

**Impact Assessment & BDS Market Development:
Is a Common Approach and Are Common Indicators Possible?**

Jeanne Downing, Michael Field, and Donald Snodgrass

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I. Introduction and Rationale

BDS market development is a relatively new strategy for attaining two longstanding development objectives: improved performance of micro- and small enterprises (MSEs) and reduced poverty. Although there is widespread agreement on the fundamental means and objectives of the approach, a number of different program designs are currently being tested by various donors. The breadth and range of on-the-ground interventions are evidence of the innovation that is taking place. In order to learn from these efforts, there is an urgent need for practical and rigorous approaches to impact assessment that can more firmly “prove” impact and improve practice.

The Committee of Donor Agencies for Small Enterprise Development has struggled with the issue of impact assessment at least since 1998, when USAID, through its Microenterprise Best Practices (MBP) Project, invested in developing the “Performance Measurement Framework (PMF) for Business Development Services.” This effort – implemented between 1999 and 2001 – aimed to identify practical common indicators for BDS programs.

In 2001, the Donor Committee formed a Working Group on Impact Measurement and Performance to advance work on the PMF as well as other approaches. Members of the Working Group raised questions regarding the feasibility of common indicators – given the complexity of BDS - and the importance of a causal model upon which to base indicator selection. The Working Group also noted that the PMF did not address impact, including issues of attribution and causation.

In response to some of these issues, GTZ and SDC commissioned a paper, written by Eric Oldsman and Kris Hallberg and entitled *Framework for Evaluating the Impact of Small Enterprise Initiatives*.¹ This paper emphasized the importance of using “program logic models” to understand the chain of causality between program activities or interventions and expected direct and indirect outcomes. Performance indicators, the paper argued, must be based on an understanding of the causal model underlying a program design and selected to measure expected outcomes at different points along the causal chain. Moreover, because programs have differing objectives, operate in different market and geographic contexts, and target different client groups, Oldsman and Hallberg argue that common indicators are not feasible.

The Oldsman and Hallberg paper made clear that donors need to understand the logic underlying their approaches to BDS market development. They also need to select

¹ Eric Oldsman and Kris Hallberg, “Framework for Evaluating the Impact of Small Enterprise Initiatives,” paper prepared for GTZ and SDC (2001).

indicators based on this logical model and related hypotheses about the expected outcomes of interventions designed to develop BDS markets.

While embracing the importance of causal models and indicator selection, this paper argues that efforts designed to develop BDS markets share many common objectives and expectations regarding outcomes. At this level of common objectives, there is rationale for using common indicators. Building on the conceptual model of Oldsman and Hallberg as well as on the indicators and data collection methods of the PMF, and using programs in Bangladesh as examples, this paper aims to:

- Explore the hypotheses and assumptions underlying various approaches to BDS market development (as evidenced by programs in Bangladesh); and
- Demonstrate the possibility of using common indicators, despite the variations in BDS interventions

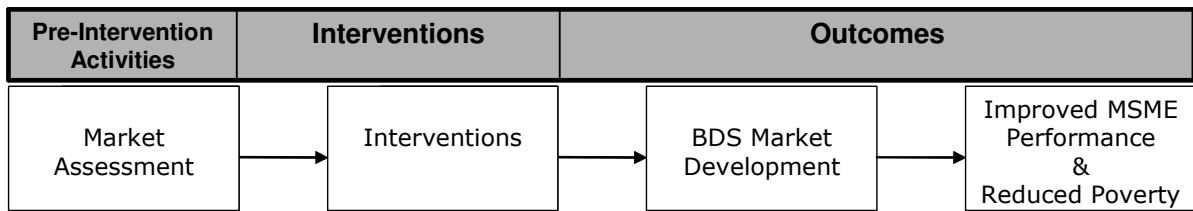
Common indicators are important for donors, who are charged with achieving specific development objectives and must evaluate and report their achievements relative to these objectives. USAID, for example, reports annually to Congress on its agency-wide microenterprise activities. While USAID uses common indicators for this reporting requirement, it does not compare programs against one another based on these indicators.

At the same time, Oldsman and Hallberg are correct in warning against comparing indicators across programs that operate in different environments, with different target groups, and against different challenges. The microfinance industry uses common indicators that measure financial and operational sustainability, number of clients reached, and so forth. Yet, in comparing programs, it considers the different challenges of a program operating in rural West Africa against one in urban Bangladesh. Clearly in the case of the latter program, the challenges of scale and financial sustainability are much less. Nonetheless, using common indicators can be instructive for the development community aiming to learn from its experiments in BDS market development.

