting through their male family members with village sellers who took their embroidery to markets to sell. What little market understanding and product specification they had came through this indirect channel. The assessment discovered that, in a few instances, urban-based women traders who had some access to market information and the latest designs and inputs, were interacting directly with rural embroiderers to enhance and modernize designs and color schemes and meet higher value markets. MEDA and ECDI are launching a program to enhance and replicate the model of embedded services through women traders to help the home-bound rural women reach higher value markets. The program will be funded by the USAID Implementation Grants Program (IGP).

Jones and Shaikh, MEDA, 2003 & 2004

For more information, see: [www.seepnetwork.org](http://www.seepnetwork.org) (PLP), [www.microLINKS.org](http://www.microLINKS.org), [www.bdsknowledge.org](http://www.bdsknowledge.org)

In general, BDS professionals recognize and promote BDS market development as a means to reach broader development goals – from economic growth to livelihood security and beyond. And, other development professionals are beginning to see BDS market development as a cost-effective and sustainable strategy for incorporating SEs into programs and systems and for reaching their goals. This integration of BDS market development with

broad development initiatives is changing the way donors and practitioners are going about developing BDS markets and enhancing learning across fields. In particular, they are coming together around ways to make long-term change using a “systemic” approach – the focus of the next section.

**Key Question:**

***In program scope, how broad is too broad?***

*The development field appears to swing periodically between more focused, specialized programs and those that are broader. How can programs achieve significant impact on a range of development problems while still maintaining a practical scope given the available skills, resources, and timescales?*

## 2.2 Systemic Change vs. Achieving Short-Term Results

The convergence of BDS market development with other development fields comes with an increasing focus on markets as a powerful tool for change and on using a systemic approach to ensure that change is long-term and sustainable. At the same time, development programs remain concerned with the ability of projects to achieve short-term results. How are development programs with a BDS component balancing the goals of creating structural change in markets and other systems with their need to also achieve more immediate results?

### ***The Power of Markets and Other Systems to Achieve Sustainable, Long-term Change***

Throughout the development field, professionals are increasingly recognizing the potential for using market forces to help achieve development goals.<sup>15</sup> Agricultural development programs often focus on developing backwards and forwards linkages for agricultural products rather than only increasing farmer production. Agricultural extension, infrastructure, communications, and other “public sector” services are being privatized.<sup>16</sup> And, the field of poverty alleviation is now looking at “making markets work for the poor” rather than, or in addition to, traditional, welfare-oriented

## Example 6: Developing Commodity and BDS Markets

### **ComMark Trust in Southern Africa**

ComMark Trust, initially funded by DFID and managed by ECIAfrica, aims to “make commodity and services markets work for the poor in Southern Africa.” Using sub-sector analysis and the market development approach, ComMark researches, identifies, facilitates, and funds initiatives to address market failures in market chains and business services markets that prevent the poor from benefiting from engaging in these sectors. At present, the Trust is supporting initiatives in the tourism, textile and apparel, and agribusiness sectors throughout the Southern African Customs Union. ComMark funds are used “to facilitate, improve, and catalyse (as opposed to set up, manage, or run) the operation of institutions, processes, or practices which have a direct bearing on pro-poor market growth.”

ComMark Trust Brochure and [www.commark.org](http://www.commark.org), 2003. Also, see: [www.bdsknowledge.org](http://www.bdsknowledge.org)

approaches.<sup>17</sup> This market focus is occurring independently and simultaneously with the focus of the BDS field on developing markets for services.

The increasing focus on market development in a number of fields has centered on looking more inclusively at systems — government institutions, cultural traditions and social structures, communication systems, power relationships, and educational systems — and intervening to make them work better in general and/or for specific groups. A wider view is considered necessary in order to effectively incorporate SEs into markets. And, as SEs participate in and benefit from markets, those markets will contribute to expanding local economies, increasing the competitiveness of local businesses and sectors, and improving the lives of business owners and workers — today and in the future.

<sup>15</sup> Lindahl, Sida, 2003; Chapman and Trip, AgREN, 2003; Katz, LBL, 2002; SDC SED Conference (Agropyme), 2004

<sup>16</sup> Wakelin, Intermediate Technology Consultants, 2004; Katz, LBL, 2002

<sup>17</sup> Hitchins, et al, DFID, 2004; Lindahl, Sida, 2003

### Example 7: Systemic Change and/or Engaging with Broader Systems in BDS Market Development Initiatives

*ILO's FIT Small Enterprise Media in Africa* programme engages the commercial radio system in Africa, by persuading many stations to shift from pure entertainment or top-down development messaging to locally-owned and generated content for interactive development and political dialogue.

Tanburn, ILO Media, 2004

*MEDA and ECDI in Pakistan* had to develop a strong understanding of local gender systems as well as local garment markets and distribution systems in order to design a program to reach rural, home-bound women.

Jones & Shaikh, MEDA & ECDI, 2004

*EDA Rural Systems* developed a strong understanding of the culture and intricate marketing and production systems of leatherworkers, a low caste in India. In addition, they engaged with local design institutes and enhanced their interaction with the market in order to upgrade the leather product market in the region. This resulted in links between education, market, and cultural systems.



Kumar, EDA, 2004

*Helvetas in Kyrgyzstan* developed private sector associations that represented different systems - the old, soviet-style agro-processors on the one hand, and modern, globally- connected management consultants on the other. Through information sharing and education, the project facilitated and enhanced their interactions with each other and this resulted in access to markets for both groups.

Ryazanov, Helvetas, 2004

### *Pressure for Short-Term Results*

While many development professionals see the importance of working towards systemic change, they are under pressure to achieve short-term results. This comes from donors reporting to constituencies who want to see value for their tax dollars, but program managers also report that pressure from SEs is equally strong. SEs may not engage in business opportunities unless they see tangible benefits in the short term. Therefore, programs with a BDS market development component are attempting to achieve both short-term results and long-term systemic change.

### *The Trade-Off*

Although there is an increasing focus on systemic change in the BDS and some other development fields, many project managers feel that they are facing a trade-off between achieving short-term results and accomplishing systemic change. Donors and practitioners both face challenges in balancing these two priorities. For donors, the fundamental structural issues and changes that may include decreasing control over projects and increasing investments in technical advice,<sup>18</sup> present challenges.

<sup>18</sup> For more detail on changing donor roles, see the BDS Primer and the 2003 Update at [www.bdsknowledge.org](http://www.bdsknowledge.org)

## Example 8: Call for a Systemic Approach

### InterAmerican Development Bank (IADB) and Multi Lateral Investment Fund (MIF) In Latin America

A recent evaluation of InterAmerican Development Bank Multi Lateral Investment Fund activities in Latin America over the last 15 years, concludes that the IADB "...could play a more catalytic role in its interventions in BDS by articulated interventions under a systemic approach. This would require moving from the isolated project approach to conceive MIF projects as pilot interventions that could be scalable to broader BDS programs, strengthening the institutional capacity and local policy framework."

Internal IADB Document, 2003  
Pressure for Short-Term Results

This year, program implementers have raised a host of practical challenges in balancing long-term and short-term goals.

- **The Need to Invest in Organizing SEs:** SEs may be widely dispersed and not engaged in market systems nor linked to mass communication networks. This requires programs to invest in organizing the SEs and strengthening communications systems.
- **Few Providers:** If there are too few appropriate BDS providers, the program's ability to develop a competitive market is limited.
- **Limited Program Capacity:** Low capacity of implementing institutions and/or loose program design often means program managers spend too much time building capacity and studying the market.
- **Outcomes too specific:** In contrast, programs that are designed with very specific target outcomes can inhibit managers' ability to focus on systemic issues.

## Reconciling Competing Priorities

Despite these challenges, some programs have made headway in achieving both systemic change and short-term results by focusing initially on immediate outcomes that engage SEs and providers and that initiate the longer-term changes that market players, ultimately, also see as beneficial. How have they overcome the challenges presented above?

- **Reaching Out to SEs through Existing Systems:** Stimulating demand or engaging SEs by strengthening existing relationships, institutions, or modes of communication. For example, many programs work with existing farmers associations, while others work with local NGOs to help identify and reach clients. The ILO FIT media programs focus on the predominant means of mass communication in target countries.<sup>19</sup>

### **Key Question: Are short program timeframes tying the hands of program managers?**

*A recent evaluation of 100 IADB-funded projects found that project designs frequently underestimated the time needed to achieve the stated objectives. Many program managers report that their program timeframe was too short and this placed a great deal of pressure on them to choose between short-term results and systemic change. Yet, some programs are able to do both in a relatively short period of time by using a focused approach. Do programs applying market development principles need a longer timeframe than the typical 2-3 year program cycle?*

<sup>19</sup> Boquiren, SDCAsia, 2003; Knopp, Deloitte, 2004; Tanburn, ILO Media, 2004; Bista, IDE Nepal, 2004; Kumar, EDA, 2004

## Example 9: Trade-Offs Between Short-Term Results and Systemic Change

### Anonymous

- An international NGO was commissioned to test the extent to which exporters could be trained to provide embedded technical assistance and other services to their rural suppliers in less than two years. The implementing agency perceived that, to help exporters increase sales in the project timeframe, it would be necessary to work not only with the exporters, but with the intermediaries who purchased products from rural suppliers. Working in a hands-on manner, the project was able to point to important changes — reduced rejection rates and increased sales — but only among a few of the assisted exporters. Both systemic change and short-term results were compromised. Though the project developed tools that could be transferred to a wider range of exporters, it was unable to determine if they could be replicated. The short-term results were small-scale in part because the program chose to work intensively with only a few exporters and intermediaries.
- Two international NGOs with donor funding have attempted to empower local institutions — NGOs in one case and local governments in the other — to become BDS market facilitators. In both cases, the NGOs found the process of building the capacity of local facilitators too arduous and slow to achieve results within the project timeframe and shifted their focus mid-project to work directly with providers.

■ **Appropriate Provider Selection:** Focusing on multiple providers early in the project<sup>20</sup> or working with a single, large-scale provider.<sup>21</sup>

■ **Early Service Focus through Strong Market Assessment:** Developing value-added services quickly — selecting initial services by accurately reading good market information and then adding services based on input from program participants and market reactions once the program gets going.<sup>22</sup>

■ **Narrow Focus:** Early in the project lifecycle, concentrating narrowly on either a restricted set

of services<sup>23</sup> or products within a sub-sector or value-chain.<sup>24</sup> This enables programs to focus on specific and critical SE needs.<sup>25</sup>

■ **Articulated and Communicated Long-Term Vision:** Articulating a long-term vision and an exit strategy, and communicating them to partners.<sup>26</sup>

Although some of these lessons are familiar, many programs highlighted in this year's Update underscore their importance.

<sup>20</sup> Boquiren, SDCAsia, 2003; Knopp, Deloitte, 2004

<sup>21</sup> Tanburn, ILO Media, 2004; Annamalai and Rao, Digital Dividend, 2003; Knopp, Deloitte, 2004

<sup>22</sup> Tanburn, ILO Media, 2004; Annamalai and Rao, Digital Dividend, 2003; Boquiren, SDCAsia, 2004

<sup>23</sup> Tanburn, ILO Media, 2004

<sup>24</sup> Boquiren, SDCAsia, 2003; Knopp, Deloitte, 2004; Bista, IDE Nepal, 2003; Kumar, EDA, 2004; Annamalai and Rao, Digital Dividend, 2003

<sup>25</sup> IADB, MIF Evaluation, 2003

<sup>26</sup> Knopp, Deloitte, 2004; Boquiren, SDCAsia, 2003; Bista, IDE Nepal, 2004; Tanburn, ILO Media, 2004; Jones & Shaikh, SEEP/PLP, 2004; Ryazanov, Helvetas, 2004

## Example 10: Achieving Both Systemic Change and Short-Term Results

### Strategic Development Cooperation Asia (SDCAsia)

In a three year "Implementation Grants Program" funded by USAID and Swisscontact, SDCAsia has strengthened the sugar palm market in Mindanao, Philippines through value chain based BDS development. As long ago as 1978, a displaced entrepreneur, Mr. Dione Panganiban, established the first commercial sugar palm or "kaong" processing enterprise, which evolved into Joy Joy Food products. The company established a practice of providing technical advice and credit to farmers as it purchased their crops, and through SDCAsia facilitation expanded this to a mentorship relationship with two processing cooperatives with whom it works to process and package sugar palm into preserves and bottled ingredients for other food items. Joy Joy foods has since transferred this model to other fruit crops such as coconut, jackfruit and purple yam.



SDCAsia seized on this business model and facilitates the parallel development of horizontal linkages, governance of the supply chain at the community level and indigenous BDS delivery capacity as a means of enabling more producers to enter bigger and more lucrative markets. SDCAsia facilitates a range of embedded and commercial services up and down the value chain from strengthening cooperative management to supporting additional mentorship relationships, to improving production processes using Good Manufacturing Processes (GMP), which were previously thought to be too complex for rural producers to implement.

#### *Systemic Changes:*

- Rural producers' widespread compliance with GMP standards increasing the competitiveness of the sector.
- Providers innovating new services/delivery and payment schemes, in addition to those introduced by the project, and replicating services from one foodcrop to another.
- Market Resilience: when the SARS epidemic and the post 9/11 economic slump hit Mindanao hard, food processing and trading firms were able to reach new grocery markets in Manila that they had previously seen as closed to them.

#### *Short-Term Results:*

- Strengthened the supply chain consisting of 20 private sector providers and reaching 290 microenterprises, 40% of whom are women.
- 100% repeat clients with about 50% of new clients being referred by old clients.
- SEs' average product rejection rates decreased from 40% to 10%.
- 60% of SE surveyed reported receiving higher prices due to improved quality of their semi-processed products and orders are more consistent throughout the year.
- 65% reported receiving higher income from Kaong semi-processing than other activities, shifting it from a "side" activity to a major source of family income

## Example 10 (contd.): Achieving Both Systemic Change and Short-Term Results

SDCAsia gains the support of the small and medium processors (like Mr. Panganiban) and facilitates the replication of the system in other communities by providing market development support and technical assistance to their companies, which enable them to reach bigger markets. This strengthens the market position of the industry, thus offering their companies more opportunities.

Idrovo and Boquiren, SDCAsia Internal Program Documents and Prospects, 2003 – 2004

For more information, email [mb@sdcasia.ph](mailto:mb@sdcasia.ph) or see [www.sdcasia.ph](http://www.sdcasia.ph) and [www.bdsknowledge.org](http://www.bdsknowledge.org)



### 2.3 The Challenge of On-going Market Distortions

Despite the broad support of market-based approaches among development experts, BDS practitioners report that many donor-funded initiatives continue to undermine their efforts by distorting markets with subsidies and activities having a high donor profile.<sup>27</sup> There are several underlying reasons for this on-going challenge – some development professionals are unaware of market-based approaches, while others feel they must intervene directly to achieve short-term impact and “get markets going.” Some have considered the BDS market development approach, but argue for a more direct approach, particularly for basic business training and/or when targeting the very poor.<sup>28</sup>

Depending on the underlying cause of the distortion, BDS practitioners are tackling the challenge by:

- Conducting seminars to increase awareness of the approach;
- Engaging in specific coordination activities to leverage resources and maintain a dual focus on results and systemic change; and
- Intervening in a different market if other players continue with direct subsidies.

Several projects have experienced a measure of success when developing commercial markets in the context of heavy government and donor subsidies.<sup>29</sup> These programs ensure that the services are in high demand and have value-added features missing in public services and they work hard to promote not only specific services, but also a culture of payment.<sup>30</sup>

<sup>27</sup> Kumar, EDA, 2004; Lusby, AFE, 2004; USAID AMAP stakeholder interviews, 2004; Tanburn, email communications, 2004; Muzira, ILO Zambia, 2003; Sebstad & Snodgrass, USAID/AMAP, 2004

<sup>28</sup> Altenburg & Stamm, GTZ, 2003; Griffith, ITDG Peru, 2004

<sup>29</sup> Tomecko, SED Journal, Vol 14, No 4, 2003; Nussbaum, et al, EDA, forthcoming, 2004; Nussbaum and Miehlabrad, SEEP/PLP, 2003

<sup>30</sup> Tomecko, GTZ, 2003; Bista, IDE, 2004; Kumar, EDA, 2004

## Example 11: Achieving Both Systemic Change and Short-Term Results

### Kenya BDS

The Kenya BDS program, funded by USAID and implemented by Deloitte Emerging Markets, aims to increase growth and income among rural micro- and small-enterprises through increased access to business services, specifically markets and the skills needed to compete in those markets. Their sector focus in horticulture is on three crops – mangoes, avocados and passion fruit. Activities are also beginning in the Lake Victoria fish sub-sector. Facilitation activities include organizing producer groups, commercializing agricultural extension services, developing market information and brokerage systems, and strengthening input supply. The activities are designed to address specific constraints identified in BDS market assessments carried out by the project team. The project contracts specific market facilitation activities to teams of implementing organizations and occasionally takes a more direct role in facilitation. In the initial 18 months of the program, the strategy produced significant short-term results and contributed to the development of strong market and institutional systems.

#### *Short-term results:*

- 14,000 MSEs accessing commercial business services through largely pre-existing market linkages; and
- 250 (largely pre-existing) BDS providers supported by the project.

#### *Systemic Changes:*

- Farmers groups organized and strengthened, giving farmers a strong voice and bargaining position in the market and helping them to access services efficiently;
- Sustainable and commercial systems established for providing farmers with market information;
- Some components offer farmers more choice in marketing outlets;
- Commercialization of farmer extension services helps farmers get quality services on a sustainable basis;
- Components that link farmers into long-term, mutually beneficial relationships with buyers, giving both players a vested interest in long-term tree and crop improvement; and
- Private sector businesses not connected to the project are copying some program activities. And, when they approach the project for assistance, the project includes them.

Knopp, Kenya BDS Internal Program Documents, 2004

For more information, see: [www.microLINKS.org](http://www.microLINKS.org) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

**Key Question: Is there a case for on-going direct subsidies for BDS?**

*Do some markets, target groups, or circumstances call for on-going subsidies that allow SEs to access services for a discounted fee, with donors or governments picking up the tab? Some argue that basic business education should be subsidized because:*

- *When one entrepreneur gets basic business education, others benefit from the jobs created and the knowledge passed on to family, friends, and colleagues;*
- *SEs needing basic business education are too poor to pay for it, and, as benefits are only realized in the long-term, willingness and capacity to pay are problems;*
- *Basic business skills are a pre-requisite for understanding and using value-added BDS;*
- *This service stimulates demand for other BDS; and*
- *Private sector providers are reluctant to engage in basic business education because it doesn't sell.*

*Is this argument simply resistance to the idea that – in spite of all we've invested in basic business education – SEs don't want or need it? Or do services with some public benefit merit on-going subsidies?*

## Example 12: BDS Market Distortions

### Anonymous

Here are some examples of market distortion as reported by BDS market developers around the globe:

- A private sector firm was just closing a deal to sell organic certification services to farmers when an international donor offered a 50% discount on the same services from a different supplier.
- A market facilitator planned to organize a private sector-based trade fair aimed at linking large and small businesses and SEs with business service providers. Other development organizations, government agencies, and donors became involved and the final outcome was a typical “informal sector” exposition in which development organizations received publicity for supporting the informal sector and subsidized programs were highlighted. Meanwhile the benefits participating SEs received got far less attention were not clearly articulated.
- A development organization trading in crafts paid artisans three times the market price for products, making it hard for private sector exporters supported by a market development initiative to source products.
- A BDS market development project has been piloting interventions to develop the training market for a specific sub-sector in rural and peri-urban areas. Private sector trainers have begun competing effectively against free government services offered by a soon-to-close, donor-funded project. However, a different donor has now announced a new project to provide subsidized training to microentrepreneurs in the region.

## 3. Reaching the Poor – A Better Understanding and Progress in Practice

Since the advent of BDS market development as a strategy for reaching SEs, development practitioners and donors have questioned the ability of a commercial approach to work for the poor. At the same time, programs focusing on the poor are increasingly looking to market-based, rather than welfare-based, solutions that will reach more people, more sustainably<sup>31</sup> by making markets work inclusively for the poor. This convergence of perspectives is leading to interesting explorations of the potential for BDS markets to reach the poor and the strategy adjustments that may be needed to serve them effectively.

### 3.1 Root Cause of Poverty?

Development practitioners' focus on poverty alleviation reflects an increasingly common understanding about the connection between poverty and dysfunctional markets. In other words, many people are poor, in part, because they lack connections to viable markets, or because these connections lead to exploitation rather than prosperity.<sup>32</sup> In a recent publication for the UK Department for International Development (DFID), *"Making Business Service Markets Work for the Poor in Rural Areas,"* Rob Hitchins, et al provide a framework for considering the fundamental disconnect poor or disadvantaged people experience between weak local markets and stronger, more distant markets.<sup>33</sup>

#### Example 13: Donor Focus on the Rural Poor

##### SDC Conference on Rural Poverty

The title of the Swiss Agency for Development and Cooperation annual Small Enterprise Development conference this year was "Opportunities and Limits of the BDS Approach in Rural Areas." Papers were presented on a range of rural programs, including initiatives that reached out to farmers and rural artisans offering services ranging from communications and media to para-veterinary. (See summary findings in Annex B.)