II. Common Logic Models for BDS Market Development Programs

“Good practice” in designing approaches to impact assessment and in selecting indicators calls for developing logic models that conceptualize the causal relationship between project activities, outcomes, and impacts. This provides the basis for framing specific research questions, developing hypotheses, and identifying indicators. Indicators flow logically from the causal model,² that is, from clarity about what results a project is intended to achieve and how it is expected to achieve those results.

² This can also be called a process model.



Fundamental to the BDS market development paradigm is the hypothesis that BDS market development leads to the improved performance of micro-, small, and medium enterprises (MSMEs), which in turn leads to poverty reduction, economic growth, and achievement of other social objectives.

While very basic, this causal model used by the Donor Committee’s BDS Working Groups defines *final and intermediate impact objectives* and provides the basis for a common approach to impact assessment and indicator selection.

BDS market development programs share similar basic (*final*) objectives, including poverty reduction, economic growth, and improvements in the quantity and quality of employment. Improved firm performance and – in some cases – subsector performance are assumed to lead to reductions in poverty³ and are therefore viewed as credible proxies for higher level outcomes such as economic growth and/or poverty reduction.

BDS programs also share a common *intermediate* objective: BDS market development. At the simplest level, this translates into increasing the number and value of transactions between firms and service providers, which operate either on a free-standing or an embedded basis. Since each transaction involves both a buyer and a seller, increasing the number and value of transactions involves raising both the demand for and the supply of BDS. Interventions to promote BDS market development thus involve various measures to raise demand and/or supply to the extent that developmental impacts are achieved.

III. BDS Market Development Models: Variations in Implementation

In this section of the paper, causal models for three approaches to developing BDS markets used by programs in Bangladesh are presented. These causal models are conceptual, in that they are meant to represent the most general understanding of the causal chain. Each causal model is complemented with associated hypotheses and “underlying assumptions.” The hypotheses express the expected outcomes of project activities, and assumptions include underlying beliefs about the context, economic principles, or cause-and-effect relationships. Although the following causal models highlight overlap among various approaches to BDS market development, the hypotheses and assumptions underscore differences in thinking

³ The Working Group on Impact Measurement and Performance has commissioned a paper on strategies for measuring the poverty impact of BDS programs.

Since the development of the *2001 Guiding Principles for Donor Interventions*, there has been a plethora of new programming aimed at developing BDS markets, and Bangladesh has been a center of investment in BDS programming. DFID, SDC, GTZ, and USAID are engaged in designing major new programs using BDS market development principles.

For the most part, donor-funded programs in Bangladesh are using three approaches to BDS program design. They include:

- Portfolio approach to BDS market development
- BDS service market approach
- Subsector-focused BDS market development⁴

Portfolio approach to BDS market development

The portfolio approach⁵ to BDS market development focuses on the overall BDS service market, without targeting any particular service or subsector. The approach assumes that the overall development of the BDS market is key to improved MSME performance. It assumes that as long as there is demand for a service, interventions to promote providers – even a single provider of a given service – are warranted. Programs using this approach tend to focus on providers: helping them to develop new products tailored to the demands of MSME clients, to better market their products to this clientele, and – through improved service provision – to improve the performance of MSMEs.

The hypotheses associated with this approach might include:

Hypothesis One: An effective strategy for MSME development is to enhance access to and quality of business services for which there is an expressed demand.

Hypothesis Two: An effective strategy for BDS market development is to increase the commercially viable supply of generic business services in the market place for which there is expressed demand.

The portfolio approach to BDS market development – as practiced in Bangladesh by Swisscontact – is differentiated from other BDS approaches by its aim to develop business service markets, without targeting any one particular service and without necessarily developing a competitive market. Market assessments may include studies to better understand the supply and use of BDS, but the emphasis is on unmet demand for a given service.

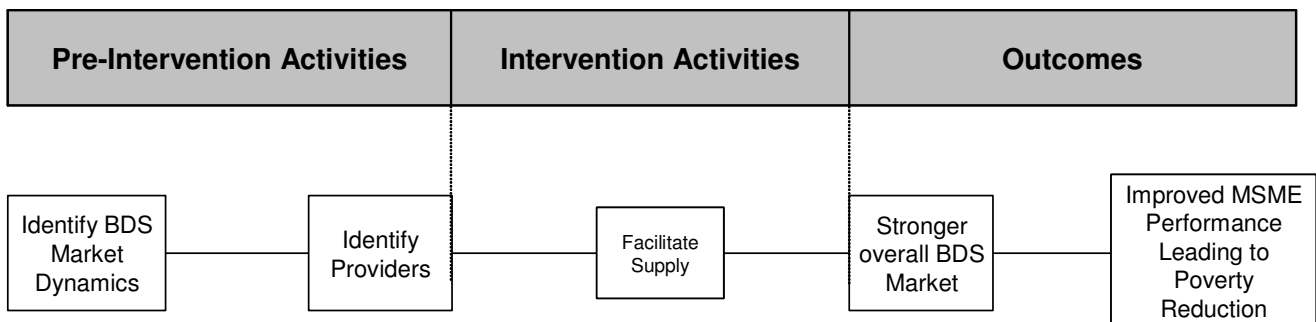
⁴ Cluster and network development is viewed as very similar to the subsector-focused approach to BDS market development with the linkages being horizontal rather than vertical.

⁵ The “portfolio approach” refers to the use and meaning of this term by Swisscontact in Bangladesh; the term may be used by others to mean a different strategy.

This approach does not directly attempt to induce trial, but rather works through providers to “create” demand through improved marketing practices. It assumes that providers are best positioned to judge which services are in high demand (through market research carried out by providers) and which of those can be feasibly supplied. It also assumes that market forces – through the expression of demand – will lead to the greatest impact.

GRAPHIC 1

Portfolio Model



Assumptions of the portfolio approach:

1. MSME performance can be improved by focusing on developing the capacity of providers of service, regardless of service type, to provide quality services tailored to the needs and demands of MSMEs and to better market their services to the clientele.
2. Demand analyses are a sufficient strategy for selecting services to promote and develop.
3. Demand creation can be achieved through service providers.
4. Suppliers are in the best position to judge which services are in high demand (through market research carried out by providers) and most feasible to supply.
5. Market forces – through the expression of demand – will lead to the greatest impact.

Swisscontact in Bangladesh

The Swisscontact program in Bangladesh is a portfolio program designed to facilitate improved BDS services by working with a group of providers. The program has established an open enrollment process to encourage BDS providers to work with the program to improve their ability to make an offer and deliver on expectations. The program is working with 15-20 providers, assisting them with marketing, market research, product development, customer relations, and capabilities improvements. By working to make providers better able to market and deliver high quality services, Swisscontact expects improvements in SME performance and increases in employment and purchases from micro-suppliers.

BDS service market approach

The BDS service market approach focuses on a single or multiple generic services identified as key to improved MSME performance across sectors in a particular country

or region. Selection of services is based on a market assessment that involves a demand analysis and, in some cases, a constraints analysis. Thus, the approach aims to develop markets for services that are demanded by MSMEs and that address key business constraints.

The hypotheses underlying the approach might include:

Hypothesis One: An effective strategy for MSME development is to enhance access to and improve quality of business services that are selected strategically to address key constraints and meet existing demand within the business community.

Hypothesis Two: An effective strategy for BDS market development is to promote a competitive market in which selected generic business services are provided on a commercial basis.

The BDS service market approach is similar to the approach used to develop financial markets in that it rests on the hypothesis that generic services – such as consulting services, technical assistance, and management training – lead to improvements in firm performance. The approach fosters MSME outsourcing of services, which are not part of their core business and for which they do not have a comparative advantage in self-producing.

Typically these services are generic and providers are stand-alone, and typically the clients are SMEs rather than microenterprises. However, vouchers and other schemes have been designed to develop generic service markets even for the smallest firms. Some donors and/or implementing organizations are also experimenting with using MFI networks for reducing the costs of reaching many very small firms with generic services.