SDC Rural Conference, January 2004

For more information, see:

<http://www.intercoop.ch/sed/main/> and  
[www.bdsknowledge.org](http://www.bdsknowledge.org)

Many practitioners and donors suggest that increasing market linkages and improving the quality of these links can help reduce poverty.<sup>34</sup> Business services — information and training on quality standards and control, product development, information on market opportunities, and the like — are seen as one strategy for helping the poor access beneficial market links.<sup>35</sup> The challenge for programs incorporating BDS market development is the clear articulation of causal links between service market development and poverty alleviation.<sup>36</sup>

<sup>31</sup> Lindahl, Sida, 2003; Hitchins, et al, DFID, 2004; SDC SED Conference, 2004

<sup>32</sup> USAID, 2004 and UNIDO, 2001 - Value Chains

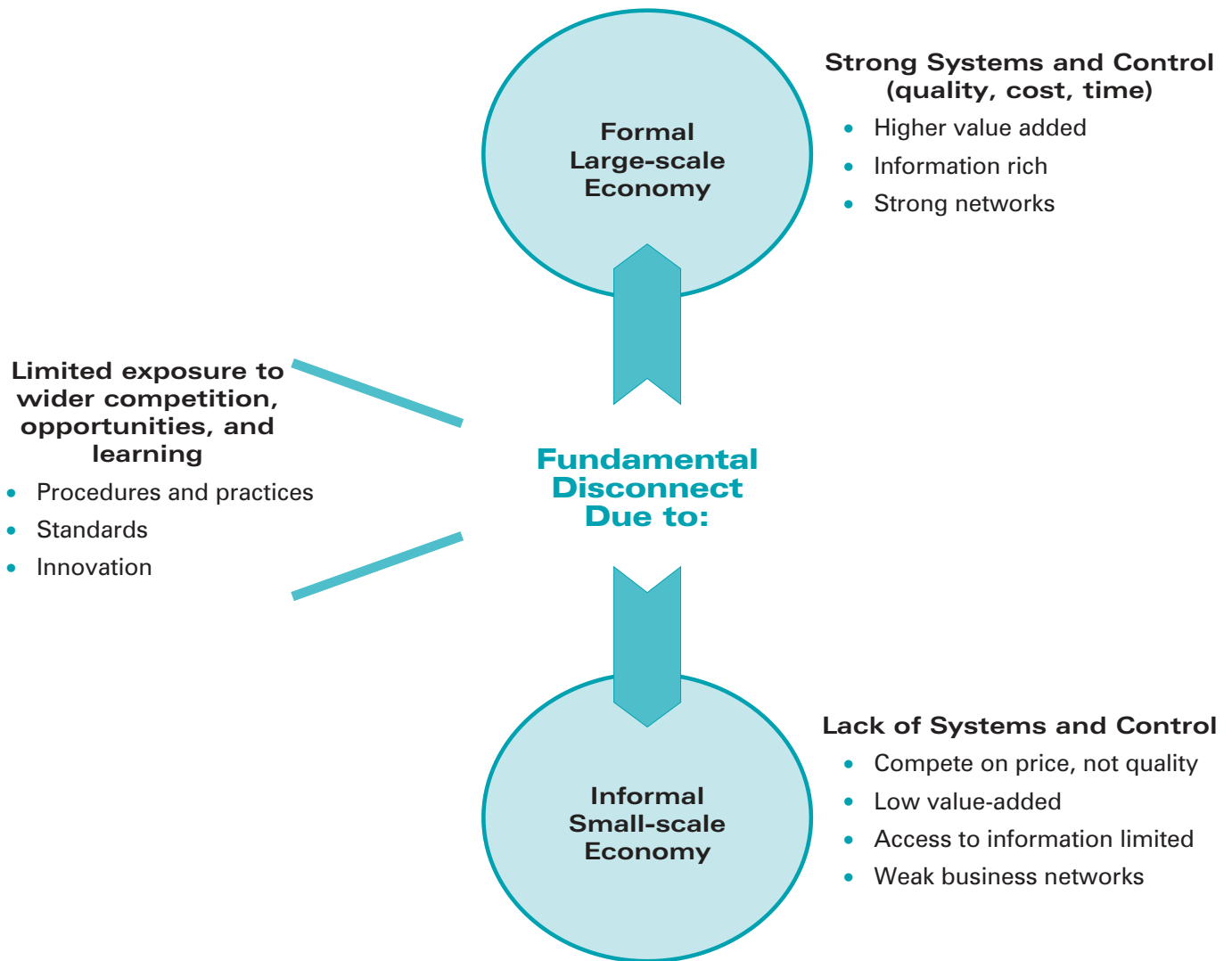
<sup>33</sup> Hitchins, et al, DFID, 2004

<sup>34</sup> AMAP strategy papers, 2004; Hitchins, et al, DFID, 2004; Kula, AMAP, 2004; Lindahl, Sida, 2003

<sup>35</sup> Ibid

<sup>36</sup> Oldsman, Nexus Associates, Inc., 2003

**Figure 1: Disconnects in an Era of Knowledge-Based Economies:  
A Role for Business Services<sup>37</sup>**

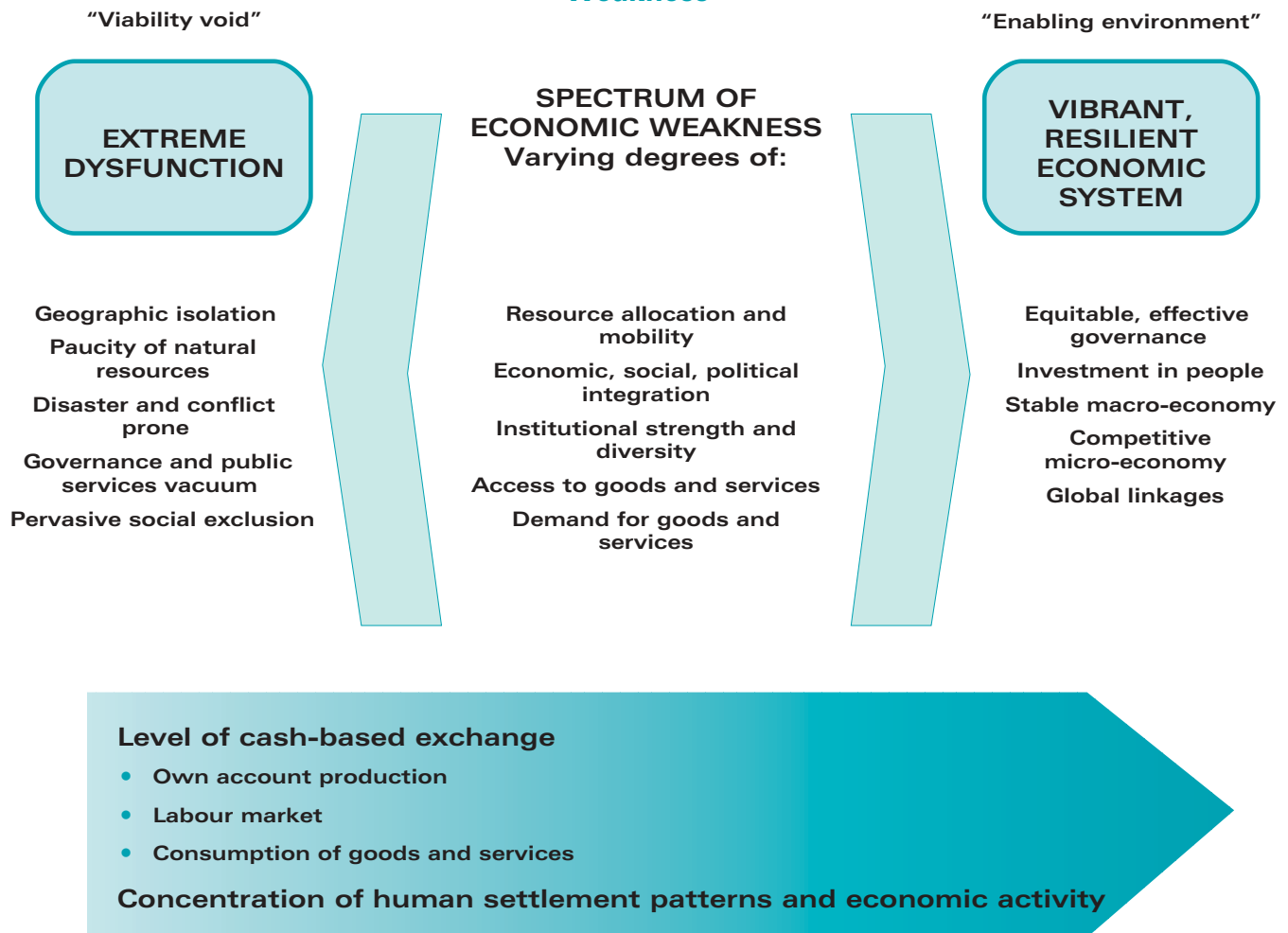


Hitchins, et al. also present a useful framework for thinking about different groups of poor people, along a poverty spectrum, and recognizing that the opportunities and challenges for particular populations vary according to different poverty levels.

This framework suggests that there are groups of poor people for whom a welfare approach remains relevant and that there is a wide spectrum of enterprises for which a market-based approach may help strengthen economic systems and move economies toward more inclusive, resilient, and vibrant systems.

<sup>37</sup> Hitchins, et al, DFID, 2004

**Figure 2: A Spectrum of Economic Weakness<sup>41</sup>**



### 3.2 Current Research Initiatives

Many agencies are exploring ways to reach the poor with BDS and expand the boundaries of the market approach to work in ever weaker economies.<sup>38</sup> Although findings are preliminary, the more mature initiatives to date<sup>39</sup> suggest that there is significant potential for BDS markets to serve the poor and help them benefit from broader market links. However, significant challenges to realizing this potential remain.<sup>40</sup> **ANNEX B** summarizes recent research that attempts to understand how to reach the poor effectively with market-based BDS.

- SDC SED conference on “Opportunities and Limits of the BDS Approach in Rural Areas;”
- USAID SEEP Network Practitioner Learning Program on BDS Market Assessment in Weak Markets;
- USAID Accelerated Microenterprise Advancement Program (AMAP), particularly the recent inventory of program evaluations and BDS projects working to incorporate microenterprises into value chains;
- DFID, Springfield Centre study by Hitchins, Elliott, and Gibson on “Making Business Service Markets Work for the Poor in Rural Areas”;

<sup>38</sup> SDC SED Conference, 2004; Hitchins et al, DFID, 2004; AMAP strategy documents, 2004; SEEP/PLP and SEEP BDS on the Margins; Morgan, SEEP, 2004

<sup>39</sup> SEEP PLP internal documents; Hitchins, et al, DFID, 2004; USAID IGPs

<sup>40</sup> SDC SED Conference, Tanburn presentation, 2004; Hitchins et al, DFID, 2004; Morgan, SEEP, 2004

<sup>41</sup> Hitchins et al, DFID, 2004

- The SEEP Network's on-line discussion series on "Reaching Poor and Vulnerable Populations with BDS", particularly the discussion on reaching HIV/AIDS-affected communities (the latter sponsored by USAID's AMAP program).
- USAID Implementation Grants Program (IGP) Learning Network, housed at the SEEP Network.

### 3.3 Practical Approaches

In practice, BDS programs are using a range of techniques to reach the poor. Although some of the principles may sound familiar to BDS professionals, many new "tricks of the trade" are emerging as practitioners field test these principles. Approaches that are helping programs meet the challenge of "making markets work for the poor," include:

- **Innovating specific techniques for identifying and assessing service markets:** The poor generally have little experience with, and knowledge of, business services. Innovative market assessments are examining specific business problems and the awareness of, and potential demand for, solutions to them. Programs then develop services that can address these problems and deliver the desired business benefits, such as lower costs, links to better inputs, and ways to make products more marketable.<sup>42</sup>

#### Example 14: Innovating Techniques for Identifying and Assessing Service Markets and Focusing on Basic Services to Link SEs to Markets

##### Triple Trust Organization and the Retail Grocery Market in South Africa

Rather than ask whether retail traders in urban South Africa were interested in BDS, Triple Trust Organization (TTO) asked retailers to rank the challenges they faced and to what extent they were willing to pay to have these problems resolved. Two resulting services TTO will promote under a USAID-sponsored project are improved product distribution to help reduce the cost of procurement and increase the range of stock retailers carry, and advocacy to address high crime rates and lack of sanitation services. Both are aimed at cost reduction, quality improvement and, thus, enhancing competitiveness and profitability.



Tladi, TTO, 2003; Bear, SEEP/PLP, 2004

For more information, email [donovan@tto.org.za](mailto:donovan@tto.org.za) or see: [www.tto.org.za](http://www.tto.org.za), [www.seepnetwork.org](http://www.seepnetwork.org) (PLP) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

- **Focusing on basic services that link SEs to markets:** Poor, rural entrepreneurs seem to demand basic services such as communications, infrastructure, and market links that help their businesses function better now, rather than strategic management services that could help their businesses grow over the long-term.<sup>43</sup>

<sup>42</sup> Nussbaum and Miehlbradt, SEEP/PLP, 2003; Bear, TTO, 2004; Kumar, EDA, 2003

<sup>43</sup> Hitchins et al, DFID, 2004; Nussbaum and Miehlbradt, SEEP/PLP forthcoming, 2004

- Embedded transactions:** Since poor people cannot afford, or are often reluctant, to purchase services, practitioners are finding that an effective way to pay for services is to incorporate them into input supply or product marketing transactions. The services are then inextricably linked to helping poor people reach markets and the risk and cost of the services are shared with better-off market players.<sup>44</sup>
- Integrating finance with BDS to increase affordability:** In particular, experts are examining rural and agricultural finance mechanisms and exploring ways to enhance them.<sup>45</sup>
- Bundling services to reduce the number of transactions, providers, and delivery points:** The rural poor, in particular, need “one-stop” shopping.<sup>46</sup>
- Using mass media and groups to facilitate outreach:** Poor entrepreneurs experience diseconomies of scale and they lack education and skills, making outreach and service delivery expensive. Using mass media such as radio that most poor already have helps reduce the cost of outreach. Using groups — associations, cooperatives, or simply centralized distribution points like rural markets — also reduces the cost of outreach and service delivery.<sup>47</sup>

### Example 15: Embedded Transactions: Integrating Finance with BDS to Increase Affordability & Bundling Services to Reduce the Number of Transactions, Providers, and Delivery Points

#### CARE and CNFA in Zimbabwe

Based on the CARE AGENT model, the CNFA (Citizens Network for Foreign Affairs) RAISE initiative, funded by USAID and USDA, works with input suppliers who, working through rural retailers and private trainers, provide rural farmers with inputs, technical advice and credit. This, in turn, helps farmers meet market specifications and increase quality as they reach agricultural markets in Zimbabwe.

Hitchins, et al, DFID, 2004

For more information, email: [global@springfieldcentre.com](mailto:global@springfieldcentre.com) or see [www.springfieldcentre.com](http://www.springfieldcentre.com) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

### Example 16: Using Mass Media to Facilitate Outreach & Paying Close Attention to Delicate Local Market Systems and Cultural Norms

#### Action for Enterprise in Ghana

For small-scale artisan producers weaving baskets in the rural areas of Northern Ghana, it is very difficult to understand the quality expectations of final customers in Europe. What looks good compared to other products in a village doesn't necessarily look good when compared to international products at a trade fair in Europe. Producers tended to regard quality complaints and rejects by export companies as a form of pressure to reduce prices.

Action for Enterprise (AFE) supported export companies to combine quality training with an awareness campaign, using a rural radio station and loudspeaker announcements at central markets. AFE also developed a strategy to reinforce exporter training and reach producers who were beyond the reach of the trainings. This entailed a public education campaign delivered through radio as well as through a public address system at the main basket market. The campaign was designed to highlight the six areas of production where quality is a concern.

Lusby, AFE, 2004

For more information, see: [www.actionforenterprise.org](http://www.actionforenterprise.org) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

<sup>44</sup> Hitchins, et al, DFID, 2004; Nussbaum and Miehlebradt, SEEP/PLP, 2003

<sup>45</sup> Pearce, CGAP, 2004; Jones and Shaikh, MEDA & ECDI, 2003

<sup>46</sup> Annamalai and Rao, Digital Dividend India, E-choupals, 2003

## Example 17: Creatively and Systematically Improving the Environment for BDS

### GTZ Nepal

The carpet sector in Nepal employs about 80,000 people, about 10% of the country's manufacturing employment. Carpets are a major export commodity – the majority go to Germany where Nepal has 13% of the market. But the world market for floor coverings has decreased by 38% in the past few years, resulting in a much more price-sensitive market. Many years ago, when the carpet sector was booming, the Nepali government put a minimum export price on Nepali carpets. That price is now far above the market price. Exporters circumvent the regulation through complex financial transactions that put a financial burden on both exporters and importers and make Nepali carpets less competitive.

GTZ in Nepal partnered with the Nepal Carpet Exporters Association (NCEA) to address this problem. They sponsored the Minister of Industry to go to the most important international trade fair for carpets in Germany. In a public event organized by NCEA at the trade fair, the minister met several German importers who explained the irrelevance of the regulation and the urgency for the government to address this issue. The result: on his return to Nepal, the minister reduced the floor price for carpets to the market price with a promise of eventual elimination. This change reduced operating costs by 2.3% and the intervention built the capacity of the NCEA to advocate effectively.

Tomecko, GTZ, 2003 SED Journal Volume 14, Number 4

**Paying close attention to delicate local market systems, cultural norms, social relationships, and government structures** that can potentially strengthen existing systems and enhance short-term results: effective programs either build on existing, functional systems, or use their understanding of system dysfunction to develop more effective ones. For example, there can be ethnic, gender, educational, generational, and class differences between target enterprises and market actors who can help them reach markets. Many programs are developing providers and networks to bridge these cultural divides and function in both worlds.<sup>48</sup>

**Creatively and systematically improving the environment for BDS** and developing the various institutions and functions that support vibrant markets such as associations with strong advocacy and networking capabilities and an understanding of competitiveness issues in their sector, supportive government policies and

practices such as sector promotion and information collection and institutions with product development R&D capacity.<sup>49</sup>

### 3.4 Focus on Women

There is evidence of an emerging market of growth-oriented women entrepreneurs, but the majority of developing country women in business are poor. Some BDS programs have reached target groups comprising many women, but donors and practitioners have yet to target and reach significant numbers of low-income women using a market development approach. One program in a predominantly Muslim country where cultural norms limit a woman's interaction with (usually) male service providers originally intended to reach both rural women and men in remote villages using informal, "barefoot" providers. The project

<sup>47</sup> ILO Media references, 2004; Knopp, Deloitte, 2004

<sup>48</sup> Bear, TTO, 2004; Haight, World Education, 2003; Kumar, EDA, 2004; Jones & Shaikh, MEDA & ECDI, 2004; Ryazanov, Helvetas, 2004; Abdullayev, Mercy Corps, 2004

<sup>49</sup> Tomecko, GTZ, 2003

organized participants into groups to facilitate access to suppliers, however the women were slow to organize and take leadership positions, and no women suppliers came forward to participate. The result was a project serving 90% men. Such stories abound.

In contrast, a recent ILO report of market assessments and pilot programs designed specifically to target women concludes that women are a viable market segment if organizations focus on their particular needs and demands.<sup>50</sup> Observations from a BDS market assessment focusing on women in Gujarat, India, include:<sup>51</sup>

- A survey of 60 BDS providers — private sector firms, NGOs, government agencies and business associations — reported that from 1% to 25% of their clients were women, though most providers served fewer than 10% women. These findings are typical of other markets the ILO surveyed around the globe;<sup>52</sup>
- BDS providers are not aware of an existing or potential demand for services among women entrepreneurs;

## Example 18: Targeting Women

### ILO ICECD “More and Better BDS for Women”

A pilot initiative, called “More and Better BDS for Women Entrepreneurs,” was funded by the Development Cooperation Ireland and others. The pilot program was implemented by the International Centre for Entrepreneurship and Career Development (ICECD) in Ahmedabad, Gujarat, India with technical support from the ILO’s Women’s Entrepreneurship Development and Gender Equality (WEDGE) program. The following are brief summaries of some of the pilot initiatives funded:

- *Institute of Social Action and Research*: This NGO established a separate profit center for providing start-up counseling in product selection, finance and legal matters, and technology to help poor women establish enterprises.
- *Rural Development and Management Institute*: This NGO counselling organization is establishing a sustainable counselling centre which provides specialized product and market development services to rural women entrepreneurs.
- *Asha Accounting Services*: This private sector firm historically served 90% men. Through its new initiative, it trained more than 40 women entrepreneurs in accounting, taxation and legal matters to help them establish “barefoot” accounting businesses serving rural women.
- *Eco System Group*: This private company is focusing its effort to reach women in the agro-processing sector. The program aims to establish ten greenhouses to be run independently by women entrepreneurs who demonstrate new techniques, provide technical advice and sell inputs to rural women.
- *Expressions TV and Film Production Company*: This private production company developed and aired a series of commercially sustainable television programs on DD-11 satellite channel covering Gujarat. The programs were aimed at women entrepreneurs as part of an existing program format on career guidance for women.

To date the programs have met their targets well during this innovative pilot stage. Together they have reached 460 women entrepreneurs, developed new services and training materials and established two BDS profit centers within NGOs, as a complement to the four commercial providers participating in the program.

Finnegan, ILO, 2003

For more information see: [www.ilo.org/seed](http://www.ilo.org/seed) (women's entrepreneurship) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

<sup>50</sup> Finnegan, ILO, 2003

<sup>51</sup> Ibid

<sup>52</sup> Finnegan, ILO, 2003

- The market of women entrepreneurs is highly segmented among sectors, but there is also a clear delineation between a small “class” of growth-oriented, better-educated business women and a large segment of entry-level entrepreneurs with less education for whom business is new and who aspire to slow-growth and balanced risk;
- The high growth-oriented entrepreneurs have a greater awareness of, and specific demands for, commercial BDS; and
- The majority of women entrepreneurs have low awareness of BDS and their benefits.

The assessment concludes that there are market opportunities for BDS provision to women clients, but that providers are unaware of these opportunities and need to build capacity to meet them.

One new program design featured in this Update focuses on very low-income, home-bound women

in remote rural areas of Pakistan. The MEDA/ ECDI market assessments led them to design a program that promotes women as market intermediaries who provide embedded design and quality management services to help women embroiderers reach more lucrative markets. The program illustrates the potential for a market-based approach to reach low-income women if program designers explicitly target them as a market segment, seek to understand their opportunities and constraints in relevant markets and social systems, and design appropriate interventions.

More research on women and BDS, including a synthesis of learning from the ILO pilot activities and case studies, is forthcoming at [www.bdsknowledge.org](http://www.bdsknowledge.org). Additionally, the SEEP Network hosted an on-line conference on “Reaching Low-Income Women with BDS,” in July-August 2004. Proceedings and recommended next steps for action and research are available at [www.seepnetwork.org](http://www.seepnetwork.org).

## 4. Market Assessment and the Program Design Process - Making MA More Useful

The importance of market research to project design and implementation is now widely accepted in the BDS field. However, BDS program designers are eager to make market assessment (MA) faster, simpler, and less expensive so projects can save resources and move to implementation more quickly. However, efforts in this direction have yet to yield significantly faster, simpler, or cheaper methodologies. In fact, some practitioners and donors are calling for more investment in information gathering both prior to and during project implementation.<sup>53</sup>

Nevertheless, today's market assessments are far more useful for project design and implementation than those conducted a few years ago. Then, a lot of time and money was spent gathering market information that did not contribute significantly to effective project design. Recent innovations in BDS MA have broadened the scope of research to include how BDS markets interact with value chains and other systems. At the same time, MAs have become more focused on the services, markets, providers, and issues that directly relate to program design decisions. This chapter explores how donors and practitioners are getting more "bang" for their market research "bucks" by making sure they gather the information they need and feed it effectively into project design and implementation plans.

### 4.1 Start by envisioning the market system at the end of the project

A few years ago the view of market assessment was that agencies should start with a completely blank slate, conducting a market assessment before thinking very much about the project it would inform. This practice, it was hoped, would help practitioners look at MA results with an open mind, rather than twisting results to fit already formed conclusions. However, such MA results were limited in their usefulness for project design – often providing more information than was needed in some areas and too little in others.<sup>54</sup> Practitioners now realize that it is more useful to begin by considering what key benefits the project might promote for particular market players and then envisioning what a market for services that delivers those benefits might look like at the end of a project.<sup>55</sup> This is similar to scientific researchers forming a hypothesis and then organizing research around testing that hypothesis.