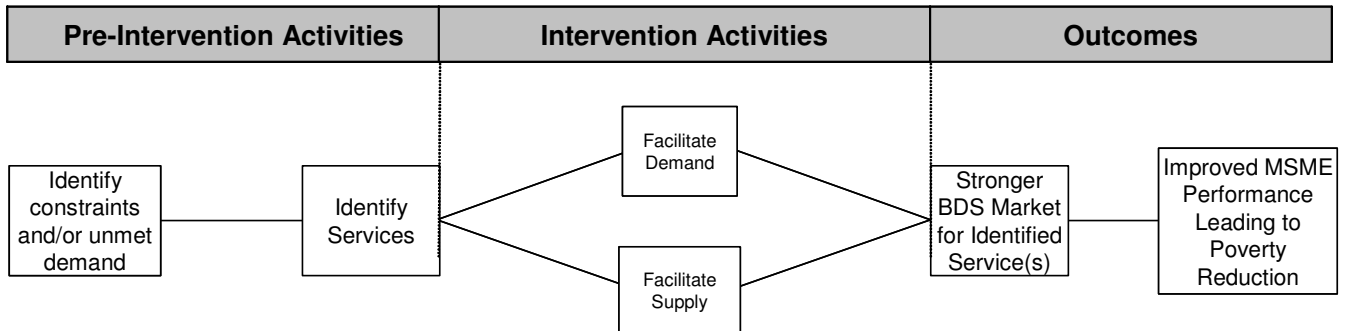
Graph 2 below illustrates the intervention activities of the service market approach. On the supply side of the BDS market, this approach seeks to stimulate competition by working with multiple providers to improve both their ability to make a convincing offer to MSME customers and to perform the service satisfactorily.

On the demand side, the aim is to induce trial use of services by limiting the risk to the MSME, either by better informing them of the benefits of BDS or by reducing their initial financial outlay and/or risks in investing in BDS. This approach is more likely to organize or network providers - for more cost-effective supply of BDS, access to market information, or shared learning - than customers, who typically do not belong to a single industry and may have fewer incentives to network. Whether working on the supply or the demand side, the approach calls for an exit strategy so as not to crowd out private players.

BDS Market Approach Example

IFC's program in Vietnam was a BDS-market program that sought to address the lack of knowledge and understanding of SMEs wanting to enter the export market through the facilitation of business training services. The IFC facilitated the development of new, more responsive training products that, according to extensive market research, was demanded by SMEs. IFC also strengthened the capacity of multiple providers to deliver these new products/services. On the demand side, awareness and public education campaigns were used to reduce SME's initial risk by increasing their understanding.

GRAPHIC 2
BDS Market Model



Assumptions of the BDS service market approach:

1. There are generic services needed by all businesses, regardless of subsector, that are key to improved firm performance – just as financial services are.
2. Improved access to generic business services is key to improving the performance of MSMEs.
3. By alleviating cross-cutting constraints to MSME performance, the broad community of medium, small, and micro businesses will benefit, private-sector performance will improve, and poverty will be reduced.
4. Developing markets for those services for which demand is greatest will yield the maximum impact on MSME performance.
5. Strengthening service markets requires both supply- and demand-side interventions. On the supply side of the market, interventions are designed to improve the performance of providers in marketing and delivering services; on the demand-side interventions might be designed to enhance MSME awareness of BDS and/or to publicize the uses and benefits of BDS.
6. Because clients are not from a particular industry, networking or clustering is more common for providers than for clients and is used as a means to improve providers' service quality, perhaps develop an accreditation program, or address other shared provider problems.

Subsector-focused BDS market development

Subsector-focused BDS market development aims to develop BDS markets that support the growth of a specific industry. Interventions typically focus on developing BDS markets for prioritized constraints along the value-added chain of a subsector and on delivery and payment mechanisms that are particularly attractive or conducive to reaching micro- and small enterprises. This approach most often involves linking micro- and small enterprises with larger firms in a supply chain and ultimately to a growing market, as well as promoting embedded as well as stand-alone services.

The hypotheses underlying the subsector-focused approach to BDS market development include the following:

Hypothesis One: An effective strategy for MSME development – and therefore improved firm performance - is to enhance access to product markets and business services that strengthen MSME competitiveness.

Hypothesis Two: An effective strategy for BDS market development is to improve the supply of and demand for commercially provided business services that address key subsector constraints.

Hypothesis Three: An effective strategy for developing subsectors / industries is to promote the development of business service markets that address key constraints and opportunities within selected subsectors / industries.

ACDI/VOCA – Vegetable Exports from Ethiopia

ACDI/VOCA's program in Ethiopia is a subsector program designed to increase economic opportunities and incomes for the rural poor. The program initially selected the horticulture subsector, based on the number of active micro-farmers in the subsector, the potential for growth and micro-farmer impact, and the synergies with other donor programs. The next step was a subsector analysis to identify priority constraints affecting horticultural exports. Constraints included limited production of quality vegetables, high transaction costs for shipments to EU, poor market information on alternative markets, and limited market access. Based on these constraints, the program aimed to create stronger links between exporters and micro-farmers, exporters and new markets, and micro-farmers and input suppliers. The program will also perform a series of interventions designed to facilitate embedded and stand-alone BDS solutions for a range of production and marketing weaknesses.

Like the other approaches, the subsector-focused strategy assumes that the private sector is the best vehicle for improving firm performance (which is assumed to lead to poverty reduction) on a sustainable basis. However, unlike other approaches, it focuses on improving the performance of key subsectors in an economy as an effective strategy for private-sector development.

To strengthen priority subsectors, key constraints along the value-added chain are identified and addressed using some combination of BDS, financial services, and policy advocacy. The approach assumes that addressing the key binding constraints in subsectors thought to have the greatest growth⁶ potential is the most effective way of developing opportunities for MSMEs that can lead to economic growth and/or poverty reduction.

Perhaps more than other approaches to BDS market development, the subsector approach emphasizes strengthening linkages between firms in a supply chain, developing and/or improving embedded services, and grouping MSME firms in order to increase the cost-effectiveness of BDS delivery and promote payment mechanisms that are attractive to poor customers.

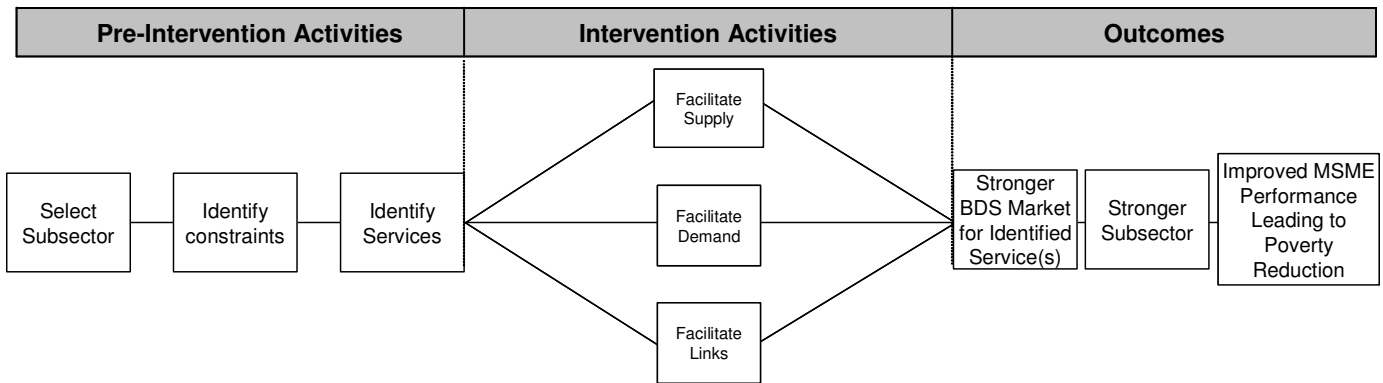
⁶ Growth is not the only program objective for this approach; stability and lessening economic downturns are also viewed as possible program objectives.

Demand for BDS is viewed as a derived demand. In other words, unless the rate of return on investment is positive, there is little reason for firms to invest in BDS. In order to ensure that firm investment in BDS yields greater income, the approach intervenes in subsectors for which there is growth potential.

Graph 3 shows the logical flow of generalized activities an agency would undertake in implementing the subsector-focused approach to BDS market development. It differs from other approaches in that final outcomes include a both a stronger subsector and improved MSME performance leading to poverty reduction.

GRAPHIC 3

Subsector Model



Assumptions of the subsector approach:

1. Demand for BDS is viewed as a derived demand. Therefore BDS acquisition must result in a perceptible, fairly immediate and sufficient change in firm profitability to reduce the risks of investing in new services.
2. Investments in BDS make the most economic sense for MSMEs in subsectors with good growth potential.
3. Subsectors with good growth potential can be identified with reasonable accuracy.
4. Constraint analyses can determine where BDS can make the greatest impact on firm profitability.
5. Enhancing linkages among firms and promoting embedded services is an effective strategy for linking MSMEs to viable markets and enhancing the acquisition and use of BDS, even for very small firms.
6. Facilitating the grouping of small firms and – in some cases – the networking of providers can be an effective strategy for improving the willingness and ability of small firms to pay for BDS.
7. Facilitating innovative BDS delivery mechanisms can be an effective strategy for improving the profitability of BDS providers serving small firms.