The vision, however, is not one of results such as X number of BDS transactions or Y number of providers in the market. It is a vision of a sustainable market system that works inclusively and effectively for SEs. Market research, then, is designed to answer specific questions about how the market system works and how it might be changed to sustainably move toward the vision.<sup>56</sup> An MA also often helps project managers revise, sometimes radically, their vision as well as clarify it and add specific detail.

<sup>53</sup> Bear, et al, SED Journal Vol. 14, No. 4, 2003

<sup>54</sup> Bear, et al, SED Journal Vol. 14, No. 4, 2003

<sup>55</sup> Haight, SEEP/PLP, 2004; Jones and Shaikh, SEEP/PLP, 2004; Bear, TTO, 2004

<sup>56</sup> Hatch, 2004; Jones and Shaikh, SEEP/PLP, 2004; Bear, TTO, 2004

## Example 19: Using MA to Test and Refine a Market Vision

### Triple Trust Organization in the “Spaza” Market, South Africa



Under the SEEP Practitioner Learning Program in BDS Market Assessment, funded by USAID, Triple Trust Organization decided to conduct a market assessment focused on “spaza” shops – tiny, family-owned convenience stores that sell basic grocery items to low-income consumers in the townships of Cape Town, South Africa. The project would reduce inefficiencies in the spaza market by enabling spazas to get access to a mix of useful business services. The research plan called for TTO to get information on:

- Which services should TTO focus on?
- What is the level of BDS consumption by spaza owners?

However, TTO recognized the difficulty of getting information on formal BDS in weak markets, so they decided instead to initiate their research more broadly on the spaza market by conducting a survey of spaza shop owners and customers. The survey focused on the following research questions:

- Which business problems in spaza shops should TTO focus on?
- What are the constraints to business growth faced by spaza owners?

This research revealed that spaza customers wanted a better range of stock, but spaza owners had difficulty sourcing the right products at affordable prices on a reliable basis - which raised new research questions, such as:

- What are the total amount and characteristics of township consumer spending?

TTO determined that the best way to close the gap between spazas and their customers was to improve the supply chain in the spaza market. This new focus raised research question such as:

- How do product suppliers and wholesalers perceive the opportunities/ threats of serving the township market?
- Do they have a policy/ plan for targeting township consumers through spaza shops?

At the end of the research process, TTO developed a vision for the spaza market as “a viable, growing segment in the retail grocery sector that offers value to township consumers and competes effectively for market share.” Their project design centers on strengthening and improving relationships between spaza shops and their trading partners — manufacturers and wholesalers — and facilitating access to a mix of services for the value chain that is to be delivered to spazas largely through embedded channels. Although the vision for the market changed throughout the research, TTO reported that having a vision helped them focus their research on project design.

Bear, TTO, SEEP/PLP, 2004

For more information, email [donovan@tto.org.za](mailto:donovan@tto.org.za) or see: [www.tto.org.za](http://www.tto.org.za), [www.seepnetwork.org](http://www.seepnetwork.org) (PLP) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

Practitioners emphasize that it is not enough to start with the end in mind; it is also important to keep project design decisions at the center of the assessment. This means that project staff should regularly discuss the details of project design throughout the MA: “What strategies will the project use?” “Who might make good partners in the market?” “What are the existing market opportunities the project can capitalize on relatively quickly?” Assessing information gathered to date and adjusting the MA to address unanswered questions relevant to project design helps managers make the most of scarce MA funds.<sup>57</sup>

## 4.2 Look at the Whole Market System

Market assessment initially focused mainly on understanding supply of, and demand for, business services, and the gaps between them. The main tools for conducting an MA were private sector marketing research tools adapted to the BDS field.<sup>58</sup> More recently, practitioners and donors have integrated business service market assessments with sub-sector analysis to arrive at an understanding of how embedded business services do, or might, contribute to helping SEs reach higher value markets.<sup>59</sup> While these analyses are still central to market assessments, practitioners are beginning to realize that they must take a broader view of markets in order to achieve systemic changes in them. Effectively functioning markets are not only dependent on transactions, but are embedded within a supportive institutional environment with a variety of market-supporting functions:<sup>60</sup>

### Example 20: Improving the Legal Environment for BDS

#### GTZ in Viet Nam

The BMZ-funded GTZ SME Promotion Project promotes the competitiveness and sustainable growth of SMEs. The market assessment GTZ conducted in 2001 highlighted the need to improve the legal environment for BDS, particularly leveling the playing field between public and private providers and increasing competition. As a result of the MA, GTZ provided advice and support to a partnership of local firms and agencies — a private law firm (Vision and Associates), a public agency/ government think tank (Central Institute of Economic Management-CIEM), and the national Chamber (Vietnam Chamber of Commerce and Industry-VCCI) — to conduct a study on the legal and regulatory environment for BDS in Vietnam. This local ownership of the study proved vital in its effective use as an awareness-raising and advocacy instrument.

CIEM and VCCI both have input into government policies on enterprises, particularly through the “Implementation Taskforce on the Law on Enterprise (LOE).” Even as the study was being conducted, CIEM and VCCI were using the findings to advocate for change. As a result, the importance of improving the policy environment for BDS, particularly the private provision of BDS, was mentioned in several key policy documents. More importantly, CIEM and VCCI advocated for very specific changes in regulations which were creating excessively high barriers to entry for specific services: consulting, legal, and intellectual property services and vocational training. In a directive issued in December 2003, the Office of the Prime Minister requested the relevant ministries and line agencies to review and revise or abolish these regulations. With support from GTZ, CIEM and VCCI are now following up with these government agencies.

Le Duy Binh, 2004

For more information, email [sme-promotion@sme-gtz.org.vn](mailto:sme-promotion@sme-gtz.org.vn) or see: [www.sme-gtz.org.vn](http://www.sme-gtz.org.vn) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

<sup>57</sup> Kumar and Sinha, SEEP/PLP, 2004; Bear, TTO, 2004

<sup>58</sup> For example, see Miehlsbradt, “Guide to Market Assessment for BDS Program Design,” ILO, 2001, available at [www.bdsknowledge.org](http://www.bdsknowledge.org)

<sup>59</sup> For example, see Lusby, AFE, “Discussion Guides for Conducting Business Service Assessments,” 2003 available at: [www.actionforenterprise.org](http://www.actionforenterprise.org)

- Information gathering and dissemination;
- Research and development on technologies, new products, etc.;
- Regulations, for example on food safety standards, professional ethics, and the like;
- Networking among enterprises to identify opportunities, share ideas, or transfer skills and knowledge; and
- Advocacy to communicate to policy makers what would improve the environment for a particular sector, area, or group of businesses.

These functions may be carried out by a variety of institutions, including national or local government agencies, associations (sector or area-based, etc.), universities, and research institutes as well as by private sector companies. The ways in which market players interact amongst themselves and with these types of institutions is also affected by social and cultural norms. Some practitioners are starting to include an explicit examination of these functions, institutions, and contexts in their market assessments. Projects, particularly those operating in weak markets, also are beginning to address

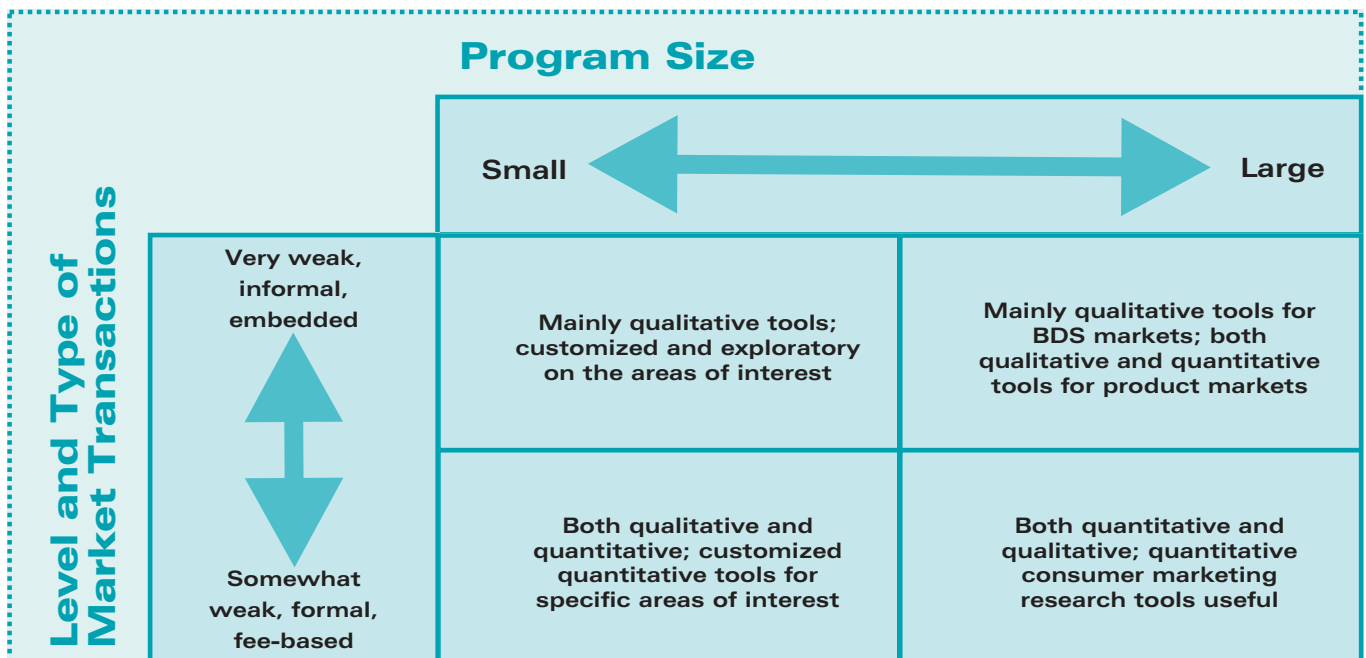
these market support functions as part of their market development interventions.<sup>61</sup>

### 4.3 Tailor the MA to the Context

Recent experience strengthens the view that “cookie cutter” market assessments tend to have limited value for project design. Instead, a market assessment is most useful when the tools and methods used are tailored for the specific market context.<sup>62</sup> The question of whether to use both quantitative and qualitative tools is often a pressing one for practitioners. Figure 3 presents one emerging view on this issue.<sup>63</sup>

This view is, however, overly simplified. A project may aim to develop a very weak and informal market for fee-based services, such as the market for machine and tool repair services in rural areas. The strict divide between quantitative and qualitative tools is being questioned by experts and practitioners alike<sup>64</sup> and some who design market

**Figure 3: Tailoring MA to the Project and Market Context**



<sup>60</sup> Bear, et al, SED Journal Vol. 14, No. 4, 2004; Nussbaum, et al, EDA, 2004

<sup>61</sup> Jones and Shaikh, SEEP/PLP, 2004; Nussbaum, et al, EDA, 2004; Tomecko, GTZ, 2003

<sup>62</sup> Haight, World Education, 2004; Engelmann and Isiaho, SEEP/PLP, 2004

<sup>63</sup> Miehlbradt, internal documents, 2004

<sup>64</sup> Chambers and Mayoux, EDIAIS, 2004

**Key Question: How can organizations maintain rigor and objectivity while using qualitative tools for MA?**

*Because qualitative tools are less structured than quantitative surveys, there may be a greater tendency to introduce bias or minimize rigor in the research process. Yet, the need for rigor and objectivity in market assessment is at least as great in weak markets as in stronger ones. How can organizations using only qualitative tools ensure that MA is a rigorous and objective means of discovery, rather than a loose exercise used to confirm preconceived notions about markets?*

assessments for projects are finding that it is possible to gather quantitative information within primarily qualitative interviews.<sup>65</sup> Sampling is always an issue which means that the results may have to be taken as broadly indicative of the situation in the market rather than conclusive. But adding quantitative information gathering to a mainly qualitative research process can add rigor to the process and more credibility to the results.

The most important issues to consider when tailoring an MA are the research questions and the information used to answer them. An increasing number of market assessments are narrowing their focus early on in the MA process to a small set of services or a limited number of constraints to enterprises than was typical a few years ago. Practitioners find that the most useful market assessments hone in on the key market and context issues project managers must understand if they are to move an existing market system toward the one they envision. Then, the market assessor chooses and tailors methodologies to most effectively illuminate those issues.

## Example 21: Intense Involvement in a Context-Specific MA

### IDE in India

International Development Enterprises (IDE) focuses on developing markets for marginalized farmers who often live in remote rural areas and have tenuous links to formal markets. IDE recognizes that these farmers have had little or no contact with formal business services. Their market research process involves exploratory interviews with small farmers and a range of market actors in the sub-sector(s) they choose to focus on in a specific area.

In India, IDE conducted a market assessment in the pineapple subsector under the USAID-funded SEEP/PLP in BDS Market Assessment. IDE staff conducted the interviews over several months, traveling to rural villages to interview farmers, meeting with pineapple processing plant managers, traders, and other market actors and engaging in discussions with government and NGOs in the area. Throughout the process, IDE had frequent staff meetings to review and discuss the information gathered to date – both to start brainstorming interventions and to identify gaps that needed further research.

Barik, IDE, 2004

For more information, see: [www.ideorg.org](http://www.ideorg.org), <http://ide-india.org> and [www.bdsknowledge.org](http://www.bdsknowledge.org)

The last year has seen considerable work on market assessment and project design in weak markets,<sup>66</sup> which tend to have the following characteristics:<sup>67</sup>

- Blurred distinction between business services and consumer services;
- Emphasis by market players on the importance of basic services such as mobile phones, equipment leasing and maintenance, or pest control;

<sup>65</sup> Kumar, EDA, 2003, Tladi, TTO, 2003, Jones and Shaikh, MEDA & ECDI, 2003

<sup>66</sup> See: SEEP/PLP in BDS Market Assessment at [www.seepnetwork.org](http://www.seepnetwork.org); Hitchins, et al, DFID, 2004; SDC SED Conference, 2004

<sup>67</sup> Hitchins, et al, DFID, 2004

- A high degree of informal, micro-scale services and delivery mechanisms such as “para-veterinarians” and “barefoot” trainers;
- Much service delivery tends to be embedded within other transactions and relationships;
- Many sub-sector-related services;
- Collective delivery and consumption of services through commercial media, organized groups, or common facilities; and
- Small urban centers as service delivery nodes for rural areas.

Practitioners are innovating a variety of strategies to gather useful information in this context.<sup>68</sup> For example:

- Market observation;
- Action learning, coupled with information gathering, as a low-cost introductory business service to address business problems;
- Focused interviews with market players on problems, potential solutions, and business benefits that services can provide, rather than on the actual services;
- Inclusion of in-depth discussions on business relationships and the benefits derived from them within interviews; and
- Product concept tests for new services in a group discussion setting.<sup>69</sup>

## Example 22: Getting the Most Out of MA Data

### GTZ in South Africa

The German South African programme on Business Development Services, supported by BMZ, aims to improve local markets for BDS with a focus on fee-based services for micro, small, and medium sized enterprises in selected urban areas. In the MA design, the project manager decided to test how much more could be gained from a quantitative survey on a variety of business services. GTZ engaged a sophisticated private sector marketing research firm, BMI Foodpak, to carry out both qualitative and quantitative research on BDS markets and the overall business environment in 2 urban areas.

Using qualitative research, the firm helped GTZ choose 16 business services with market potential that also fit with GTZ’s development goals. The firm then conducted surveys with over 400 SEs in each area covering those 16 business services. The questionnaire was designed to facilitate data analysis using several computerized models from the marketing research field. The use of these models provided GTZ with significantly more detailed analyses of the BDS markets than usually results from the commonly used Usage, Attitude, Image (UAI) market study. For example, the analyses indicated to what extent companies recognize the potential value of services and service users resist better priced offers from other suppliers. GTZ is now putting the market research to the test – designing detailed intervention plans in specific markets and beginning interventions. As implementation proceeds, they plan to evaluate the added value of the more sophisticated marketing research in project design and implementation as compared to GTZ’s market research conducted in other countries.

Cunningham & Trah, GTZ, 2004

For more information, email Gabriele Trah ([gabriele.trah@gtz.de](mailto:gabriele.trah@gtz.de)) or Shawn Cunningham ([shawn.cunningham@gtz.de](mailto:shawn.cunningham@gtz.de)) or see: [www.bdsknowledge.org](http://www.bdsknowledge.org)

<sup>68</sup> Engelmann and Isiaho, SEEP/PLP, Forthcoming, 2004

<sup>69</sup> Bear, TTO, 2004

**Key Question: To what extent are project managers and staff willing to admit when a pilot has failed and stop pursuing that particular business model or intervention?**

*How can objective criteria for evaluating a pilot be established and used? How can organizations create a culture where changing directions when appropriate is encouraged?*

Generally, in weak markets it appears to be more useful to engage market players in semi-structured interviews that explore market relationships and the goods and services that flow through them than to conduct surveys with close-ended questions.<sup>70</sup>

## 4.4 Get the Most Out of MA Data

Part of the limitation of early market assessments was not only what information was and was not gathered, but also an agency's capacity to effectively use the data for project design. The marketing research tools and analyses commonly used in the BDS field are some of the most basic ones. There is now experimentation with getting more out of survey data using more sophisticated data analysis from the marketing research field.<sup>71</sup> Agencies are also developing better frameworks or borrowing them from other fields to collect and analyze market assessment information, both qualitative and quantitative. For example, there are on-going discussions about how to use competitiveness and value chain tools and frameworks to help determine which BDS are needed, how they might be delivered and how agencies can develop markets for both products and services.<sup>72</sup>

## 4.5 Blend MA, Project Design, and Implementation

Practitioners are finding that it is useful to implement some pilot activities while MA and project design are still on-going. In fact, practitioners point out that there is no substitute for action in the market in terms of honing intervention designs. Practitioners also find that information gathering should be on-going during implementation to support decision-making throughout a project. Creating a feedback loop where information and experience inform further action throughout a project helps to make it market responsive. There is still considerable variation on how much market assessment is done up front and how much during implementation. However, it is clear that trying to learn everything about the market before a project starts is not only unrealistic, but can cause projects to get stuck in the market analysis stage. Instead, practitioners find it helpful to define a minimum level of market understanding necessary to develop and test market facilitation activities on a small scale while continuing to gather more information to inform and revise more detailed intervention plans.<sup>73</sup>

## 4.6 Be involved in the MA process

Practitioners agree that the data is only a part of what is valuable about market assessment. At least as important are a host of intangible benefits that come from being actively involved in the process of market assessment: hands on learning, a feel for how the market works, the opportunity to establish the organization in a facilitator role in the eyes of market players, and the start of relationships with various market players. These benefits are lost when an organization contracts out the market assessment and does not get involved in collecting the information.<sup>74</sup> Practitioners and donors are now

<sup>70</sup> Engelmann and Isiaho, Forthcoming, SEEP/PLP, 2004; Haight, World Education, 2003; Nussbaum and Miehlabrad, SEEP/PLP, 2004

<sup>71</sup> Cunningham and Trah, GTZ, 2004

<sup>72</sup> Kula, ACDI/VOCA, AMAP, 2004; USAID AMAP contractor discussions, 2004

<sup>73</sup> Kumar and Sinha, Forthcoming, SEEP/PLP, 2004; Nussbaum, et al, EDA, 2004

<sup>74</sup> Haight, forthcoming SEEP/PLP, 2004; Jones and Shaikh, forthcoming SEEP/PLP, 2004; Nussbaum, et al, forthcoming, EDA, 2004; Bear, TTO, 2004

## Example 23: Blending MA and Pilot Interventions

### EDA in the Leather Products Sub-sector, India



EDA Rural Systems Inc. is currently piloting interventions to develop BDS markets with the aim of enabling rural microentrepreneurs in the leather products subsector to reach new markets and increase their incomes. EDA's market assessment showed that training in new designs for product diversification was one service demanded by microentrepreneurs. Even before finishing the information collection, EDA decided to pilot training provision with just one partner provider. They chose to work with a master producer who had shown an interest during the MA in diversifying into training provision. While the provider started offering the training on a commercial basis, EDA helped him develop the curriculum and promote his new business. Learning from that initial training, EDA then identified additional master

producers interested in offering commercial training and helped all of its partner-trainers to develop training products and also assisted them with promotion. EDA is again learning from the training courses and is helping more new providers start offering services while improving its own assistance to providers. This feedback loop is helping EDA refine its market development interventions and expand the training service market, while also continuing to collect even more information on the leather subsector and BDS markets that support it.



Kumar, EDA, 2004; Nussbaum, Kumar, Miehlbradt, 2004, forthcoming at [www.seepnetork.org](http://www.seepnetork.org) (PLP)

For more information, email [ashokkumar@edarural.com](mailto:ashokkumar@edarural.com) or see [www.edarural.com](http://www.edarural.com) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

**Key Question: Are donors and practitioners willing to lose some control over project design?**

*Involving stakeholders in the MA and design process implies allowing and encouraging them to have substantive input into both an ultimate vision for a market and how that vision might be achieved. It is also the start of a process to foster local ownership and puts donors and practitioners in the role of influencing, rather than controlling, outcomes. The potential payoff? More and sustainable improvements in markets. What kinds of changes in organizational culture and management practices are needed within the development field to work with local stakeholders in genuine partnership?*

recognizing that some of the most valuable information and preparation for projects comes not from large scale formal surveys conducted by contracted research firms, but rather from an agency's presence and engagement in the local context.<sup>75</sup> In addition to, or instead of, formal market surveys, a number of agencies are now engaging in informal information gathering using their own staff as researchers. Even while conducting surveys, agencies recognize the value of having staff sit in on or conduct interviews.

Practitioners are also finding that, particularly in weak markets, a useful idea for developing the market may come from one or a few individuals who have an effective business model for service provision (stand alone or embedded) that overcomes key market constraints. Though these models may be operating on a very small scale, they may well have potential for replication or scaling up

## Example 24: Involving Stakeholders in Market Assessment

### Helvetas in the Fruit and Vegetable Processing Industry in Kyrgyzstan

When HELVETAS started the Support to Private Initiatives Project in Kyrgyzstan in 2001, they supported the formation of a working group of BDS providers and another of enterprises in the fruit and vegetable processing industry. Each of these groups later became a formal association. In 2002, Helvetas conducted a BDS market assessment in partnership with GTZ, and an analysis of the fruit and vegetable processing industry in partnership with two local consulting companies. The results from these market assessments were analyzed jointly by the project and the working groups. Later, an action plan for developing the fruit and vegetable processing industry was drawn up by the industrial association with input from the project. The Fruit and Vegetable Sector Development Strategy Concept was elaborated by a working group of 29 representatives of government and donor organisations, agricultural enterprises and their associations, and consulting, marketing, and trading companies. This document is expected to be ratified as a Government Degree by the Kyrgyz Government.

Ryazanov, Helvetas, 2004

For more information, see [www.bdsknowledge.org](http://www.bdsknowledge.org)

to reach many more SEs. It is only through active involvement in the MA process that practitioners can find these promising models and recognize their potential for making markets work better on a large scale.

<sup>75</sup> Bear, et al, SED Journal Vol. 14, No. 4, 2003; Haight, forthcoming, SEEP/PLP, 2004

## 4.7 Involve Stakeholders in the MA

Market assessment is not a neutral exercise. The act of questioning market players about their activities, plans, constraints, opportunities, and demand for - and use of - business services changes their perceptions about the market. Practitioners are finding that a market assessment is their first opportunity to influence market players as well as other institutions. Explicitly involving stakeholders in market assessment can bring market players and other stakeholders together, creating awareness of, and potentially, enthusiasm for, possible actions to develop the market. This involvement can have a positive affect on the market and also lay the groundwork for future interventions.<sup>76</sup>

Practitioners use a variety of tools to involve market players and other stakeholders in market assessment:

- Focus group discussions and individual interviews that move beyond collecting information and consider possible action;
- Joint analysis and discussions of market data with market players to discuss potential business opportunities that could also develop markets; and
- Workshops having a mix of stakeholders who can validate the gathered information and stimulate discussion of possible market development activities.<sup>77</sup>

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<sup>76</sup> Kumar and Sinha, forthcoming, SEEP/PLP, 2004; Hatch, 2004

<sup>77</sup> Engelmann and Isiaho, forthcoming, SEEP/PLP, 2004; Nussbaum, et al, EDA, 2004

## 5. Business Services and Delivery Models - Trends and Innovations

Largely a result of improved demand assessment, BDS practitioners and donors are creating both innovative services and new business models for delivering them. Although intricately tied together, this chapter considers trends in services first, and then trends in types of BDS providers and their business models, recognizing the overlap. The common thread is the interesting innovations programs and providers are pioneering as they respond to SE demand by developing services and business models appropriate for local economic and cultural conditions.

### 5.1 Business Services

As programs incorporating BDS become increasingly demand-driven, several trends in new BDS offerings are emerging:

- **Common sectors – common services:** several common sectors — and services within those sectors — are emerging;
- **Information and communication technologies:** these continue to be an area of rapid innovation and are now reaching surprising numbers of rural and low-income clients;
- **Trends in cross-sector services:** an example of innovative intervention in this areas is media services related to basic business education; and
- **BDS and finance:** SED programs continue to explore effective and efficient ways to help SEs access both finance and BDS and in 2004 new programs attempted to do so in a sector context.

As an overall trend, experts are observing that SEs in general and the poor in particular demand “basic” services, such as information and communication,

market linkages, infrastructure, and technology rather than “traditional” and “generic” business management training.<sup>78</sup> At the same time, different markets call for different services, as the persistence of strategic services indicates.

#### 5.1.1 Sector-Based Services: Common Issues, Common Services

The majority of programs with BDS components in 2004 either have a sector-focus, or include a component focused on a specific sector. What are we learning about the types of sectors that SE programs target and the services they promote? First, some common sectors are emerging. Second, programs tend to address common constraints that arise in similar sectors and, therefore, they offer common categories of services. Third, programs tend to focus narrowly on 1-3 product lines, offering services that improve market functioning up and down the value-chain, rather than targeting a few services to a range of products. Following is an elaboration of how this is working.

#### *Common Sectors*

As programs around the globe target sectors in which SEs dominate, they are focusing on some common sectors and identifying potential, and similar, market niches. For example:

- **Horticulture:** The majority of poor people in the world are farmers. Since horticultural products are in demand everywhere, there are market opportunities for higher value crops. Small-scale farmers have a competitive advantage with labor-intensive crops that do not lend themselves to large-scale, mechanized production.<sup>79</sup>

<sup>78</sup> Hitchins, et al, DFID, 2004

<sup>79</sup> Freer, ComMark, 2004; Knopp, Kenya BDS, 2004 ; Bista, IDE Nepal, 2004; DFID Kenya; ACDI/VOCA, Ethiopia, 2004; Starkey & Coello, Fintrac, 2003; Ryazanov, Helvetas, 2004

- **Animal Husbandry:** The majority of poor people also tend animals as part of their farming activities. As public sector extension services decline, the productivity and health of these animals has also declined (in some areas it is historically low.) With increasing urbanization, the demand for milk and meat is generally strong. In some areas there are either export opportunities for milk, or milk imports are threatening local dairy industries, forcing local farmers to innovate or lose local markets.<sup>80</sup>
- **Hand-made products (crafts):** The global market for hand-made products remains strong as handicrafts from developing countries are now mainstream products in markets like home decorating, gifts, jewelry, apparel, and kitchen supplies. However, the market is ever more competitive – just as artisans seek new markets, buyers seek new designs and motifs and they reach out to new countries and cultures to find unique products.<sup>81</sup>

In all of these sectors, SEs are targeted primarily as producers, yet the majority of off-farm SEs, particularly microenterprises and women-owned businesses, are engaged in services and trade. To target this population, some practitioners are experimenting with the tourism, construction, and retail grocery sectors,<sup>82</sup> all of which typically incorporate large numbers of SEs. This common thread may make findings in these sectors transferable across countries.

### ***Narrow Product Focus***

Within the broad sectors that BDS programs target, managers often focus on a narrow product range:

- The Action for Enterprise craft development initiative in Ghana honed in on baskets as a critical product line in which it could develop and test strategies for embedding product design and technical training.<sup>83</sup>
- Kenya BDS, in its first few months of operation, narrowed its focus from fruits and vegetables to avocado, mango, and passion fruit. However, this may change, and broaden, over time.<sup>84</sup>
- MEDA/ ECDI's apparel and embroidery program is to focus on modern styles of traditional Pakistani Shalwar Kameez.<sup>85</sup>
- Mercy Corps initially planned to work with cattle and poultry, but during its first year of implementation decided to focus only on dairy.<sup>86</sup>
- ITC India's e-choupal marketing business was launched to market soy.<sup>87</sup>

What's behind this narrow focus? The specific production and marketing issues and particularities of the value chain — from market opportunities to who holds influence in the chain — vary with products and crops. For example, the meat market structure in Azerbaijan is different altogether than the dairy market structure. A narrow focus allows programs to tailor their services and address highly relevant opportunities and challenges in each value chain. Programs with a short implementation period have more opportunity to achieve systemic change and short-term results if they have a narrow focus. In larger programs, a narrow focus can provide early results and lessons that can then be transferred to other products.

### ***Typical Challenges, Typical Services***

Although the content of services delivered in sector-focused programs is specific to each product, there are some typical challenges SEs face when

<sup>80</sup> Best, et al, CRS, Foodnet, CIAT, 2004; Wheatley, CIAT, CIPASLA, CLODEST, 2003; Abdullayev, Mercy Corps, 2004; SDC SED Conference (Tanzania Dairy Project), 2004

<sup>81</sup> Lusby, AFE, 2004; Pollack, ATA, 2003; Jones, MEDA, 2004;

<sup>82</sup> Freer, ComMark, 2004; Muzira, ILO/Sida, 2004; Tladi & Miehlebradt, TTO, 2004; Haight, World Education, 2003

<sup>83</sup> Lusby, AFE, 2004

<sup>84</sup> Knopp, Kenya BDS, 2004

<sup>85</sup> Jones, MEDA, Pakistan, 2004

<sup>86</sup> Abdullayev, Mercy Corps, 2004

<sup>87</sup> Annamalai and Rao, Digital Dividend, 2003

attempting to reach high value markets or remain competitive as global markets enter local economies:

■ **Horticulture** programs reaching out to small-scale farmers tend to focus on: establishing sub-contracting or other market links; technical assistance to grow appropriate crops and meet market specifications (often embedded in sub-contracting relationships); micro-irrigation; farmer association development; access to inputs (again, may be embedded in sub-contracting); and price information.<sup>88</sup>

■ Programs promoting small-scale **animal husbandry** concentrate primarily on increasing production by getting veterinary services to the village level through para-vets, and on improving the infrastructure for marketing fresh products.<sup>89</sup>

*Key Question: How can professionals working on BDS in common sectors share information and lessons learned?*

## Example 25: Innovative ICT Services

### E-choupals in India

ITC, a large Indian trading firm, has established an ICT-based trading infrastructure for soy and other crops. Normally, smallholder farmers in target markets sell soy through private agents of government mandated Mandis. Farmers take what they are offered in part because they have little or no information on market prices prior to transporting their crops to the Mandis. In addition, their access to inputs is limited because of their geographic isolation. ITC established an alternative, electronically operated trading system and identified community leaders to be its local representatives. ITC provides the reps with a computer and internet connection to establish an “e-choupal” farmers can use to access closing prices at the Mandi, track global trends, get technical information on inputs and farming techniques, and to conduct other personal business. ITC uses the previous days’ price as a benchmark price for the highest grade crop. The e-choupal allows farmers to get clear and transparent incentives for meeting certain quality grades. Farmers who want to sell to ITC bring their soy to an ITC hub where ITC also sells inputs and consumer goods, providing farmers with a wider choice of products at lower prices. The lead farmer who hosts the e-choupal gets a commission on all sales, and often bundles farmers’ orders into a larger order to get discounted prices. Results include:

- A network reaching 1 million farmers in 11,000 villages through 2,000 e-choupals;
- Higher soy prices (average 2.5%) for farmers; and
- Increased soy production (50-59%) in areas reached by e-choupals.

The e-choupal network develops a culture of respect for farmers. The lead farmer is called a Sanchalak and takes a vow to serve his community. “Simple provisions such as a shaded seating area where farmers can sit while waiting for their paper serve as indicators of ITCs respect for farmers and their produce.” One result of this respect is that farmers readily provide ITC with market information and feedback via email, which in turn leads to service improvement and ideas for expansion.

Annamalai and Rao, Digital Dividend, 2003.

For more information, see: [www.digitaldividend.org](http://www.digitaldividend.org)

<sup>88</sup> Bista, IDE, 2004; Knopp, Kenya BDS, 2004; Starkey & Kaufmann, Fintrac, 2004

<sup>89</sup> Abdullayev, Mercy Corps, 2004; SDC SED Conference (Tanzania Dairy Project), 2004; Sharma and Yadav, Digital Dividend, 2003

■ Programs promoting **hand-made products** tend to center their attention on: forging links to international markets through major trade shows and/or national-level shows for hosting international buyers; product development and design; continuous quality improvement and control; association or group development and strengthening; and ensuring an adequate supply of inputs and the funds to access them.<sup>90</sup>

The range of services is necessarily wide because non-functioning aspects of a value chain can undermine efforts to improve others. It isn't enough to establish market links if SE producers can't meet product specifications. Thus, another reason programs focus on a single product line is the need to facilitate access to a range of specific services. These commonalities suggest that sharing information on BDS market development strategies in individual sectors would enhance knowledge and practice.

### 5.1.2 ICTs: Private Sector Takes the Lead

From BDS portals to market information broadcast through text messages, information and communication technologies (ICTs) continue to be an area of rapid service innovation. Although considered at face value to be a "cross-sector" service, more recent innovations in ICTs are incorporated into sector-focused programs and used primarily to help SEs reach markets by: providing information on buyers and input sources; facilitating buying and selling; and informing about product specifications and how to meet them. In sum, ICTs are becoming a vital service in linking SEs, even very low-income SEs, with high value markets.<sup>91</sup>

ICTs are also used to help facilitators and providers operate more efficiently and effectively. AFE Ghana linked baskets exporters with a private sector rural

## Example 26: Market-Based Approaches to Basic Business Education

### ILO FIT in Cambodia

The ILO in Cambodia, with co-funding from the Dutch government, pilot tested a unique strategy for reaching rural SEs with audio-visual business information. Television signals in Cambodia do not reach far outside urban areas, but there is a sophisticated network for the commercial distribution of audio-visual material on VCD, DVD, and VHS. This program sponsored production of a comedy show based on the business experiences of a well-know comedian who already had a stage persona as an entrepreneur. The initial two episodes created fictional small enterprises and plots around business issues - in one, for example, the business runs out of cash because of bad management and this leads to a dispute with the workers over pay. The ILO identified a distributor who paid for all copying and distribution costs and sold 10,000 copies within about a month for US\$1-\$2 each. Among SEs surveyed, 40% had seen the show, either by buying the VCD, or seeing it in a local restaurant or village "cinema." Overall, rural viewers absorbed and appreciated the business messages better than urban viewers. Additional episodes are now being prepared, partly to explore the potential for full commercial production.

Tanburn, ILO, 2004

For more information, see [www.bdsknowledge.org](http://www.bdsknowledge.org)

radio program that helped the exporter communicate to suppliers and potential suppliers the importance of increasing quality in order to compete with Vietnamese copycat designs.<sup>92</sup> As ICT firms increasingly see SEs and/or their service providers as a strong market opportunity, many ICT initiatives are being launched by private sector firms in countries with a strong ICT capacity. Often, there is minimal involvement from development organizations. In India, Shree Kamdhenu Electronics Private Ltd. developed an IT based tool (Akashganga) to automate the milk collection process at dairy cooperatives. The tool increases

<sup>90</sup> Jones & Shaikh, MEDA/ECDI, 2004; Pollack, ATA, 2004; Lusby, AFE, 2004; Bista, IDE, 2004

<sup>91</sup> Gärtner, GTZ, 2003; Manaktala, IDE, 2003; Sharma and Yadav, Digital Dividend, 2003; Annamalai and Rao, Digital Dividend, 2003

<sup>92</sup> Lusby, AFE, 2004; Gärtner, GTZ, 2003

handling efficiency, speeds up and ensures transparency in milk sales, and improves financial management of the cooperatives. Such innovations can potentially improve the cost-effectiveness of BDS programs and the sustainability of providers.<sup>93</sup>

**5.1.3 Cross-Sector Services: Continuity and Innovation**

Although most new activity is in sector-focused services, some cross-sector services — accounting, taxation, and basic business education, to name a few — continue to be promoted even as some new ones are launched.<sup>94</sup> There are those who argue that basic business education is a public good and should continue receiving subsidies.<sup>95</sup> Others, however, are exploring market-based approaches for providing basic business education and other cross-sector services.<sup>96</sup>

**5.1.4 BDS and Finance: Pursuing an Elusive Goal**

Although many development professionals agree that SEs require access to both finance and business development services if they are to stabilize and grow, strategies that utilize the best practice principles of both the BDS and microfinance fields are so far elusive. Nevertheless, development programs that promote both services with varying degrees of integration continue to emerge. While most attempt to help MFI clients access BDS,

sometimes from the private sector, a few are trying to develop BDS markets and financial systems. In addition, this year two major syntheses of these efforts were published – one profiles programs offering business management training and microfinance<sup>97</sup> and the other looks at agro-finance initiatives.<sup>98</sup>

The first review, “*Synergies through Linkages: Who Benefits from Linking Finance and Business Development Services?*” by Sievers and Vandenberg, suggests that SEs are unable to gain

**Key Question:**  
**Compulsory vs. Voluntary Services?**  
*Most reviews of BDS and microfinance initiatives conclude that MFIs should not require clients to attend training in order to get a loan or as part of their loan package. Agro-finance initiatives, in contrast, are structured to bundle finance with either input supply or product purchasing and technical services. Is there a problem with bundling services in agro-finance initiatives? And, if it is okay in agro-finance, why not for MFIs offering management training and credit support services?*

**Figure 4: Typology of BDS and Microfinance Programs**

Type of Linkage	BDS Compulsory	BDS Voluntary
Unified	Unified-Compulsory	Unified-Voluntary
Parallel	Parallel-Compulsory	Parallel-Voluntary
Partner	Partner-Compulsory	Partner-Voluntary

<sup>93</sup> Sharma and Yadav, Digital Dividend, 2003

<sup>94</sup> KATALYST, 2003; Nourse, ARC, 2004; Tomecko, GTZ, 2003

<sup>95</sup> Altenburg & Stamm, GTZ,2003; Griffith, ITDG, 2004; Swisscontact, Kenya, 2004

<sup>96</sup> Nourse, ARC, 2004; Tanburn, ILO Cambodia, 2004; Tanburn, ILO Sri Lanka, 2004

<sup>97</sup> Sievers and Vandenberg, ILO SEED, 2004

<sup>98</sup> Pearce, CGAP, 2004

## Example 27: Developing BDS Markets and Financial Systems

### Swisscontact in Indonesia

Swisscontact, in cooperation with Bank Indonesia, is piloting several initiatives to help increase lending to SEs and improve performance of SE loans using BDS market development and financial systems theory. The common format is for a facilitator to link SEs with banks and BDS providers who offer assistance with loan preparation, obtaining business licenses, collateral (e.g., land certification) as well as technical consulting and support in accessing markets. Depending on the service, either the SE or the bank pays the service fee.

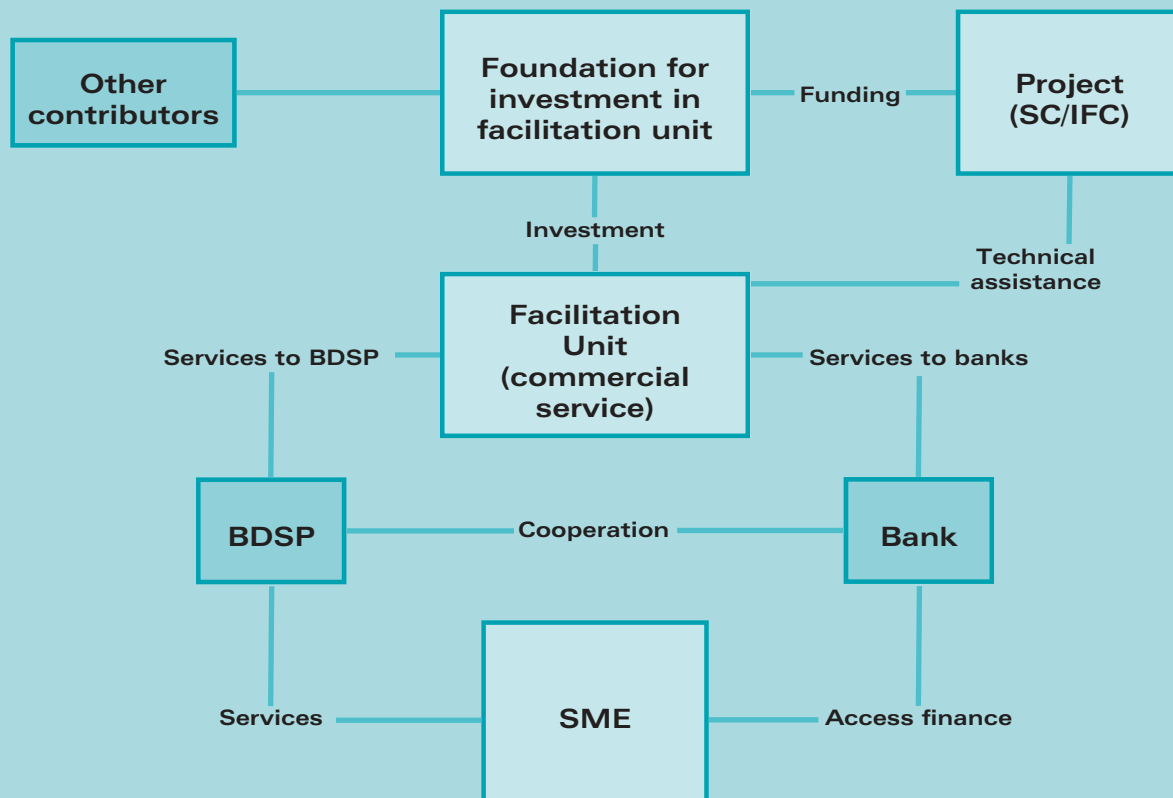
The facilitator:

- Builds the capacity of banks to lend to SEs;
- Certifies BDS providers and trains them on application procedures and loan criteria for specific banks as well as other services;
- Facilitates contracts between BDS providers and banks to pay for consulting services to SEs; and
- Promotes the scheme.

So far, Swisscontact has piloted three facilitation models:

- Direct facilitation between BDS providers and three banks;
- Capacity building for the Bank of Indonesia to facilitate on a subsidized basis; and
- Creation of a commercial facilitation service in which banks and SEs pay for services.

The latter model, the one Swisscontact hopes to pursue in the coming year, is diagrammed below.



To date, 6 banks and 29 BDS providers have engaged in the scheme and SE lending of US\$2 million has been facilitated within a period of 6 months with another US\$2 million under assessment by banks. Swisscontact will replicate the scheme with modifications in other regions in cooperation with Bank Indonesia and the IFC.

Bissegger, Swisscontact internal document, 2004

For more information email, [peter@swisscontact.or.id](mailto:peter@swisscontact.or.id) or [ade@swisscontact.or.id](mailto:ade@swisscontact.or.id), or see [www.swisscontact.or.id](http://www.swisscontact.or.id)

beneficial access to BDS and finance because models in which SEs, MFIs, and BDS providers all benefit, do not yet exist. The paper develops a typology of programs that link BDS and finance, as detailed in Figure 4.

The paper concludes that, while different environments may call for different approaches, voluntary services are recommended over compulsory services and parallel and partner programs over unified programs. In both cases, this is to encourage choice and clear demand signals for services.

The second review of BDS and finance initiatives, *“Buyer and Supplier Credit to Farmers: Do Donors have a Role to Play?”* by Doug Pearce at the Consultative Group to Assist the Poor (CGAP), examines existing agro-finance practices and the initiatives of development agencies to strengthen agricultural finance in conjunction with technical assistance, input supply, and/or marketing services. The review concludes that:

- Private sector input suppliers and buyers often offer credit and advice to farmers, but the services don’t reach all market areas that have potential and the financial terms and quality of services varies from beneficial to exploitative;
- Development organizations have pioneered innovative efforts to strengthen access to agricultural finance and technical services by organizing farmers and strengthening market links that provide both services; and
- In some instances, financial institutions are also becoming involved by linking with input suppliers, buyers, or development organizations.

The paper concludes that donors do have a role to play in enhancing agro-finance, but that they need to be careful not to distort financial, product, and business services markets. They also need to ensure that interventions strengthen farmers’ competitive options with regard to inputs, financial and technical services, and marketing outlets.

## 5.2 Providers and Business Models

In serving SEs, there is always the challenge of getting affordable, quality services to enterprises on a sustainable basis. BDS programs and providers are innovating new business models to meet this challenge. Programs are working with a wide range of types of BDS providers including both private and sometimes public actors working independently or in partnership. This section discusses some of the new ways private and public entities are offering BDS and the on-going issues surrounding associations as BDS providers.

### Example 28: Agro-finance

#### Critecnia in Peru

“Critecnia is a firm that works with small cotton farmers. The farmers sign a management contract with Critecnia, which buys and markets their produce, and provides inputs relatively cheaply. Critecnia also links them to financing sources. Prior to its involvement, poor repayment by farmers was endemic and financial institutions were wary of financing farmers. Critecnia now negotiates loans on behalf of the farmers, with the farmers providing loan guarantees in the form of land.