Contrasting Implementation, Hypotheses and Assumptions

Unlike the BDS market or portfolio approaches, which focus solely on developing service markets, the subsector approach seeks to develop not only the BDS market, but also the product market(s) in which targeted firms operate. While the portfolio approach aims to develop BDS suppliers regardless of the service they provide, the service market approach focuses on one or a few service markets, and seeks to develop a competitive market for this/these service(s).

The portfolio approach and – in some instances – the service market approach assumes that providers are in the best position to judge which services to provide. As a result, the portfolio approach targets suppliers as the vehicle for developing the supply- and demand- sides of the BDS market. The service market approach typically includes analyses of both providers and the service needs and demands of MSME clients. On the other hand, the subsector approach argues that because of imperfect information, MSMEs may not know which service investment will result in the greatest impact on their “bottom line.” Constraint analyses are conducted by experts but verified by MSMEs to provide the needed information.

Model	Focus for Market Development		Market Assessment	
	Product Market	Service Market	Constraints Based	Demand Based
Subsector	√	√	√	√
BDS Market		√	√ ?	√
Portfolio		√		√

The three approaches differ in their focus on the market assessments upon which intervention designs are based. For the subsector approach, market assessments are needed to assess the growth potential of a subsector, constraints in both the subsector and BDS markets as well as in the demand for services. For the portfolio approach, “Usage, Attitudinal, and Image” (UAI) market research figures prominently and is used to gauge “unmet demand.” The service market approach lies somewhere between these two. At times, it includes an assessment of both constraints and demand in the service market; at other times, it relies solely on a demand analysis.

Perhaps most important to the differences among the approaches are their assumptions about how to achieve the greatest impact. The subsector approach assumes that demand is an insufficient basis upon which to select services to be developed. The service market (in some cases) and the portfolio approaches assume that market forces will lead to the greatest impact. The services which entrepreneurs demand the most – these approaches hypothesize – will lead to the greatest impacts on MSME performance.

Many of these differences among the approaches can be traced to the hypotheses regarding expected outcomes, more specifically to the links between project interventions and expected outcomes. These differences represent a debate regarding the credibility of demand analyses as a sufficient basis for intervention. This is a debate that prevailed in the microfinance community, where practitioners argued that if individuals were willing to purchase a product that was sufficient evidence of its “impact” or “bang for buck.” Others argue that demand does not equate with impact; it is important to analyze constraints so as to understand the potential impact of addressing one constraint over another and/or targeting one intervention over another.

Hypotheses Compared		
Portfolio	Services Market	Subsector
<i>Hypothesis One:</i> An effective strategy for MSME development – and therefore improved firm performance - is to enhance access to and quality of business services for which there is an expressed demand	<i>Hypothesis One:</i> An effective strategy for MSME development – and therefore improved firm performance - is to enhance access to and quality of business services – selected strategically to address key constraints in the business community and for which there is demand.	<i>Hypothesis One:</i> An effective strategy for MSME development – and therefore improved firm performance - is to enhance access to product markets and business services that enhance MSME competitiveness.
<i>Hypothesis Two:</i> An effective strategy for BDS market development is to increase the commercially viable supply of generic business services in the market place for which there is expressed demand.	<i>Hypothesis Two:</i> An effective strategy for BDS market development is to promote a competitive market of commercially-provided, selected generic business services.	<i>Hypothesis Two:</i> An effective strategy for BDS market development is to improve the supply of and demand for commercially provided business services that address key subsector constraints.
		<i>Hypothesis Three:</i> An effective strategy for developing subsectors / industries is to promote the development of business service markets that address key constraints and opportunities within selected subsectors/ industries.

IV. Exploring Common Indicators

Graphs 4 – 6 provide a list of indicators based on the respective causal model for the portfolio, service market and subsector approaches to BDS market development. The indicators are illustrative; they have not been sufficiently tested or verified for their usefulness, validity or practicality. Moreover, programs would likely choose a smaller subset to monitor and/or evaluate. Nonetheless, this set of indicators demonstrates the rationale for common indicators, and illustrates that – despite the differences in

hypotheses and assumptions– the three approaches share common project activities (or interventions) and expected outcomes.