Critecnia subtracts loan payments and fees for technical assistance and management at point of sale and then splits net profits equally. Interest on loans is 24% from the bank, with a balloon payment at harvest. Total costs, including Critecnia services, raise the loan cost to an effective interest rate of 30%. Critecnia is reportedly profitable, with very high repayment rates in most years.”

Extracted from Pearce, 2004

### 5.2.1 Corporations Serving SEs

In the corporate world, there is increasing recognition that, in the context of open and increasingly competitive global markets, the poor represent buying power that yet to be tapped.<sup>99</sup> Some corporations see SEs as a potential niche of poor customers or as a sales route to reach poor customers while others see SEs as suppliers that can help them improve their competitiveness in global markets. There also is increasing pressure to improve corporate social responsibility. This comes from both corporations themselves and customers interested in corporate labor and environmental practices. As a result, some corporations have taken the initiative, either on their own or with the encouragement of a

**Key Question: Who looks out for the interests of the poor and of SEs as they increasingly interact with large national and multi-national corporations?**

development agency, to develop or strengthen commercial relationships with SEs.

Within the BDS field, a number of development agencies are working to capitalize on this trend by providing support to corporations interested in offering services to SEs and/or incorporating them

## Example 29: Private Sector Initiatives to Serve SEs

### Dupont Agricultural Products and Seeds and Bogasari Flour Mills

Dupont Agricultural Products and Seeds recognized Colombia as a potential growth market, but farmers there were having difficulty getting credit to purchase inputs because banks see farming as a high risk activity. Dupont introduced the Integrated Agricultural Plan (PAID, in Spanish) which provides financing to purchase inputs through forward contracts under which farmers sell their harvest in advance at a fixed price to different agro-industries in deals agreed upon through the PAID system. Throughout the cultivation period, farmers receive technical assistance in the safe use and handling of farm chemicals, including environmental impact and safe disposal of packaging. Dupont's partners in the plan are the Ministry of Agriculture, Finagro, the Agrarian Bank, the National Agriculture and Livestock Board, and the State House of Compensation and Security.

In Indonesia, the noodle making industry accounts for 6% of Bogasari Flour Mills' sales. Bogasari provides a range of support to noodle makers to develop their businesses and thus increase Bogasari's sale of flour. Support includes:

- Legal aid to secure licenses and freedom to operate without harassment, extortion, or threat of eviction;
- Training on quality, storage, and hygiene and workshops on machine operation and maintenance;
- A newsletter on noodle production, markets, products, and equipment;
- Sponsorship of community events designed to promote new flavors and means of noodle preparation;
- Encouragement to noodle makers to form associations through which they can receive and pay for flour.

Deloitte Touche Tohmatsu, UNDP, 2004 For more information, see <http://www.undp.org/business/smeworkshop.html>

<sup>99</sup> Prahalad & Hart, 2004

into their supply or distribution chains. The UNDP, UNIDO, and Global Compact recently teamed with Unilever, a multinational corporation, to sponsor a conference for corporations to share experiences in working with small enterprises.<sup>100</sup> Participants found that there are a variety of reasons why corporations are interested in strengthening their commercial relationships with SEs – reducing costs, minimizing negative effects on the environment, reducing supply vulnerabilities, complying with government regulations, branding benefits, increased access to markets, increased customer base, and building markets for the future. A number of cases identified corporations in the same sector or geographic area that are working together to support SEs.<sup>101</sup> In another initiative, the Ashoka Foundation supports smaller-scale “social entrepreneurs” who reach out to the poor through commercial ventures, in some cases providing business services.<sup>102</sup>

### 5.2.2 Business Models for Embedded Service Provision

As more BDS programs focus on specific sub-sectors, the range of business models for providing embedded services to SEs is expanding. A number of projects reach many SEs by strengthening the willingness and capacity of a few large companies to provide embedded services to their suppliers.<sup>103</sup> But, what about those sectors in which there are no large companies willing or able to work with many SE suppliers? In these sectors, programs are experimenting with a range of interventions to stimulate the supply of embedded services to SEs within value chains:

- Developing services delivered at collection points where SEs sell their products. The services may

be provided by traders or cooperatives or by commercial BDS suppliers who sell to cooperatives;<sup>104</sup>

- Working with private and public actors to establish physical markets in which embedded services can be provided more easily;<sup>105</sup>
- Upgrading the capacity of target SEs to become traders or market agents who provide embedded services to other SEs;<sup>106</sup> and
- Linking traders with BDS providers either to broker the sale of services to SEs or to purchase services such as product design, which are then passed on to SEs.<sup>107</sup>

### 5.2.3 Privatizing Traditionally State-provided Services

As governments try to trim budgets by reducing or privatizing the provision of some services, a number of development agencies are experimenting with promoting private sector provision of services that traditionally have been provided by the state. Perhaps the area in which the most work has been done is in agricultural extension services.<sup>108</sup> The considerable challenges are well known: dispersed, small farmers, limited capacity to pay, a culture of entitlement, and free services that discourage private initiatives. However, preliminary results indicating that demand-driven agricultural extension services can be sustainable and deliver needed,

**Key Question: Can basic business skills also be commercialised using lessons from agricultural extension services?**

<sup>100</sup> Presentations and papers available at <http://www.undp.org/business/smeworkshop.html>

<sup>101</sup> Deloitte Touche Tohmatsu, UNDP, 2004

<sup>102</sup> Ashoka, 2004 [www.ashoka.org](http://www.ashoka.org)

<sup>103</sup> For example, see the USAID-supported Kenya BDS project ([www.kenyabds.com](http://www.kenyabds.com)) and the USAID-SDCAsia BDS project in Mindanao, Philippines ([www.bdsknowledge.org](http://www.bdsknowledge.org))

<sup>104</sup> Hitchins, et al, 2004

<sup>105</sup> Ibid

<sup>106</sup> Kumar, EDA, 2004

<sup>107</sup> Tladi & Miehlabrad, TTO, 2004; Jones & Shaikh, MEDA/ ECDI, 2004

<sup>108</sup> Ryazanov, Helvetas, 2004; Abdullayev, Mercy Corps, 2004; Knopp, Deloitte Emerging Markets, 2004

quality services to small farmers have been encouraging. How are projects achieving these results? Some emerging lessons:

- Services that sell provide features state services rarely offer, such as more frequent or on demand delivery, on- farm services instead of at a central location and, more practical advice.<sup>109</sup>
- Popular services are linked to obvious market benefits, such as helping farmers grow produce which can be sold to higher value markets.<sup>110</sup>
- Advice and information is bundled into transactions with obvious value for farmers – embedding agricultural advice into transactions for tree trimming and crop spraying<sup>111</sup> or embedding advice and knowledge on animal husbandry in veterinary service, drug, or artificial insemination transactions.<sup>112</sup>
- Embedded services from buyers or agricultural input suppliers circumvents small farmers' limited payment capacity.<sup>113</sup>
- Aggregated demand through farmers' groups increases the willingness of private providers to serve SEs.<sup>114</sup>
- Partnerships of several companies can provide an appropriate bundle of services – agricultural input suppliers, agro-processing companies, and banks working together could provide farmers with access to quality inputs, extension services, credit, and markets.<sup>115</sup>
- Marketing and demand stimulation that illustrates the benefits of services to farmers can increase their willingness to pay for services.<sup>116</sup>

A growing number of programs are finding that farmers can and will pay for agricultural extension services that provide a clear financial benefit to them – provided services are delivered at the right time and with affordable prices and payment options.

### Example 30: Private agricultural extension services via a large company in India

#### Rallis - Agricultural Inputs

“Rallis is a large agricultural input supply company in India which initiated the concept of Rallis Kisan Kendra (RKK) to provide integrated services to farmers. The RKK scheme targets farmers in soybeans, vegetables, and fruit and is active in five states. The products and services it offers include:

- Visits by agronomists to farmers' fields at regular intervals (agreed schedule);
- Facilitation of credit to farmers (through banks);
- Provision of all farm inputs (seeds, fertilizer, and chemicals);
- Soil testing; and
- Procurement of the entire crop (on behalf of other market partners).

The RKK scheme started in 2001 with 584 farmers and 3,600 acres. In 2002, it expanded to 725 farmers and 5,000 acres. The enrolment fee is \$2, irrespective of the size of the holding (although charges vary by crop and nature of services provided.)”

Hitchins, et al, DFID, 2004

For more information, email: [global@springfieldcentre.com](mailto:global@springfieldcentre.com)

or see [www.springfieldcentre.com](http://www.springfieldcentre.com) and

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

Extracted from Pearce, 2004

<sup>109</sup> Nussbaum and Miehlebradt, SEEP/PLP, 2004

<sup>110</sup> Bista, IDE, 2004

<sup>111</sup> Knopp, Deloitte Emerging Markets, 2004

<sup>112</sup> Abdullayev, Mercy Corps, 2004

<sup>113</sup> Knopp, Deloitte Emerging Markets, 2004

<sup>114</sup> Abdullayev, Mercy Corps, 2004

<sup>115</sup> Hitchins, et al, DFID, 2004

<sup>116</sup> Abdullayev, Mercy Corps, 2004

### 5.2.4. Associations, Groups, and Clusters as BDS Providers

There is renewed interest in the BDS field in working with associations in recognition of the fundamental diseconomies of scale and lack of market power that individual SEs experience. There has been a rapid increase in the number of initiatives, particularly in sector-focused programs, to develop the capacity of associations. In addition, practitioners are experimenting with including informal groups and formal or informal enterprise clusters as key project partners.

Advocates of cluster-based approaches to SE development point to the following benefits of enterprise groups or clusters:

- Promotes collective efficiencies – often necessary for SEs to interact effectively in value chains;
- Empowers SEs to interact more effectively with more powerful market players, government, and other stakeholders; and
- Formalizes relationships among a variety of enterprises, encourages lateral and vertical learning, and promotes trust and collaboration among firms.<sup>117</sup>

Despite this renewed interest, the field remains unclear on several key issues:

- What is the appropriate role for associations and groups in various contexts – as providers or facilitators?
- What is their comparative advantage over private firms as providers and NGOs and contractors as facilitators?
- Whose role is it to build association capacity? Should facilitators interact directly with SEs to form associations, or can/ will these groups pay for consulting services to help them get organized and build their capacity?
- How can associations, cooperatives, and groups function well – and avoid succumbing to past patterns of mismanagement and corruption – in environments that have weak legal and support systems for such groups?

### Example 31: Associations Providing Business Information Services

#### GTZ in Sri Lanka

In Sri Lanka, GTZ is implementing the BMZ-supported Enterprise Information Project (EIP), a seven year initiative aimed at increasing SME use of business information to increase and sustain competitiveness. EIP is developing the capacity of partner providers to deliver business information to SMEs on demand. Most partner providers are chambers of commerce. Much of EIP assistance has focused on linking the providers to one another and to national and international sources of information and helping them install and effectively use a data management system.

In 2003, EIP helped nine providers with a total of 78,689 transactions for business information. Five types of information are provided: general business, business contacts, potential and trends, sector statistics, and business mapping. Information is delivered via mail, phone, fax, email, and at the desk. Transactions have increased by 116% over baseline information gathered in the year 2000.

Gärtner, GTZ, 2004

For more information, see [www.bis-asia.net](http://www.bis-asia.net) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

In spite of these questions, programs are experimenting with helping associations develop and provide business services such as fee-based information, input sourcing and supply, market links, and warehousing. Programs are also assisting associations to aggregate demand for BDS from their members and identify and negotiate with BDS suppliers on behalf of their members for services such as transportation, legal services, packaging, and market research.<sup>118</sup> In some instances, associations also play an advocacy or facilitative role in the broader market.<sup>119</sup>

<sup>117</sup> Kula, AMAP, 2004

<sup>118</sup> Rodriguez, Helvetas, 2004

## Example 32: Multiple Roles for an Association

### The Agropyme program in Honduras

Agropyme, an SDC program implemented by Helvetas and Swisscontact, is currently working with COHORSIL, a farmer cooperative, founded in 1980, that wants to improve competitiveness in agribusiness. During the 1980s and 90s, the cooperative started three businesses: agricultural inputs commercialization, coffee processing services and coffee commercialization services. However, in 2000, the price of coffee plummeted and farmers were losing money on production

With support from Agropyme, COHORSIL developed a business plan oriented to help members move into production of fresh vegetables for high value and less risky markets such as agro-industry, export and supermarkets. To make this move, farmers needed a wide range of new services. COHORSIL got involved in providing many of them in different ways. The cooperative directly supplies for a fee: seedlings produced in greenhouses, new inputs, warehouse and packaging facilities, and marketing services.

Additionally, COHORSIL partners with private suppliers offering specialized services such as international market linkages and certifications. COHORSIL also negotiates with private suppliers on behalf of its members for services such as pesticide residues and soil analysis, technical assistance, design and installation of drip irrigation systems, transportation, and legal services. Payment is sometimes made by COHORSIL and sometimes directly by members. Some farms have now been certified and gradually more farmers are being connected with new clients and producing new products in a profitable way. COHORSIL now has 69 full time employees, and five branches serving 385 members and more than 1,200 non members in 17 communities.



Rodriguez, 2004 available at <http://www.intercoop.ch/sed/2004/wks-sed/> and de Ruijter de Wilke, 2003 available at [www.bdsknowledge.org](http://www.bdsknowledge.org)

For more information, email Iván Rodríguez ([swisscontact\\_ivan@cablecolor.hn](mailto:swisscontact_ivan@cablecolor.hn)) or see: [www.agropymeonline.org](http://www.agropymeonline.org)

### 5.2.5 Public-Private Partnerships in BDS Provision

As agencies consider the broader market context of BDS provision, there is a growing realization that government has an important role to play in making markets work. While much of that role lies in creating and maintaining a supportive enabling environment, some programs are experimenting with promoting

public-private partnerships for BDS service provision.<sup>120</sup> Services that may lend themselves to such partnerships include research and development, skills development, information provision, and certification. In Mali, private veterinarians provide subsidized public information messages related to agriculture along with paid veterinary services,<sup>121</sup> while in Azerbaijan, they rely on government to supply inputs for artificial insemination.<sup>122</sup>

<sup>119</sup> Pollack, ATA, 2003

## Example 33: Public-Private Partnership in BDS Provision

### Gyandoot in India

In 2000, the government of Madhya Pradesh initiated a pilot e-governance project, under which individual communities opened information kiosks in poor, rural areas. The kiosks, funded entirely by local governments and communities, offered the following services:

- Information on agriculture produce auction center rates for Rs.5;
- Copies of land records for Rs.15, which all banks in the district agreed to accept as legal documents;
- On-line registration of applications for income/ case/ domicile certificates for Rs.10;
- On-line public grievance redress for Rs 10, including complaints regarding drinking water, seed/ fertiliser quality, scholarship sanction/ disbursement, employee establishment matters, functioning of schools or village committees, etc.;
- Village auction site available to farmers and villagers for land, agricultural machinery, equipment, and other durable commodities - commodities can listed be for sale for Rs.25/- for three months. The list of saleable commodities can be browsed for Rs.10/-.
- Updated information regarding beneficiaries of social security pension, beneficiaries of rural development schemes, information regarding government grants given to village committees, public distributions, data on families below the poverty line, etc.

Within a year of opening, the entire network of 31 kiosks covered 311 Panchayats (village committees), over 600 villages, and a population of around half a million (nearly 50% of the entire district.)

The project is evolving into a business called Drishtee, which envisions a franchise model that can expand provision to 50,000 kiosks over six years. All the commercial banks in the district where Drishtee is working are reportedly eager to finance new kiosks and have already agreed to finance three.

Hitchins, et al, DFID, 2004

For more information, email: [global@springfieldcentre.com](mailto:global@springfieldcentre.com) or see [www.springfieldcentre.com](http://www.springfieldcentre.com) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

Some forms of public-private partnership that are emerging include:<sup>123</sup>

- Contracting out service delivery tasks to the private sector, financed by a combination of public funding and private payment, such as partially privatised agriculture extension services or public utility companies contracting selling services and/or bill collection to SEs;<sup>124</sup>
- Delegating service provision to non-government or membership organisations, financed by levies, membership fees, or some public funding, such as quality inspection or business registration; and
- Joint ventures between government and the private sector such as agricultural research facilities.

<sup>120</sup> Knopp, Deloitte Emerging Markets, 2004; Kumar, EDA, 2003; Abdullayev, Mercy Corps, 2004; Wakelin, Intermediate Technology Consultants, 2004

<sup>121</sup> Hitchins, et al, DFID, 2004

<sup>122</sup> Abdullayev, Mercy Corps, 2004

<sup>123</sup> Hitchins, et al, DFID, 2004

<sup>124</sup> Wakelin, Intermediate Technology Consultants, 2004

Several challenges are encountered in public-private partnerships for service provision. It is difficult to determine the appropriate roles for public agencies and private organizations within a partnership. Government agencies may not have the necessary capacity to contract, manage, and monitor relatively complex arrangements with commercial organizations. Long-term financing from government may not be assured. It is difficult to find the right balance of public and private funds. As with all publicly-funded services, too much “free money”

in the equation can both decrease SE willingness to pay and distort the market for private providers.<sup>125</sup> Despite the challenges, a number of programs see public-private partnerships in BDS provision as a useful way to increase the quality and outreach of public services; “kick-start” the transition of services from the state to the private sector; or encourage the provision of services, such as R&D, having public goods aspects.

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<sup>125</sup> Hitchins, et al, DFID, 2004

## 6. Interventions and Program Management – New Strategies and Partnerships

This chapter focuses on innovations in program interventions, highlighting new strategies in demand stimulation and supply strengthening, some of which emerged as BDS market developers attempted to better understand and interact with sub-sector or value-chain markets and systems. The chapter also considers new partnerships and institutional roles in market development programs, particularly the role of local governments and corporations, and provides useful tips on BDS program management. Some of these partnerships and strategies emerged as BDS programs interacted more with broader systems, such as government and corporate institutions.

### 6.1 Innovations in Interventions

A key guiding principle of BDS market development is to structure programs to be responsive and flexible to changes in the market. In practice, this has translated to some programs with a fairly open mandate to identify and develop key SE sectors and BDS markets. On the one hand, this is a development practitioner's dream, but practitioners are also learning to be wary of a major trap of flexibility – analysis paralysis. It is sometimes easier to study local economies and markets than to attempt to change them. And, since information is often very limited in weak economies, there is always more to learn about local markets. Earlier, in the section on achieving both systemic change and short-term results (Chapter 2), it was pointed out that the most effective programs tend to focus early on specific products and services. In addition to this critical element, BDS implementing agencies report several other “tricks of the trade” that seem to help them move quickly from analysis to action:

- Stimulating demand for services using existing market relationships, institutions, communication modes, and social structures;
- Attracting providers with a clear and interesting “offer;”
- Selecting providers according to project scale and scope and using efficient and transparent processes; and
- Strengthening provider capacity with innovative new strategies.

#### 6.1.1 Stimulating Demand for Services

In keeping with strategies to develop and strengthen existing systems and achieve short-term results, practitioners are finding it useful to stimulate demand using existing market relationships, institutions, communication modes, and social structures. Programs having a long-term outlook seek to improve these channels; others take advantage of their strengths and work around their weaknesses. Some specific demand stimulation techniques in use include:

- *Testing demand stimulation during market assessment:* even as they assess demand, some market researchers also stimulate it among those they interview – this technique may also be useful during implementation;<sup>126</sup>
- *Using basic business education to stimulate awareness and understanding of advanced BDS:* some organizations are modifying their basic business education curricula with the larger BDS market in mind. During training they highlight how various types of business services can help clients address critical concerns. They help clients see services as a valuable commodity, rather than a public good and they develop exercises in which clients identify services and go out and try to find them.<sup>127</sup>

<sup>126</sup> Nussbaum and Miehlabrad, SEEP/PLP, 2004

- *Using Media Services, Business-to-Business radio programs and magazines:* SEs who have access to SE radio programs continue to cite the information they receive as the main reason they listen. They are most appreciative of information about market opportunities, trade shows, and supply sources. The programs also play a critical role in stimulating SE awareness of and commitment to addressing key local policy and regulatory issues. To a lesser extent, the programs also facilitate links in cross-sector business service markets.<sup>128</sup>
- *Using existing NGOs and trade associations to reach target populations:* Practitioners report that reaching the poor through existing organizations and information channels is faster than developing new infrastructure.<sup>129</sup>

Demand stimulation tools are also being used in tandem to create synergy among different BDS market interventions – radio shows promote business-to-business trade fairs, and business opportunities arise at trade fairs that can be further promoted on the radio.

Practitioners report struggling with the timing of their demand stimulation and supply development initiatives. They say there is a need for a match between a supplier's offer and SE demand in order to effectively and efficiently stimulate demand. They also find that it is critical to work on the supply-side to develop services and providers who can respond to the demand that is stimulated prior to or while stimulating demand.<sup>130</sup>

### 6.1.2 Attracting Providers

A critical supply-side challenge is engaging providers in the program and convincing them to serve SEs. Most implementers report difficulty in persuading private businesses that targeting SEs or improving services to SEs is a profitable business opportunity. Facilitators are beginning to look at

**Key Question: Which should come first - stimulating demand or building supplier capacity?**

*A key error some implementers make is to promote initiatives widely before: a) services are adequately developed and b) suppliers are ready to respond to SE demand. It is a challenge to attract sufficient suppliers to develop services for SEs if there is little evidence of widespread demand. How can programs find the right combination of demand stimulation and supply development to jump start the market?*

BDS providers not as fellow development partners, but as businesses that the program can help develop. The providers in turn see the facilitators as business partners, which puts pressure on facilitators to have something tangible — an offer — to attract providers into engaging in the opportunity to reach SEs.

Implementing agencies are using a range of techniques to identify providers and promote program opportunities:

- Interaction during market assessments and information gathered from market assessments;
- Industry workshops and seminars;
- Business-to-business trade fairs and media; and
- Advertisements.

These strategies are helpful in uncovering “hidden” private sector providers that development organizations can easily overlook when conducting broad market scans.

<sup>127</sup> Swisscontact Kenya, SEEP/PLP, 2004; Tanburn, ILO Sri Lanka, 2004; Nourse, ARC, 2003

<sup>128</sup> Anderson, ILO Media evaluation, 2004

<sup>129</sup> Bista, IDE, 2004

<sup>130</sup> Swisscontact Kenya, SEEP/PLP, 2004

## Example 34: Stimulating Demand

**During Market Assessment:** EDA in India has assessed the market for technical training in a part of India that has received poor quality and small-scale subsidized technical training. During the market assessment, EDA asked SEs to make a hypothetical choice between a free low-quality school for their children or a moderately priced but higher quality school. All reported that they would choose the higher quality school. EDA then asked if they would make the same choice with regard to technical training for their businesses and received similar results.

Kumar, EDA, 2004. For more information, see [www.edarural.com](http://www.edarural.com), [www.seepnetwork.org](http://www.seepnetwork.org) (PLP) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

**Using “Action Learning” Techniques:** The Swisscontact facilitation tool, JIGUNDULIE (discover for yourself) is a peer-learning opportunity using problem identification and solving techniques, offered to SEs in partnership with MFIs. With the facilitator providing some basic information as introduction, participants take turns identifying business problems and their causes, suggesting solutions to each other and committing themselves to take specific action. Over the course of several weeks, participants return to discuss how the solutions are or are not working out. Swisscontact adapted Action Learning methods to stimulate demand for commercial BDS by providing information about business services as a business solution and exposed SEs to BDS providers in a trade fair.

Swisscontact, 2004.

For more information email [swisscontact@wananchi.com](mailto:swisscontact@wananchi.com) and [set@wananchi.com](mailto:set@wananchi.com) or see [www.seepnetwork.org](http://www.seepnetwork.org) (PLP) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

**Using Existing Institutions:** An ILO test of training promotion strategies in Sri Lanka found that working with a large, indigenous NGO that reached poor villages was more effective than working with a trade group that was trying to expand to rural areas. IDE Nepal reports that, although their local NGO partners did not make good facilitators in a short time period, they were critical to IDE understanding and communicating with rural target communities. Cooperating with partner organizations in social mobilization and working with already functioning groups of farmers has generated synergy in the project area, strengthening collaborative relationships and improving the cost effectiveness of project activities.

ILO Sri Lanka, forthcoming at <http://www.siyblanka.com/> and see [www.bdsknowledge.org](http://www.bdsknowledge.org) and IDE Nepal, [www.ideorg.org](http://www.ideorg.org)

**Using Media:** By channeling basic business education messages through the common entertainment format of comedy shows distributed on VCDs in Cambodia, ILO was able to reach at least 40,000 people in a month, since 10,000 (official) copies were sold on a commercial basis

Tanburn email correspondence, ILO, 2004. For more information, see [www.bdsknowledge.org](http://www.bdsknowledge.org)

Without a clear understanding of the benefits of the program, however, providers can quickly become disengaged. Implementing agencies need to be pro-active in identifying an “offer” to providers. The SEEP Learning Network for USAID funded IGP programs used a tool in a recent workshop to identify their offers to the different providers

involved in the programs. Originally used to help programs operating in different sectors understand common strategies and challenges, this tool shows promise for helping them clearly plan their approach to the range of different providers they will be working with, particularly for sector-based programs. Figure 5, below, illustrates the key players

in a Mercy Corps Azerbaijan program and program offerings to attract them.<sup>131</sup> The categories of key actors can be modified to fit any program and the questions asked can be changed or augmented to

plan or analyze program progress and brainstorm solutions to challenges. Note that target SEs and other facilitators are included to understand the motivation of all players to engage.

### Example 35: Outreach to Providers

#### ILO BDS Zambia

The ILO, with Sida funding, set out to develop BDS markets for SEs in Zambia to increase their access to operational and strategic support services such as business information, linkages and access to markets which SEs need in order to grow. The initial program strategy replicates, and adapts to the Zambian context, the ILO work in BDS elsewhere in Africa by assisting private sector small business radio programmes, Internet business portals, business-to-business newspapers as well as exhibitions for business linkages. A three-stage process was used to identify private sector project partners and develop smart partnerships:



**Initial market assessments:** These focused on understanding the operating environment for this type of media initiative in Zambia and broadly assessed the supply capacity in Zambia. Project staff interviewed owners and staff of radio stations, publishing companies, Internet Service Providers and trade fair organizers. This initial contact peaked provider interest, and provided the ILO with information on providers' wants and needs, as well as their strengths and weaknesses.

**Industry workshop:** The ILO held workshops to share their market assessment findings. These workshops served to deepen provider and ILO knowledge of each other, to generate further interest in the initiative, and to help the ILO refine its understanding of provider capacity and interest.

**Advertisements:** When the ILO was ready to select providers, they advertised a specific offer in the newspaper. This served to formally publicize and legitimize their selection process and to ensure that any interested parties who had not heard informally about the program would get an opportunity to be involved.

The ILO was able to select high quality providers from a pool of promising applicants to the program.

Muzira, ILO Zambia, 2004

For more information, email Tapera Muzira ([muzira@bdszambia.com](mailto:muzira@bdszambia.com)) or see [www.bdszambia.com](http://www.bdszambia.com) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

<sup>131</sup> USAID-SEEP IGP learning network internal documents, 2004

**Figure 5: Mercy Corps Azerbaijan – Key Actors in the Veterinary and Production Advice Service Market in the Southern Regions of Azerbaijan**

**Market facilitation strategy:** The Mercy Corps facilitation strategy is to increase business interaction and transactions between the local service providers and livestock producers by building service provider entrepreneurial capacity, forming farmer clusters, and raising their awareness of the benefits of veterinary and animal preventive care actions.  
SEEP IGP Learning Network

Key Actors	Why are they important in your program?	What was your offer to them?	What was their initial reaction??
1) Clients – livestock producers and poultry raisers	The smallholder livestock and poultry raisers are the primary targets of the program. They are producers of meat, dairy, and other livestock-related products concerned with meeting their domestic as well as final consumer demands for these products. They are the primary users of the veterinary services.	Mercy Corps facilitates development of farmer clusters in the villages and links them with veterinarians and providers who raise their awareness of services and advise them on service usage. Links are also made with other business service providers and sector players to increase awareness of trends in the livestock market.	<b>Reaction:</b> Most villages are very positive and excited and farmers and local municipalities very responsive. However, some clusters expected financial aid from the program to use and apply veterinary services/ advice and fund preventive actions.
2) Private service providers	These private sector, individual veterinarians and state employees (who also provide services privately) and veterinary drug stores are the ones who provide one of the most important BDS to small farmers - treatment, vaccination, and breeding & feeding advice and assistance. According to Mercy Corps estimates, on-going access to these services can result in reduced production costs for the farmers by 7–45%.	Mercy Corps intervention on this side is to develop the capacity of the service providers to improve their services to farmers and help expand their client base and offer new services. The program also helps the veterinarians form local networks to help them address common industry issues.	<b>Reaction:</b> A mixture of scepticism and positive reactions. The relatively young service providers are responsive and proactive and older veterinarians (who worked under the Soviet system) were very sceptical and demanded a salary to participate in vet network activities. However, most became enormously excited about developing the new bovine artificial insemination services.
3) State Veterinary Departments	The State Veterinary Departments are the only providers of state-mandated vaccinations and controllers of meat product quality sold at local bazaars. This body is also fully responsible for preventing mandatory vaccinated animal diseases in the area.	Collaborating with the program helps them meet their policy objectives (such as educating villagers on animal diseases, preventive actions, vaccination benefits, etc.) without heavy spending of very limited state budgets.	<b>Reaction:</b> Very sceptical and worried as they think the program may expose the department's inefficiencies. At the same time, they are very helpful in providing resources for program activities.
4) Other sector players – meat intermediaries and milk collectors	<b>Intermediaries or resellers</b> purchase animals from farmers travelling to the villages or near bazaar areas and reselling them at bazaars or to the network of local restaurants or canteens. <b>Milk collectors</b> travel from village-to-village and to large farms to purchase milk for the local and capital dairy processing enterprises. Opportunities exist for farmer clusters to interact with milk collectors and resellers to supply larger volumes and get better prices.	The program has not yet directly approached the <b>meat resellers</b> . The vets who provide market information and ensure the health of sold/purchased animals made most of links between the resellers and farmers. <b>Our offer to milk collectors</b> was to link them to the farmer clusters that produce an adequate daily volume of milk and to help them expand their supply chains.	<b>Milk collectors</b> are very happy about linking with additional milk supply sources.

This demonstrates that implementing agencies are using a combination of effective marketing and outreach activities and putting together an appropriate “offer” to attract and engage providers in market development initiatives that are closely coordinated with demand stimulation.

### 6.1.3 Selecting Providers

The vision in market development initiatives is to develop or at least influence a range of competing providers so that SEs have a choice of business partners. In practice, implementing agencies work with between one and seventy providers. What determines agency choice in the number of providers to work with at different program phases in different sized markets? How do agencies determine who to work with? This section considers how implementers are grappling with these questions.

On the surface, the issue is the number of providers a program decides to work with. However, a deeper, more significant issue is how many providers will be serving SEs in a given market and will the SEs have a choice of competing providers or be stuck in a monopolistic market? This issue is more important when considering whether SEs have access to competing input suppliers and buyers, or whether programs are reinforcing monopolistic trends in local markets.

Most implementing agencies report that offering SEs a choice of providers (and input suppliers and buyers) is ideal and an outcome they eventually hope to achieve, but several factors limit agency capacity to do so in the short or medium term:

- **Project phase:** When implementers develop new services and test new markets and business models for service delivery, they prefer to work with one or a few providers intensively and then replicate effective services and models.<sup>132</sup>

## Example 36: Attracting Providers

### Mercy Corps in Azerbaijan

The market for veterinary services in rural Azerbaijan typifies that of many rural environments. There are qualified vets in the country, but they are concentrated in urban areas and their services are usually too sophisticated, expensive, or inconvenient for poor rural farmers. Rural farmers do not regularly use prevention services, lack information about improved animal husbandry techniques, and only use services when animals become ill. The result is poor production quality and quantity, high mortality rates, and low profitability. These production issues cause farmers to have trouble attracting buyers to their areas and thus, they also experience marketing problems. In the first 18 months of operation, Mercy Corps worked with 34 veterinary service providers, 70% of them university graduates, the remainder being para-vets. Mercy Corps reached approximately 1,400 rural farmers.

How did they attract the vets? The initial market research identified vets by advertising in local newspapers and placing fliers in state veterinary departments, labs, drug stores, and other places vets frequent. The program attracted them by describing the business opportunity of selling their services in rural areas and offered a one-time, free technical and managerial training (provided by private sector trainers such as other vets and drug dealers.) Mercy Corp also explained how they could stimulate demand and get access to farmers. They formed 30 farmer clusters to promote the importance of preventative services and the availability of affordable, appropriate, and convenient services. Once the vets and the villages were prepared, Mercy Corps linked the two. Since then, many vets have been carrying out independent marketing activities and have identified and helped deliver new services such as artificial insemination for improved breeding.

Abullayev, Mercy Corps, 2004

For more information, see [www.bdsknowledge.org](http://www.bdsknowledge.org)

<sup>132</sup> Griffith, ITDG, 2004; Lusby, AFE, 2004; Knopp, Deloitte Emerging Markets, 2004; Tanburn, ILO-FIT, 2003

**Key Question: Is it better to work with many small-scale SE providers or with a few large-scale providers?**

*On the one hand, some agencies promote small-scale SE providers, such as lead artisans or farmers, para-vets, and other individual entrepreneurs who share geographic location, culture, language, and cost structure with target SEs. On the other hand, there is increasing attention on the poor as a viable market opportunity and some large corporations are proving adept at marketing to the poor. It is more efficient to work with one large provider who brings more financial and technical resources to the program, however, they tend to establish monopolistic market channels. What scale or provider is best, or does the local market always dictate?*

- **Market size and maturity:** Some markets are very small and weak or young and programs struggle to identify even a handful of providers willing to become involved. One offer for providers is that of a guaranteed market territory for the new services they invest in.<sup>133</sup>
- **Scale of existing providers:** In some markets, existing providers are large-scale and can reach many SEs. They also may have a good deal of influence with peers. In such cases, some programs choose to work with one large supplier to efficiently reach large numbers of SEs, hoping that the success of the one will induce others to copy.<sup>134</sup>
- **Weak providers and markets and limited program resources:** In some situations providers require intensive capacity building or sectors require intensive facilitation of providers up and down the value chain. With limited resources,

programs then restrict the number of providers they work with at each level of the chain.<sup>135</sup>

In most cases, agencies that work with only a few providers or providers in non-competitive situations hope that more competitive markets will emerge eventually, either through program replication or copying in the marketplace.

With fairly limited funds, a few agencies are able to replicate pilot business models among competing providers during the life of short-term projects.<sup>136</sup> What allows them to do so?

- Existence of numerous providers in the market;
- Strong offer to the providers;
- Simple, demonstrated, or proven business model or short time-frame for testing the model; and
- Small range of services or services that can be bundled and delivered through a single provider.

In one case, the program did not offer direct services to providers, but rather, facilitated provider associations, demand stimulation, and linkages to potential customers through trade fairs and business directories.<sup>137</sup>

When copycats emerge, what allows them to do so?

- Existence of competing or potentially competitive providers in the market;
- Strong incentives for providers – both market opportunities and SE demand;
- Simple, demonstrated, or proven business model that is also easy entry; and
- Service sophistication matches market provider capacity to adopt them without technical assistance.

When implementing agencies need to select a small number of providers to work with, there are two paths with different implications. Picking winners is when a program selects a few of the best, active providers in the market – this can lead to market

<sup>133</sup> Fisher & Moon, ApproTEC, 2004; Knopp, Deloitte Emerging Markets, 2004

<sup>134</sup> Tanburn, ILO-FIT, 2003; Knopp, Deloitte Emerging Markets, 2004; Muzira, ILO, 2004

<sup>135</sup> Muzira, ILO, 2004; Lusby, AFE, 2004

<sup>136</sup> Abdullayev, Mercy Corps, 2004; Ryazanov, Helvetas, 2004; Bista, IDE, 2004

<sup>137</sup> Ryazanov, Helvetas, 2004

distortion and resentment among other providers. Working with market leaders results from a situation in which only a few providers are willing to work with the project. The project engages them and then welcomes newcomers as they become interested. In this situation, a few market leaders deserve the edge in the market for taking the initial risk and the project makes the same fair offer to all providers. In both cases, practitioners are mitigating the risks of working with a few providers by creating transparent selection processes and communicating as clearly as possible with potential providers about the project's approach and long-term intentions.<sup>138</sup>

### 6.1.4 Strengthening Supplier Capacity

Once BDS programs have attracted and selected providers to work with, what strategies do they use to develop their capacity? In most cases the suppliers are private sector businesses and the approaches to capacity building span a wide range of business development strategies from enhancing business links, strengthening skills, developing new products and services, etc. Some of the more innovative approaches are highlighted below. Note that the term providers refers to commercial BDS suppliers who sell services to SEs or provide services paid for by a third commercial party, and/or input suppliers or buyers who embed services in other market transactions.

#### **Business Linkages**

Given the plethora of sub-sector or value-chain development initiatives, forming and strengthening business linkages is the most common provider development strategy in current BDS programs. New techniques to link businesses and strengthen business links include:

- Local matching services through databases and other IT-based systems and local business-to-business trade fairs;<sup>139</sup>
- Improving trust in market relationships by developing model contracts between providers

#### **Key Question: Can too many providers spoil the market?**

*Many agencies support only a few providers for fear of there being too much competition in small, emerging markets. The risk is that if too many providers enter the market, then the price competition will drive down service quality. In the case of programs attempting to improve the competitiveness of entire sectors by embedding services in buyer business deals, it is important that buyers have sufficient margins to cover the cost of these services. If the market becomes too competitive, services are eliminated, quality decreases, and sector competitiveness can spiral downward. Most implementing agencies agree that SEs having a choice of providers, input suppliers, and buyers get better market opportunities and business deals. How many providers are too many in one market?*

and SEs, training providers and SEs (usually in groups) on the importance of these contracts; and making personal introductions;<sup>140</sup> and

- Helping providers develop business models that reach out to SEs, such as the e-choupal system in India. This often involves establishing or strengthening business linkages up and down the value-chain.<sup>141</sup>

Due to the complexity of business links that can exist in one program, a tool is emerging to help practitioners identify those they will target (Figure 6). The tool has potential for additional use to describe the services that are delivered through the business linkage, the strengths and weaknesses of the linkage, and the "offer" the facilitator will make to the provider in the linkage.

<sup>138</sup> Muzira, ILO, 2004; Abdullayev, Mercy Corps, 2004; Tanburn, ILO-FIT, 2004; Knopp, Deloitte Emerging Markets, 2004

<sup>139</sup> Knopp, Deloitte Emerging Markets, 2004

<sup>140</sup> Ibid

<sup>141</sup> Annamalai & Rao, Digital Dividend, 2003; Knopp, Deloitte Emerging Markets, 2004

**Training and Technical Assistance**

Training and technical assistance form a core component of many supplier development initiatives. Some new ways that facilitators are delivering training and TA include:

- Joint brainstorming sessions, design workshops, or participatory service development exercises that help providers learn how to design products or services;<sup>142</sup>
- Provision of information about latest standards, market trends, or production techniques that could be used by providers and/or passed on to SEs;<sup>143</sup> and
- Development of technical materials to guide providers in delivering services and running a business serving SEs.<sup>144</sup>

Although some programs are still engaged in training providers to assess the market and develop their own services to target to SEs, most now provide targeted, focused training and technical assistance to help providers deliver specific services.

**Enterprise Creation**

Often, there are few providers in very weak markets. In these situations, facilitators find themselves inducing entrepreneurs to create new business service enterprises that can meet SE demand for services. In older programs, a typical pattern was to create social enterprises using venture capital to launch a new cooperative or NGO-owned businesses. Increasingly, facilitators are identifying fledgling business models pioneered by entrepreneurs, and convincing other entrepreneurs to copy the model.<sup>145</sup> These new entrepreneurs are

**Figure 6: Matrix on Business Relationship Categories<sup>146</sup>**

BUSINESS RELATIONSHIP CATEGORIES						
	Small B	Large B	B Assoc/Coops	Gov't (as buyer)	BSP	Consumer
Small B						
Large B						
B Assoc/Coops						
Gov't (as buyer)						
BSP						
Consumer						
	Small B	Large B	B Assocs/Coops	Gov't (as buyer)	BSP	Consumer

*Instructions: Start from the top (small business) and work your way to the bottom (consumer), and use an X to mark existing relationships on which your program is focusing. Use a Y to mark new relationships on which your program is, or will focus.*

<sup>142</sup> Lusby, AFE, 2004

<sup>143</sup> Boquiren, SDCAsia, 2004; Knopp, Deloitte Emerging Markets, 2004

<sup>144</sup> Lusby, AFE, 2004; Tanburn, FIT SEMA, 2004

<sup>145</sup> Jones & Shaikh, MEDA-ECDI, 2004; Kumar, EDA, 2003 & 2004

<sup>146</sup> Bear, SEEP/USAID IGP, 2004

### Example 37: Training and Technical Assistance to Providers

#### AFE Ghana

With support from DFID, Action for Enterprise (AFE) implemented a project to promote technical assistance, training, and other business services to small-scale enterprises through market intermediaries such as export companies, who provide services at their own cost because it makes good business sense for them to do so. In response to demands from an international buyer, one of the export companies was faced with the challenge to develop and produce a rectangular straw basket for export. The producers needed to learn how to weave and produce these baskets in a cost effective manner (factors preventing the export company from meeting the demands of his client.) With these objectives in view, AFE assisted the company to organize a capacity-building activity whereby selected weavers (MSE producers) were brought together to work as a group to develop the new baskets. This group work enabled the weavers to share knowledge and at the same time learn new skills from each other. This created a model that the export companies could replicate in future product development initiatives.

Lusby, AFE, 2004

For more information, see: [www.actionforenterprise.org](http://www.actionforenterprise.org) and [www.bdsknowledge.org](http://www.bdsknowledge.org)

usually more advanced members or leaders of the target SE market. In other situations, facilitators advertise for sophisticated entrepreneurs or businesses<sup>147</sup> and then pilot test the business model with one or a few of them and (plan to) replicate the model with more suppliers. There is less focus now than in the past on capitalizing these businesses and more focus on providing technical advice about the business model and mentoring entrepreneurs as they venture into new markets and businesses.

### Example 38: Enterprise Creation Based on Isolated Existing Business Models

#### Crecer Con Su Empresa in Honduras

Crecer Con Su Empresa, (Grow with Your Enterprise) is a multi-media business helping microenterprises in Honduras access information and technical skills. The founder was running his own small business when he decided to address the information and training needs of entrepreneurs like himself with a magazine, radio program, web-site, and trainings. The magazine is more technical and hard-hitting than other free business-to-business magazines and it attracts exclusive advertising. The radio program is interactive, responding to SE needs, and it helps the business stay in touch with the market. The training courses are targeted to address specific issues. The business has run profitably for two years and has never received development assistance. To date, no development agency has attempted to replicate Crecer Con Su Empresa, but it is the type of initiative that facilitators look for to document and replicate in order to strengthen BDS supply.

de Wildt, Marieke de Ruijter, ILO, 2003

For more information, see

<http://www.creecerconsuempresa.com.hn/cultura.html>

### *Strengthening Secondary Service Providers & Markets*

In somewhat stronger markets, many facilitators attempt to achieve high outreach by developing secondary service markets. In these markets, BDS providers are the customers of commercial business services. There are at least three models of this type of secondary service market in current BDS programs:

<sup>147</sup> Abdullayev, Mercy Corps, 2004

- BDS providers purchasing commercial BDS from other providers;<sup>148</sup>
- Input suppliers and/or buyers purchasing commercial BDS;<sup>149</sup> and
- Input suppliers and/or buyers receiving embedded services from their input suppliers and/or buyers.<sup>150</sup>

Facilitators are finding it important to distinguish between these secondary markets and those that directly serve SEs for three reasons. First, if programs do not recognize the existence of these markets, their facilitation activities may distort existing secondary markets. Second, by recognizing and developing these markets, programs can enhance outreach, cost-effectiveness, and sustainability. Third, these markets may have

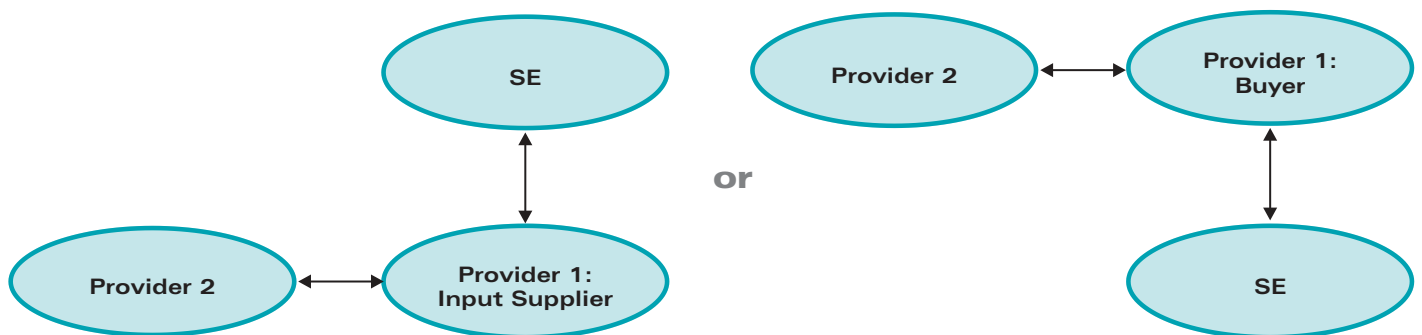
Figure 7 illustrates these three models.