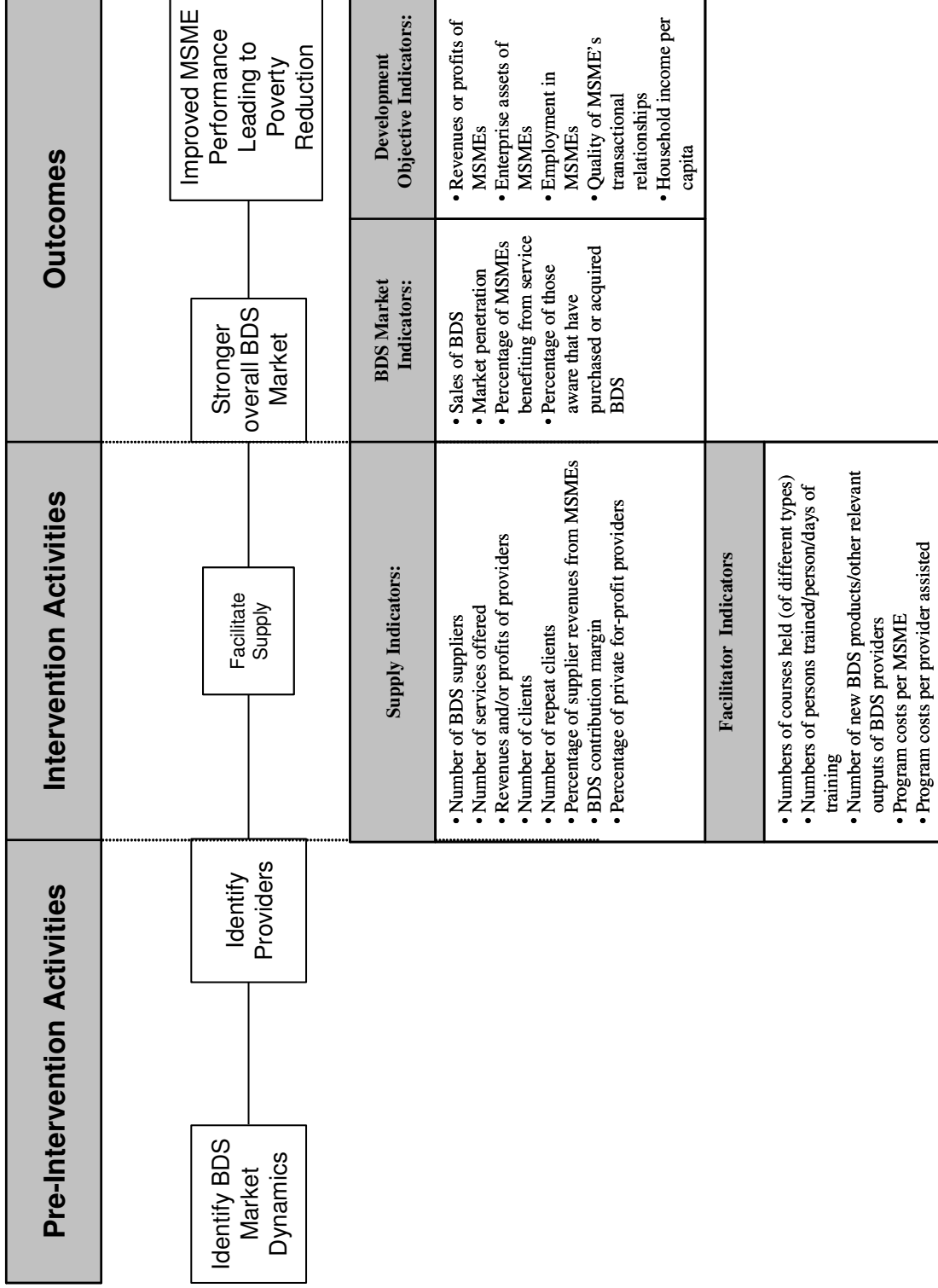
All approaches include interventions aimed at facilitating the supply of BDS services. Indicators for supply include number of suppliers, supplier revenue or profits, number of products offered, number of clients (a measure of demand), number of repeat buyers, percentage of MSME customers, margin earned from BDS, and percent of private, for-profit providers.

All approaches also expect a stronger, more vibrant BDS market to emerge as an intermediate outcome. And whether a project focuses directly on facilitating supply, supply and demand, or supply, demand, and strengthened linkages, the success of these intervention strategies should be – at least partially – borne out in their measures of BDS market development, including sales of services, market penetration, percentage of MSMEs benefiting from service, and percentage who are aware and have purchased or acquired a service. Acquisition is distinct from purchase so as to allow for embedded services, which are not paid for directly by the MSME client.