**Figure 7: Developing Secondary BDS Markets**

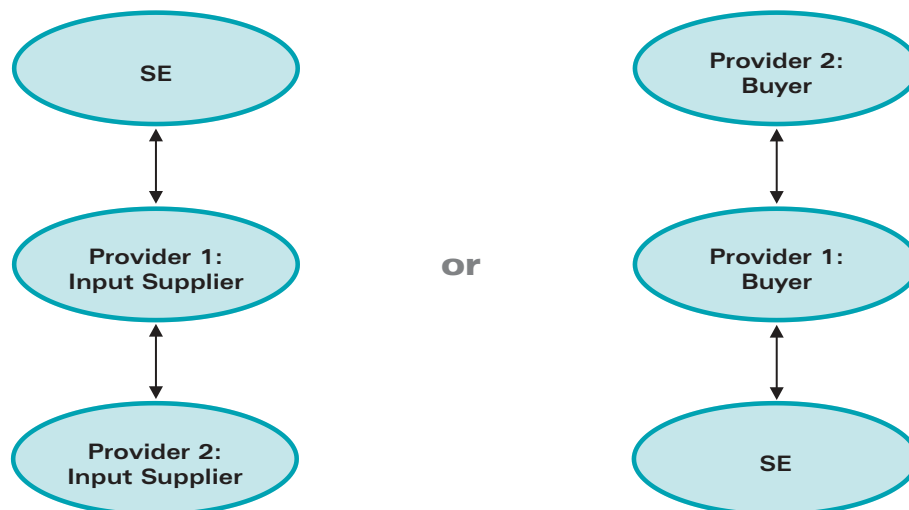
**Secondary BDS Market - Commercial**



**Secondary BDS Market - Commercial and Embedded**



**Secondary BDS Market - Embedded**



<sup>148</sup> Abdullayev, Mercy Corps, 2004; Tanburn, ILO-FIT, 2004; Anderson, ILO-FIT, 2004

<sup>149</sup> Manaktala, IDE, 2003; Pollack, ATA, 2003

<sup>150</sup> Lusby, AFE, 2004; Abdullayev, Mercy Corps, 2004

different opportunities and constraints than the markets serving SEs. For example, exporters (who embed technical advice to SE producers) may have a strong demand for new types of products, in a market in which producers are traditional and less open to changing production methods and product types. The stronger the market, the more opportunities there are for developing these secondary markets.

## 6.2 Managing BDS – Institutional Roles

As donors and practitioners increasingly recognize the importance of local ownership in developing BDS markets, they are expanding the range and types of partnerships they use to implement interventions. This section discusses recent initiatives and preliminary lessons learned in program partnerships with local government and corporations. It also identifies two key strategies in managing a facilitation role and innovations in how donors are managing market development projects.

### 6.2.1 The Role of Local Governments in BDS Programs

The donor guidelines on BDS encourage governments to discontinue direct service provision. However, in the last several years there has been increasing recognition that governments have an important role to play in the development of BDS markets. Figure 8 provides some examples of the roles that governments are playing in BDS markets.<sup>151</sup>

## Example 39: Strengthening Secondary Markets for Information

### GTZ in Central America



Through a regional initiative, GTZ, with support from BMZ, has helped establish a web-based information system for 5 Central American countries. The system caters to two target groups: 1) SEs and 2) BDS providers and SME support institutions (both public and private). The website for the second group includes a variety of links to updated information about national legislation, imports and exports, and

background information on topics such as gender, SE promotion, and cleaner production. Through this initiative, GTZ is developing the markets for information both to SEs and to BDS providers and institutions which serve SEs. Over the past year, the website has received, on average, just under 25,000 visits per month. National partner consortiums gather information, manage website content and, increasingly, fund the system through their own budgets and sales of sponsor advertising.

Kittel, unpublished, GTZ, 2004

For more information, email Doris Becker ([doris.becker@gtz.de](mailto:doris.becker@gtz.de)) or see [www.infomipyme.com](http://www.infomipyme.com)

Recently, several agencies have worked with local governments as partners in market development (either for consumer products/ services or business services).<sup>152</sup> Their experience illustrates the potential of working with government on local regulatory issues affecting SEs as well as required services such as licensing. However, there has been less

<sup>151</sup> Hitchins, et al, 2004

<sup>152</sup> For example, GTZ in South Africa, Helvetas in Kyrgyzstan, and Swisscontact in Indonesia

**Figure 8: Alternative Roles Played By Government in BDS Market Development**

Country	Issue	Action
Argentina	Low quality standards in export sector	Link public standards agencies with associations
Zimbabwe/ Chile	Poor market orientation in vocational training	Combination of financial stimuli and statutory change and liberalization to encourage private provision
UK	High compliance costs	Enhanced public information services to SMEs and providers of business services to provide greater clarity and guidance
South Africa	Disconnects between public procurement standards and SMEs	Standards organization works with BDS providers to enhance broker links between firms and public sector buyers

success with local governments taking on BDS market facilitation roles. The ADB-funded technical assistance project, *Strengthening Business Development Services*, experienced the following constraints when engaging local governments in a BDS market facilitation role in 4 districts in Indonesia:

- “Despite the fact that all districts have considerable budgets for SME support, there is a lack of political motivation or bureaucratic incentives to relinquish control over direct implementation and delivery activities;
- Inadequate capacity to identify, select, and work flexibly with private BDS providers;
- Generic SME support programs with little grounding in analysis of SME constraints.”

The technical assistance report concluded that, “the constraints that led the SME development community to question the ability of government to play a direct role in delivering BDS, appear equally to inhibit government’s ability to facilitate BDS.”<sup>153</sup>

### 6.2.2 Corporate Partnerships in BDS Facilitation

As BDS programs focus more on incorporating SEs into global markets, some experiment with corporate participation in market facilitation activities.<sup>154</sup> Corporations seem willing to contribute to market facilitation when the development of the market benefits them. Attracting corporate participation to market facilitation has a number of benefits for programs:

- Leveraging program resources to achieve more impact on markets;
- Access to corporate expertise and capabilities; and
- Greater potential for sustainability as facilitation functions are partly taken on by the private sector.

<sup>153</sup> Swisscontact/GFA, ADB, 2003

<sup>154</sup> For example Deloitte Emerging Markets in Kenya, GTZ in Vietnam and Thailand, and MPDF in Vietnam

## Example 40: The Role of Local Governments in Market Development

### GFA and Swisscontact in Indonesia

In an ADB-funded technical assistance project, GFA and Swisscontact engaged local governments in 4 districts of Indonesia as partners in market development. The facilitating organizations presented local governments with the results of research on both business services and the business environment for SMEs. The facilitators then assisted the local governments to develop action plans in three areas: regulatory review, one-stop shop for business licensing and other government services, and BDS market development.

In the area of regulatory review, the facilitators trained local government units in Regulatory Impact Assessment (RIA) and helped them review one or two selected regulations. While considerable capacity building was needed, results were positive. For example, the local Government of Sragen has removed a number of direct levies and regulations, such as anti-disturbance licenses, and is increasingly focusing on improving the investment climate for businesses. Local budget revenues increased from IDR 7 billion in 2002 to IDR 47 billion in 2003.

For the area of one-stop shops (OSS), the facilitators provided the local governments with information on the current status of OSS, capacity building, study tours, assistance with developing and implementing action plans, and a review of progress. All local governments made considerable progress in streamlining licensing and services. For example, the number of businesses applying for licenses has increased 70% in Sragen over a year and the time for formalizing a business has decreased from several months to 14 days.

In the area of BDS market development, the local governments had difficulty developing action plans. Those that included conducting an inventory of BDS providers had trouble finding providers. The facilitators traced these problems to a lack of understanding about BDS. They noted, “the working group members were searching for formal institutions – preferably with a sign stating ‘BDS provider’ over the door — rather than trying to identify appropriate solutions to SME problems — whatever their legal form or structure.” The facilitators had more success developing BDS markets on a provincial level by identifying and working with private sector providers themselves. The recommendation to local governments: rather than trying to create or support service providers directly, use existing budgets for SME promotion more efficiently by assuring participation of SMEs and service providers in program planning and outsourcing service delivery to existing service providers.

Swisscontact/GFA, ADB TA Midterm Report, 2003.

For more information, see [www.swisscontact.or.id](http://www.swisscontact.or.id) or <http://www.adbtasme.or.id/>

GTZ is actively pursuing corporate partnerships in BDS market facilitation in several programs in Asia and is working with corporations to tackle constraints in particular BDS markets, such as:

- SE lack of awareness of BDS,
- SE lack of information on BDS,
- Poor quality supply of BDS, and

#### ■ Regulatory constraints for BDS.<sup>155</sup>

GTZ works closely with specific private sector companies for a limited time, jointly conducting interventions to address market weaknesses and sharing the costs.

<sup>155</sup> Finkel, GTZ, 2003

## Example 41: Corporate Partnerships in BDS Market Facilitation

### GTZ in Vietnam

In Vietnam, GTZ partnered with TÜV Rheinland, a German company with 2 offices in Vietnam. TÜV Rheinland's strengths in the BDS market are auditing and certification for international quality and environmental standards such as ISO9000 and 14000. The company saw Vietnam as a growing market for auditing and certification for social standards. To expand the market for such services, the firm needed to increase local companies' awareness of social standards required by customers in the US and Europe and strengthen its network of professional business consultants. Together, TÜV Rheinland and GTZ Vietnam co-financed the project and conducted the following activities:

- Training of 60 local business consultants including development of training materials;
- Awareness campaigns for consultants, institutions and companies via workshops, internet and leaflets;
- Auditing of 6 pilot companies (costs covered by the companies themselves).



The partnership was a win/win situation. By developing the market for social standards audit and certification services, GTZ contributed to their program goal – improving the competitiveness of local SMEs and TÜV Rheinland was able to sell more auditing and certification services.

Finkel, GTZ, 2003

For more information, email Thomas Finkel ([thomas.finkel@gtz.de](mailto:thomas.finkel@gtz.de)) or see [www.gtz.de/ppp](http://www.gtz.de/ppp)

### 6.2.3 Effective Facilitation Roles and Approaches

Clearly defining an appropriate role for a facilitator for each project and in each market continues to be one of the most difficult challenges in BDS market development. On one hand the facilitator is an outside entity that will withdraw from the market when a project ends. On the other hand the facilitator must engage market actors with a business-like offer in order to improve the

effectiveness of the market. A few emerging tips for managing this role are presented below.

**Flexibility:** Some of the ways projects ensure they have sufficient flexibility to respond to markets are:

- Using framework contracts which define broad programs rather than individual projects and describe strategic areas, the number of different markets, operating principles, overall objectives, and total resources rather than attempt to predict specific activities or budgets;

- Requiring more detailed planning and analysis throughout the life of a project, including tighter budgets and indicators;
- Continuing to conduct market research as projects proceed to determine the scope for, and nature of, additional interventions;
- Allowing projects to be innovative in their response to new market opportunities as they arise during project implementation; and<sup>156</sup>
- Maintaining an explicit feedback loop throughout implementation in which experiences and results from each activity are analyzed and lessons learned are fed into interventions.<sup>157</sup>

**Financing Partners:** While projects emphasize technical assistance over funding, many find that a

small amount of money is still needed to induce partners to change. Some suggested guidelines for subsidies or small grants to partners include:

- Negotiate as much contribution as possible from the partner;
- To evaluate interventions, use the leverage ratio of facilitator to partner expenses, plus any fees generated from SMEs;
- Avoid transaction subsidies unless associated with a specific trial leading to short-term commercialization; and
- Administer and disburse cost sharing on a “line item” basis to avoid cross-subsidization.<sup>158</sup>

## Example 42: Flexibility in Program Management

### Swisscontact DESIDE in Peru

The DESIDE program in Peru, a 10-year initiative coming to a close this year, is implemented by Swisscontact with funding from SDC. The aim has been to promote economic growth and SE competitiveness by making BDS markets, particularly for microenterprises, more dynamic. Program management and donor oversight exhibited flexibility throughout the project. Examples of responses to opportunities and changes in program strategy that this flexibility made possible include:

- Building on initiatives of government and other donor agencies, as well as their own activities, to promote a market-based approach to small enterprise development at the policy level;
- Under the model of promoting the establishment of Economic Development Centers (EDCs), changing from a primary focus on NGOs to a primary focus on private entrepreneurs as owners of EDCs;
- Changing from a focus on EDCs as the main mechanism for developing BDS markets to more widely disseminating methodologies for promoting the start-up and growth of microenterprises; and
- Partnering with a wide range of institutions, including national and local government agencies, other development programs, associations, and private sector players at different times for different purposes over the life of the project.

Reichmuth, Swisscontact, 2004

For more information, see [www.swisscontact.ch](http://www.swisscontact.ch)

<sup>156</sup> Bear, et al, SED Journal Vol 14, No. 4, 2003

<sup>157</sup> Kumar and Sinha, SEEP/PLP, forthcoming, 2004

<sup>158</sup> Tomecko, GTZ Nepal, 2003

## 7. Performance Assessment and Impact Evaluation – Using Information for Progress

Performance assessment remains one of the most challenging aspects of BDS market development programs. As the field matures, more organizations are using specific and common indicators to track performance. The 2003 Update reported this trend, which has continued in 2004. Some programs are also making progress in using monitoring and performance assessment systems to inform and support management decisions that improve the effectiveness of projects. However, the use of quality performance indicators is neither systematic nor widespread – few impact evaluations are available, many evaluation systems have methodological deficiencies, and causal links between programs and ultimate goals are difficult to prove. Therefore, it remains difficult to draw convincing conclusions about the progress of BDS market development in reaching development goals such as job creation and poverty alleviation. This deficiency in monitoring and evaluation systems is becoming more critical as the BDS field attempts to communicate with, and make its case to, other development professionals. A few initiatives are underway globally to address this challenge.

### 7.1 Improving and Using Monitoring and Performance Assessment Information

Although advances in measuring the ultimate outcomes of projects have been slow in coming, a number of projects are making improvements in gathering and using performance information to

inform project management decisions. Many project managers note that effective market facilitation requires almost constant adjustments to their approaches and they need a constant supply of information on the outcome of project activities such as the numbers of providers supported and transactions between providers and SEs for commercial business services.<sup>159</sup> Projects are also conducting more frequent small surveys to determine market level statistics like customer satisfaction, repeat use, and the percent of SEs acquiring specific commercial business services.<sup>160</sup> This goes beyond monitoring the progress and results of program-supported providers to include gathering information on providers, SEs, and other private and public actors involved in markets that are not directly involved in the project.<sup>161</sup> Some projects also regularly gather qualitative feedback from partner institutions, BDS providers, and SEs to inform project level decisions.<sup>162</sup> Project managers are finding ways to use monitoring and performance information more regularly and more systematically to make both small adjustments and major changes in project strategies.<sup>163</sup>

### 7.2 Defining the Link between BDS Market Development and Poverty Alleviation

With the increasing focus of governments on achieving the Millennium Development Goals, there has been a renewed call to evaluate the impact of BDS market development programs on poverty.

<sup>159</sup> For example: Knopp, Deloitte Emerging Markets, 2004; Idrovo and Boquiren, SDCAsia, 2004; Schmitt-Degenhardt, GTZ, 2004

<sup>160</sup> Many projects funded by the USAID MED office are required to measure these indicators regularly.

<sup>161</sup> Magistro et al, IDE, 2003; Nussbaum and Miehbradt, SEEP/PLP, forthcoming, 2004; Abdullayev, Mercy Corps, 2003; Boquiren, SDCAsia, 2003; Rana and Roggekamp, personal communication, KATALYST, 2004

<sup>162</sup> For example, Gärtner, GTZ BIS Project, 2004

<sup>163</sup> Kumar, EDA, 2004

## Example 43: Rolling Monitoring and Evaluation

### The Small Enterprise Center, Palestine

In the Occupied Territories of Palestine, GTZ, with support from BMZ, aims to develop BDS markets for small enterprises operating in an immature market and a difficult macro environment. The project has established the “Small Enterprise Center”, a first-stop-shop for SEs seeking assistance. The Center provides problem diagnostic services and business coaching, and it links SEs to BDS providers for other services.

The Center has explicitly committed itself to constant quality improvement, putting in place a monitoring system to inform changes in the way the Center operates. At almost every step in clients’ contact with the Center and providers, there is an opportunity to provide feedback on their experience. The results of these evaluations are entered into a custom-designed data base, which then provides Center management with information on both the Center and the providers according to previously established quality criteria. The system also provides access at any time to a cost-benefit analysis of the Center, some base data for network identification, and each client’s history. Information on changes in clients’ businesses is aggregated and compared to a control group of businesses that contact the Center for the first time. The validity of the control group may be questionable as entrepreneurs that contact the Center may have different characteristics from those that do not. So, the Center is starting — as a test — a business climate index among clients that can be compared to a national climate index. Using the M+E system, the Center monitors key indicators – the number of “priority needs” fulfilled, the cost per employment created and the comparative impact the Center achieves. The constant availability of information from the M+E system has enabled the Center to make useful changes in its operations. For example, management changed the client diagnostic process, started group consulting and adapted their client management system.

Stephan Schmitt-Degenhardt, GTZ, 2004

For more information, email [ssd@economist.net](mailto:ssd@economist.net) and see <http://www.enterprise-pal.org>

A recent paper written for the Committee of Donor Agencies for Small Enterprise Development addresses the theoretical links between BDS market development and poverty.<sup>164</sup> The author observes that BDS market development projects affect poor people in two possible ways:

- Directly, by promoting business services for entrepreneurs who are poor; and
- Indirectly, by promoting business services for entrepreneurs with the aim of those enterprises generating jobs and/or economic growth that will positively affect the poor.

The author notes that the links in the causal chain for indirect effects on poverty are theoretically sound and supported by past studies on the effects of SME

and private sector growth on poverty. However, they are difficult to prove for individual projects.

## 7.3 Evaluating Projects – The need for more rigor

Although donors, practitioners, and researchers in the BDS field have been discussing the importance of solid project evaluations for a number of years, recent studies criticize the quality of available project evaluations:<sup>165</sup>

- The Nexus Associates paper, sponsored by the Donor Committee, referenced above;<sup>166</sup>
- A recent review by the USAID AMAP project of 27 programs that attempt to incorporate

<sup>164</sup> Oldsman, Nexus Associates, Inc., Donor Committee, 2003 available at [www.bdsknowledge.org](http://www.bdsknowledge.org)

microenterprises into value chains, sometimes using a BDS market development approach;<sup>167</sup> and

- An IADB review of MIF funds and evaluations of MIF-funded BDS programs over the last 15 years.<sup>168</sup>

Deficiencies in current evaluation systems are outlined in detail and range from weak explanations of causal links between program activities and intended impact to sampling problems, and the lack of comparable data across organizations and programs.

Recommendations from the three studies include the need for:<sup>169</sup>

- Clear causal links between program activities and business development services, market development, and impact goals - even if they cannot be measured at every level;
- Systematic and technically sound evaluation techniques appropriate to the budget level of the program;
- Clear attempts to establish plausible attribution between program services and activities on the one hand and market changes and impacts on the other;
- A primary focus on intermediary indicators of program objectives and outcomes before moving on to impact measurement because a) one needs to understand how program activities influence providers, entrepreneurs, and markets in order to understand how they can impact businesses, families, individuals, and communities, and b) because they are easier to measure;
- Pilot initiatives that more rigorously apply performance indicators to facilitate better understanding of the lessons learned from pilots and to develop and test monitoring and evaluation systems; and

- Use of more homogenous indicators and methodologies by programs and organizations to allow comparison.

Many of these recommendations are not new to the field, but represent a renewed call to action.

## 7.4 Establishing “Plausible” Attribution

One of the most challenging methodological issues in program evaluation is attributing changes to program activities. While there is a need for more rigorous studies using control groups, most programs are not willing to spend the considerable funds necessary for this level of rigor in monitoring and evaluation. But program managers do want to evaluate the extent to which changes in project-supported providers and BDS markets are a result of program interventions as opposed to other factors. Programs are experimenting with a variety of techniques to establish plausible attribution – a reasonable level of confidence about the link between project interventions and changes in BDS markets:<sup>170</sup>

**Key Question: To what extent should every project be expected to report the impact on poverty?**

*It is widely accepted that measuring every link in casual chains that lead from project interventions to ultimate outcomes is very expensive. Yet governments – both Western and Southern – are demanding more evidence of project impacts on poverty. How should the BDS field and individual projects respond?*

<sup>165</sup> Oldsman, Nexus Associates, Inc., Donor Committee, 2003; Zandniapour, et al, USAID AMAP, 2004; Inter-American Development Bank, 2003

<sup>166</sup> Oldsman, Nexus Associates, Inc., Donor Committee, 2003

<sup>167</sup> Zandniapour, et al, USAID AMAP, 2004

<sup>168</sup> Inter-American Development Bank, 2003

<sup>169</sup> Oldsman, Nexus Associates, Inc., Donor Committee, 2003; Zandniapour, et al, USAID AMAP, 2004; Inter-American Development Bank, 2003

## Example 44: Using Monitoring Information for Decision Making

### Aga Khan Foundation in the “Shu” subsector of Pakistan

In 1999, with SDC funding, the Aga Khan Rural Support Programme (AKRSP) started the “Shubinak” project in the Chitral district, one of the poorest rural areas of Pakistan, to improve the economic base and livelihoods of the rural population – particularly women – by reviving the “shu” industry. Shu is an indigenous, handmade wool fabric, which women in Chitral have been making for centuries. However in the 1980s and 90s, shu production in Chitral declined due to competition from lower quality and imitation shu produced elsewhere in Pakistan. The original concept for the project was to enhance the production of high quality shu by improving the technology and the technical and entrepreneurial skills of the women for shu production and selling. Subsequently, a business wing of the project called Shubinak House was set up to design, manufacture and sell shu clothes and accessories to high end consumers. It was expected that by becoming a profitable business Shubinak House would be able to provide embedded production and marketing related services to shu producers on a sustainable basis.

Initially, the business wing itself was subsidized and the project did not have a strong commercial orientation. However, over time the project shifted to a more commercial approach focusing on developing the local private sector market rather than providing subsidized services directly to shu producers. For example, one of the most difficult decisions AKRSP had to make was to close down the business section of the project in 2003 because Shubinak House suffered continuing losses and it was clear that the chances for its financial independence were slim. Was the project a failure? AKRSP knew it was not because it had continuously monitored the shu market and could see that the project had helped develop the local Chitrali shu market by expanding the activities and the numbers of private sector players engaged in the shu business. For example, the price of shu increased substantially enabling a large number of women to increase their family income by making high grade shu. More and more traders began to purchase the high-grade shu that initially only Shubinak House bought. In fact, traders began to offer advance bookings for “A grade” shu and wholesalers were happy to pay a price even higher than Shubinak House to ensure their access to the best grades. The promotion by Shubinak of non-traditional shu products prompted experimentation with similar products by the private sector. Seeing these market developments AKRSP was able to recognize that the market no longer needed Shubinak House - it had played a critical role in spurring market momentum, but its continued presence would crowd out private sector players and distort the market rather than develop it. Therefore, the project is now shifting to an exclusively facilitative role in the market: promoting the emergence of more local service providers and commercial transactions (embedded or fee-based) for the range of production and marketing -related services previously provided by Shubinak House.

Note: The Aga Khan Foundation is producing a book, “*Values in Transition: Adaptive Development in the Valleys of Northern Pakistan*,” Oxford University Press, expected out in 2005, describing its experiences with SE promotion over the last 10 years. Azfal, Aga Khan Foundation, 2004

<sup>170</sup> Rana and Roggekamp, KATALYST, personal communication, 2004; Miehlbradt, Springfield BDS Course Elective on M+E, 2004

- Comparing project-supported providers with other providers;
- Comparing clients of project-supported providers to clients of other providers and BDS non-users;<sup>171</sup>
- Using SE and provider judgement about the reasons for changes; and
- Paying more attention to other possible causes for changes in BDS markets.

## 7.5 Current Research Initiatives

There are several research activities underway to improve monitoring and evaluation in the BDS field.

- USAID AMAP: In addition to its inventory of evaluations, to be published soon on [www.microLinks.org](http://www.microLinks.org), the AMAP project seeks to develop and test improved monitoring and evaluation approaches for projects that help microenterprises link with high value markets.
- Kenya BDS and KATALYST in Bangladesh: These programs will develop and test prototype monitoring and evaluation systems, bringing global expertise to bear on specific programs.

### Example 45: Establishing “Plausible” Attribution

#### Swisscontact in Russia

Swisscontact, supported by SDC, recently completed a BDS impact assessment in its SME promotion project in Voronezh, Russia. In order to assess the effects of the project on BDS users, Swisscontact contracted Reforma Company to conduct an SE survey that included clients of supported providers, clients of other providers, and non-users of specific services. Reforma also carried out interviews with both providers supported by the program and others. The study found that SEs who use business services evaluate their turnover dynamics as more positive than non-users. In rural areas, SMEs near a Business Development Center, which are supported by Swisscontact, reported better business performance than SMEs in other areas. Over 90% of Swisscontact’s partner BDS providers reported that their cooperation with Swisscontact was positive or highly positive, contributing to, for example, building up assets, introducing new services, improving the professional level of staff and attracting new clients. The study results indicate that Swisscontact played a greater role in the development of rural partners as compared to urban ones and the relative increase of SE users’ economic indicators was higher in rural areas than in Voronezh town. Although the study lacked baseline data for comparison, the strategy of comparing SEs and providers who interacted with the project with those that did not helped to plausibly link changes in providers and SEs to project interventions.

Swisscontact/Reforma Company, SDC, 2004.  
For more information, email [hu@swisscontact.ch](mailto:hu@swisscontact.ch) and [scvrn@comch.ru](mailto:scvrn@comch.ru) or see [www.swisscontact.ch](http://www.swisscontact.ch) and [www.scvrn.ru](http://www.scvrn.ru)

<sup>171</sup> Swisscontact/ Reforma Company, 2004

## 8. Developing the BDS Community of Practice – How Can We Promote Both Excellence and Inclusion?

Why is a group of donors, government officials, and practitioners fascinated by BDS market development? Is it because we are passionately convinced that services for small enterprises are the key to poverty alleviation? Is it because the most egregious problem in many economies is that existing systems for the provision of services do not include small enterprises? Could it be the need to make a significant difference? Or is it because we can make an important contribution to integrating SEs more effectively into economic systems by working to influence business service systems so they include those small enterprises? Making macro level changes to economies and policies is clearly extremely important — as the increasing focus at this level indicates — and can achieve very wide impact at a stroke. But policy change takes time and is rightly the focus of national governments. Donors and the development field can make a significant and lasting difference in business service markets with relatively short time frames and modest budgets. And, these changes are perceived by market development professionals to contribute to reaching important development goals.

But, BDS market development is complex. The fact that the causal chain from BDS market development to poverty alleviation is long makes it difficult to explain to the public and its representatives in short sound bites. And, BDS market development is only one small part of the changes in systems that must occur to include the poor more beneficially into economic growth and globalisation. Increasingly, the BDS field is being confronted with these realities and asked to justify its focus.

Over the last 6 years, the field has been turned inward — closely examining its practices, promoting exchange among a small group of involved individuals and agencies, and fostering innovation by quickly building on each other's experiences. This has resulted in the BDS field being one of the pioneering fields in market development and the facilitation of systemic change. It has created a culture of information sharing and striving for excellence in understanding and interacting with local systems. But, it has also led to a degree of impatience with “outsiders” and the time it takes to explain BDS market development to newcomers. The exchange of learning and ideas has remained, to some extent, within a relatively small group of people. And, the gap between traditional “checkbook” development and the BDS market development approach has widened, often making it difficult for BDS market development professionals to communicate with and convince other development professionals of the benefits of the strategy they espouse. This has led the field to be perceived by others as exclusive — a technocratic club of fanatics focused on a minute topic with minimal cognisance of the bigger picture.

Now, BDS practitioners and experts are increasingly being asked to cooperate with development professionals in other fields — to contribute to broader goals. This trend has been accelerated by the decentralization taking place in many donor agencies which has resulted in more generalists overseeing projects at the field level with less technical back-up from home offices. Professionals in other fields may not be interested in, or have

experience with, services for small businesses. But they are often both interested in, and have some experience with, trying to understand and build on local systems and market structures. This is the common ground on which the BDS field and other fields such as private sector development, agriculture, trade, poverty alleviation and natural resource management are beginning to interact.

How can the BDS field continue to promote progress and the pursuit of excellence within the specialized field of BDS market development, and at the same time welcome and include newcomers, and professionals from other development fields? This is the challenge to the BDS community of practice. There are several new efforts to promote

the sharing of information among practitioners – both within the BDS field and between the BDS field and others.<sup>172</sup> One is the BDS knowledge sharing website, [www.bdsknowledge.org](http://www.bdsknowledge.org), which invites donors and practitioners involved in BDS initiatives to openly share program documents and research. The year-old site currently receives about 7,000 visits per month.

This challenge, though, requires more changes within the BDS community than the sharing of information. The authors invite readers to weigh in on these issues at the BDS Seminar, on the BDS information sharing website, and at other development events and fora.

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<sup>172</sup> For example, the BDS information sharing website ([www.bdsknowledge.com](http://www.bdsknowledge.com)), knowledge management initiatives under the USAID-sponsored AMAP project, listserv discussions among practitioners hosted by the SEEP Network, and GTZ's regional SME development teams which meet on a quarterly basis.

# ANNEX A

## New Websites and Training Courses

The websites and training opportunities listed here in alphabetical order are either new to the BDS field this year or have not been profiled in earlier BDS Readers. For a more comprehensive list of sites and training courses, see the BDS Primer at [www.bdsknowledge.org](http://www.bdsknowledge.org). This information is provided for the convenience of readers and does not constitute an endorsement of the sites and training courses listed.

### Websites

Note: 15 other websites are profiled in the BDS Primer.

#### BDS Knowledge



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

The BDS knowledge website is an inter-agency information exchange and home to the community of practice emerging around making markets work for the poor, with particular reference to supporting services for women and men in small enterprises. The structure of this site is built around the phases in the Life Cycle of a typical market development programme: market assessment, project design, implementation, impact assessment, and final documentation. The site already contains hundreds of documents contributed by over 100 agencies and its reach is global, with entries featuring work in 74 countries. The site enjoys around 7,000 visits per month and is constantly monitored and updated with Top Ten listings of the most popular entries (appearing under Global documents) and a What's New section listing recent additions and updates of older entries.

#### Development Gateway



[www.developmentgateway.org/node/190911/](http://www.developmentgateway.org/node/190911/)

An interactive site for information on development and poverty reduction, the Development Gateway portal provides a space for communities to share experiences on development efforts. The portal supports the Development Gateway Foundation's objectives of increasing knowledge sharing, improving public sector transparency, enhancing development effectiveness, and building local capacity to empower communities - through services such as an online directory for information on development projects (AiDA), an electronic procurement market (dgMarket), information on major development topics (Topic Pages), and links to a growing network of country-level initiatives (Country Gateways).

## The Global Value Chain Initiative



<http://www.ids.ac.uk/globalvaluechains/>

The Global Value Chains Initiative is a collaborative exercise, involving a network of researchers, policymakers, and activists from around the world. On this site you can find the results of research on a range of industries and activities from agriculture, to services, to manufacturing. Practical resources, like manuals and handbooks, can be downloaded free of charge.

## United States Agency for International Development - Microenterprise









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

USAID's new microenterprise portal, is a knowledge-sharing source of information, applications, and tools designed to improve the impact of USAID microenterprise programs and activities. The site provides access to the latest information on best practices; proven approaches from USAID Missions, partners, and practitioners; a library of documents, reports, and tools; and an environment that supports and enriches communities of practice focused on the many facets of microenterprise development. This site is managed by the Microenterprise Development Team of the Economic Growth, Agriculture, and Trade Bureau of USAID and is part of the Accelerated Microenterprise Advancement Project (AMAP).

## Training Courses

Note: The six training courses profiled in the BDS Primer are on-going:

-  International Labour Organization: Business Development Services: Developing Markets for BDS <http://learning.itcilo.it/bdsseminar/>
-  International Labour Organization: Market Oriented Small Business Development Services (MOSBDS Diploma) <http://learning.itcilo.it/bds/>
-  SEEP Annual General Meeting [www.seepnetwork.org](http://www.seepnetwork.org)
-  SEEP: The State of the Art in Business Development Services for Micro, Small and Medium Enterprises: Principles, Tools and Practices (now being offered in more countries around the world) [www.seepnetwork.org](http://www.seepnetwork.org)
-  Springfield Centre BDS Training Programme [www.springfieldcentre.com](http://www.springfieldcentre.com)
-  Southern New Hampshire University: Microenterprise Development Institute [http://www.snhu.edu/Home\\_Page/Academics/General\\_Info/School\\_of\\_Business/CEDIPT.html](http://www.snhu.edu/Home_Page/Academics/General_Info/School_of_Business/CEDIPT.html)

-  **Action for Enterprise: Business Development Program Design Workshops**  
 AFE offers a series of 5-day workshops that present state-of-the-art methodologies for designing business development programs for micro, small, and medium-scale enterprises. Participants learn how to design programs that result in commercially viable solutions to MSME constraints such as market access, input supply, technology/product development, management training, policy reform, and access to finance. Examples are used from BDS programs and practitioners worldwide. The training targets those who wish to improve their facilitation skills and design programs that respect the latest thinking in commercial approaches, including BDS, to enterprise development. See [www.actionforenterprise.org](http://www.actionforenterprise.org) for schedules and information.
-  **Centro Internacional de Agricultura Tropical: Rural Agroenterprise Development**  
 Two international courses are being offered in August and September 2004 at the headquarters of the Centro Agronómico Tropical de Investigación y Enseñanza (CATIE) in Turrialba, Costa Rica. The courses deal with the theme of rural agroenterprise development and are part of a series of four courses that comprise the Diploma on "Rural Agroenterprise Development," which is organized by the Centro Internacional de Agricultura Tropical and supported by CIAT. The courses are designed to help strengthen the ability of public and private business development services providers to confront the major challenges of rural agroenterprise. For more information, see: <http://www.ciat.cgiar.org/agroempresas/ingles/>
-  **Inter-American Development Bank: The InterAmerican Forum on Microenterprise**  
 Every year in September more than 1,000 practitioners from all over Latin America and other regions meet to discuss the latest best practices for the development of the microenterprise sector. Now in its 7th year, the forum has seen an increase in presentations and discussion on BDS in recent years. For more information, see: <http://www.iadb.org/foromic>
-  **International Labour Organization: Managing Business Development Services for Increased Impact, December 6-17, 2004, Arusha, Tanzania**  
 This course seeks to improve the effectiveness of enterprise development organizations providing business development services (BDS) to micro, small, and medium-sized enterprises, measured in terms of take-up, outreach, impact, and sustainability. Upon completion of the course, participants will be better able to select which BDS products to offer based on an assessment of the market for BDS and they will be able to devise a coherent marketing and service delivery strategy; determine when intervention in BDS markets, such as vouchers, may be appropriate; and establish systems to monitor staff and organizational performance. For more information, see: [http://intranet.itcilo.it/Calendar/Courses.nsf/CourseListNew?OpenForm&Region=Inter-regional&Area=Enterprise\\*Development](http://intranet.itcilo.it/Calendar/Courses.nsf/CourseListNew?OpenForm&Region=Inter-regional&Area=Enterprise*Development)
-  **International Labour Organization: Training for BDS Providers and Promoters of Women's Entrepreneurship Development (WED) - Business Growth: How to Become a Better Business Adviser, December 2004, Arusha, Tanzania**  
 This course targets managers, business advisers, and consultants from BDS providers, SME support institutions, small business associations, government business support agencies, employers' organizations, chambers of commerce, women's associations, NGOs, enterprise development projects, business development officers from banks and credit institutions, and consultants involved with SME and WED projects. For more information, see: [http://intranet.itcilo.it/Calendar/Courses.nsf/CourseListNew?OpenForm&Region=Inter-regional&Area=Employment\\*and\\*Skills\\*Development](http://intranet.itcilo.it/Calendar/Courses.nsf/CourseListNew?OpenForm&Region=Inter-regional&Area=Employment*and*Skills*Development)

**Making Cents Training Courses**

Making Cents specializes in building the capacity of organizations to offer effective training to entrepreneurs and future entrepreneurs. It offers a range of training workshops for different types of organizations. For more information, see: [www.makingcents.com](http://www.makingcents.com)

**Matchmaker Associates, Ltd.: Value Chain Development**

This course explores private sector development from the perspective of the value chain concept and the constraints and opportunities that affect it. The course aims to help participants enhance their value chain analytical skills, gain an understanding of the basic concepts and principles of value chain management, be able to identify value chains with growth potential, to manage the value chain, and identify value-adding opportunities. The first course is being held in September 2004. For more information, email Henri van der Land at [henri@habari.co.tz](mailto:henri@habari.co.tz) or Peniel Ulliwa at [puliwa@raha.com](mailto:puliwa@raha.com)

**Microenterprise and Development Certificate (MDC), South Africa**

This course is co-sponsored by the Development Facilitation and Training Institute at University of the North Turfloop Graduate School of Leadership based in Polokwane City, South Africa and the Southern New Hampshire University School of Community Economic Development in Manchester, New Hampshire, U.S.A. The first annual course is being held at the University of the North (UNIN) in Polokwane City, South Africa. The course offers several tracks to meet a wide range of skills and training needs, including: Introduction to MED, BDS, Institutional Methodologies, Financial Planning and Monitoring, Microfinance Methodologies, and Client Assessment for Market Led Microfinance.

For more information, see: <https://mdi-sa.org/>

# ANNEX B

## Research on Making Markets Work for the Poor

Agency, Title, Purpose	Findings to date
<p>The Swiss Agency for Development and Cooperation (SDC) conference on Opportunities and Limits of the BDS Approach in Rural Areas. Exploring the potential for BDS markets to reach and benefit rural communities</p>	<p>A synthesis of the SDC conference suggests that a systemic approach has potential for more long-term impact and that there are a range of potential strategies for overcoming the formidable gaps between rural, informal markets and global, formal markets using:</p> <ul style="list-style-type: none"> <li>■ Quality and design improvement services embedded in the market chain;</li> <li>■ Mass media to provide market information and basic business education to rural SEs; and</li> <li>■ Technical services sold by “lead” artisans, farmers, or “para-vets” that are commercializing previously “public sector” extension services.<sup>173</sup></li> </ul> <p>The conference also highlighted key challenge areas for rural programs using a market-based approach.</p>
<p>The SEEP Network Practitioner Learning Program on BDS Market Assessment sponsored by USAID. Assessing BDS markets and designing BDS market development initiatives for microenterprises – often in weak markets characterized by poor SEs and consumers</p>	<p>Developed innovative ways of uncovering “hidden” business development services, or “latent” demand for services among SEs operating in weak markets. These services were most often connected to helping SEs link to higher value markets and/or strengthen their market position. Even in situations when SEs were unaware of market opportunities and blockages and almost completely unaware of business development services, these practitioners found ways of exploring potential opportunities and identifying critical roadblocks that specific services could help resolve.<sup>174</sup></p>

<sup>173</sup> SDC SED conference, 2004

<sup>174</sup> Nussbaum and Miehlbradt, SEEP/PLP, 2003

USAID Office of Microenterprise Development research initiative, Accelerated Microenterprise Advancement Program BDS component (AMAP/BDS) The AMAP BDS component “is about creating wealth in poor communities and promoting economic growth by sustainably linking large numbers of MSEs into productive markets.”<sup>175</sup>

AMAP is currently conducting inventories of the field and has supported the SEEP network’s HIV/AIDS on-line discussion (see below.)

DFID study, Making Business Service Markets Work for the Poor in Rural Areas – a review of initiatives and strategies that aim at “making markets work for the poor.”<sup>176</sup>

The role of business services in addressing economic weakness:

- Business services are critically important in determining the competitiveness of businesses and markets;
- Business services that reach the poor are often hard to define, are incorporated within market transactions, and tend to focus on basic issues – communications, infrastructure, market links; and
- Business services are one part of an overall market development strategy for the poor.

Recommendations for development agencies include:

- “Better understanding of the wider economic context for business services;
- More practical information and analysis for intervention design and implementation;
- A realistic and explicit assessment of sustainability from the outset;
- Developing valid and appropriate roles for government; and
- Innovative and flexible intervention structures and approaches.”

Actions to take agencies forward include developing a research agenda that reaches across development fields, and organizing inter-field workshops and action research, which can lead to joint policy guidelines.

<sup>175</sup> USAID AMAP, 2004

<sup>176</sup> Hitchins, et al, DFID, 2004

The SEEP Network's on-line discussion series on "Reaching Poor and Vulnerable Populations with BDS" aim to improve understanding among different fields, gather lessons learned to date, and launch further research and dialogue. They focus on HIV/AIDS affected populations (Spring 2004), very low-income women (Summer 2004) and conflict affected populations (Fall, 2004).

Findings from the first virtual discussion on BDS and HIV/AIDS affected populations:

- Types of businesses relevant for the HIV/AIDS-affected keep entrepreneurs close to home and family, require limited capital outlay and provide easy entry.
- Services should integrate BDS and finance, target the family, incorporate psychological counselling and nutrition, save labor, and include legal services for property transfer, especially to women, after death.
- Programs should be offered by partnerships of SE and HIV/AIDS specialists.
- Women and youth may need empowerment and basic technical skills training, and men in the community need to be made aware of the changing roles women and youth need to play.
- Since many HIV/AIDS affected people are new to business and market systems, they are particularly vulnerable to market exploitation and may need more training in business and market basics and the bargaining power of associations.
- SEs as employers can improve their businesses by incorporating HIV/AIDS education and policies; and
- Socially responsible corporations can target HIV/AIDS-affected communities with business links, not just charity.

The paper concludes with broad recommended strategies for further exploration.

USAID Implementation Grants Program BDS Learning Network, facilitated by the SEEP Network to gather and document lessons learned from demonstration programs targeting microenterprises.

Focusing on effective facilitation, and win-win relationships.

# ANNEX C

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# ANNEX F

## Acronyms

ADB	Asian Development Bank
AFE	Action for Enterprise
AgREN	Agricultural Research and Extension Network (UK)
Agropyme	Marketing of Agricultural Products (Honduras)
AMAP	Accelerated Microenterprise Advancement Program (USAID)
ARC	American Refugee Committee International
ATA	Aid to Artisans
ApproTEC	Appropriate Technology for Enterprise Creation
BDS	Business Development Services
BDSP/ BSP	Business Development Service Providers
BDSWG	BDS Working Group (SEEP)
BMZ	German Ministry for Economic Cooperation and Development
CARE	Cooperative Assistance and Relief Everywhere
CGAP	Consultative Group to Assist the Poorest
CIEM	Central Institute of Economic Management (Viet Nam)
CNFA	Citizens Network for Foreign Affairs
COHORSIL	Cooperativa Cafetalera Siguatepeque Ltda. (Honduras)
ComMark	Improving Commodity Markets for the Poor (South Africa)
CRS	Catholic Relief Services
DFID	United Kingdom Department for International Development
ECDI	Entrepreneurship Career Development Institute (Pakistan)
EIP	Enterprise Information Project (GTZ Sri Lanka)
FIT	An International Labour Organization small enterprise development program

GMP	Good Manufacturing Processes
GTZ	German Agency for Technical Cooperation
IADB	Inter-American Development Bank
IBLF	International Business Leaders Forum
ICECD	International Centre for Entrepreneurship and Career Development (India)
ICT	Information and Communication Technology
IFC	International Finance Corporation (World Bank)
IDE	International Development Enterprise
IFC	International Finance Committee
IGP	Implementation Grant Program (USAID)
ILO	International Labour Organization
IT	Information Technology
ITC	Intermediate Technology Consultants
ITDG	Intermediate Technology Development Group
JOBS	Job Opportunities and Business Support Program (USAID)
K&P	Knowledge & Practice (USAID AMAP)
LBL	Swiss Center for Agricultural Extension and Rural Development
LOE	Law of Enterprise (Implementation Taskforce on..., Viet Nam)
M+E	Monitoring and Evaluation
MA	Market Assessment
MD	Microenterprise Development Team (USAID)
MEDA	Mennonite Economic Development Agency
MFI	Microfinance Institution
MPDF	Mekong Project Development Facility
MSEs	Micro and Small Enterprises
MTAP	Mid-term Action Plan (Indonesia)

NGO	Non-Governmental Organization
NRM	Natural Resource Management
OSS	One Stop Shops
PDR	Peoples Democratic Republic (Lao)
PLP	Practitioner Learning Program (SEEP)
R&D	Research and Development
RAISE	Rural Agricultural Input Supply Expansion (CNFA in Zimbabwe)
RIA	Regulatory Impact Assessment
RKK	Rallis Kisan Kendra (India)
SDC	Swiss Agency for Development and Cooperation
SDCAsia	Strategic Development Cooperation–Asia
SE	Small Enterprise (refers to a micro-, small-, and/or medium-sized firm)
SED	Small Enterprise Development
SEEP	Small Enterprise Education and Promotion Network
SEMA	Small Enterprise Media in Africa (ILO FIT)
Sida	Swedish International Development Agency
SIYB	Start and Improve Your Business (ILO)
SMEs	Small and Medium Enterprises
TA	Technical Assistance
TTO	Triple Trust Organization (South Africa)
UAI	Usage, Attitude, Image Market Study
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
VCCI	Vietnam Chamber of Commerce and Industry
WEDGE	Women’s Entrepreneurship Development and Gender Equality (ILO)