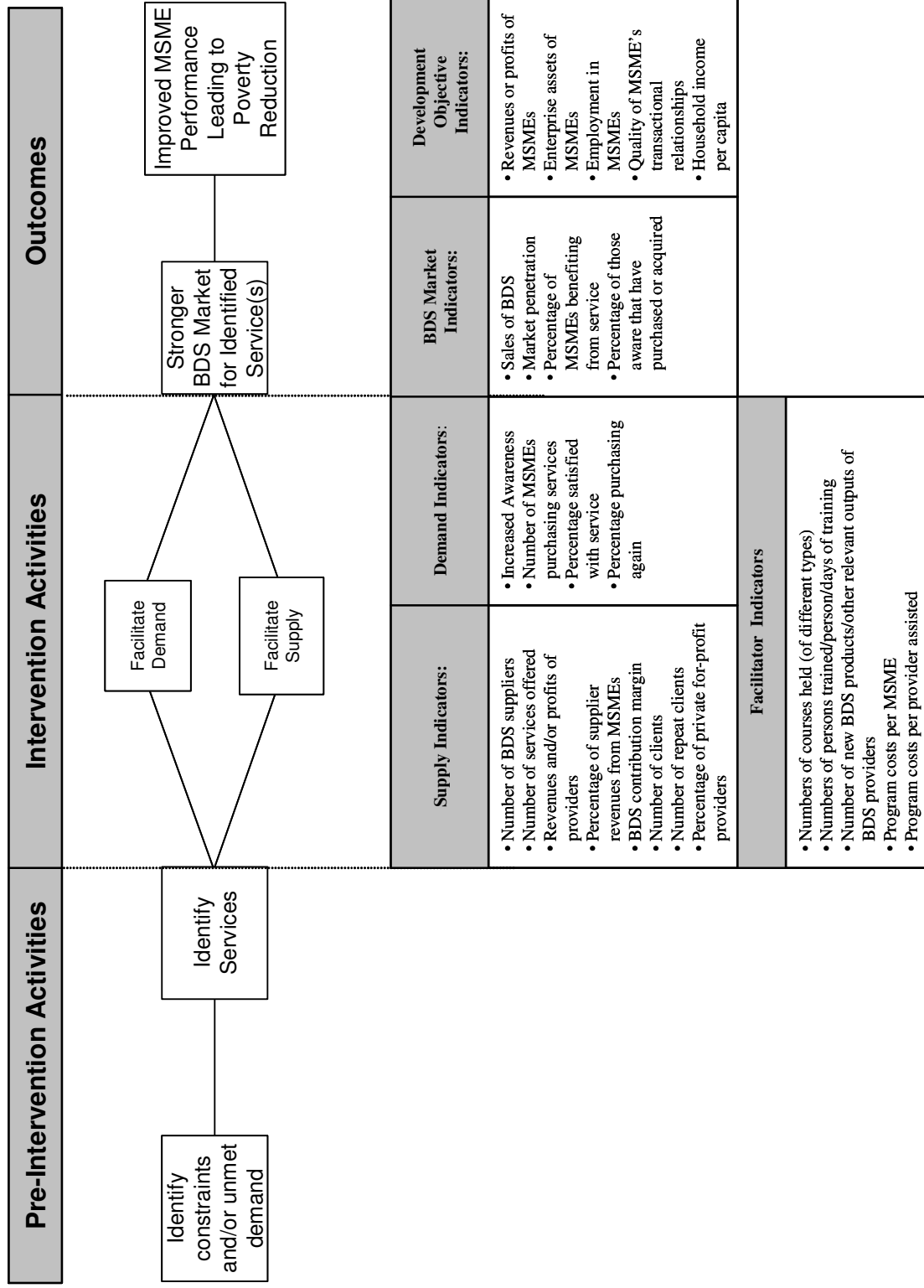
At the level of final outcomes, all approaches are concerned with firm performance and – in some cases – indicators of household well-being. For firm performance, the graphs offer MSME profits or revenues. While some organizations find these difficult indicators to measure, not all do. Certainly within USAID, sales data is commonly required. Other indicators include assets, employment, quality of transactional relationships and household income per capita.

The ability to credibly measure these indicators can depend on funds available to conduct impact assessments, available expertise, and other resources.

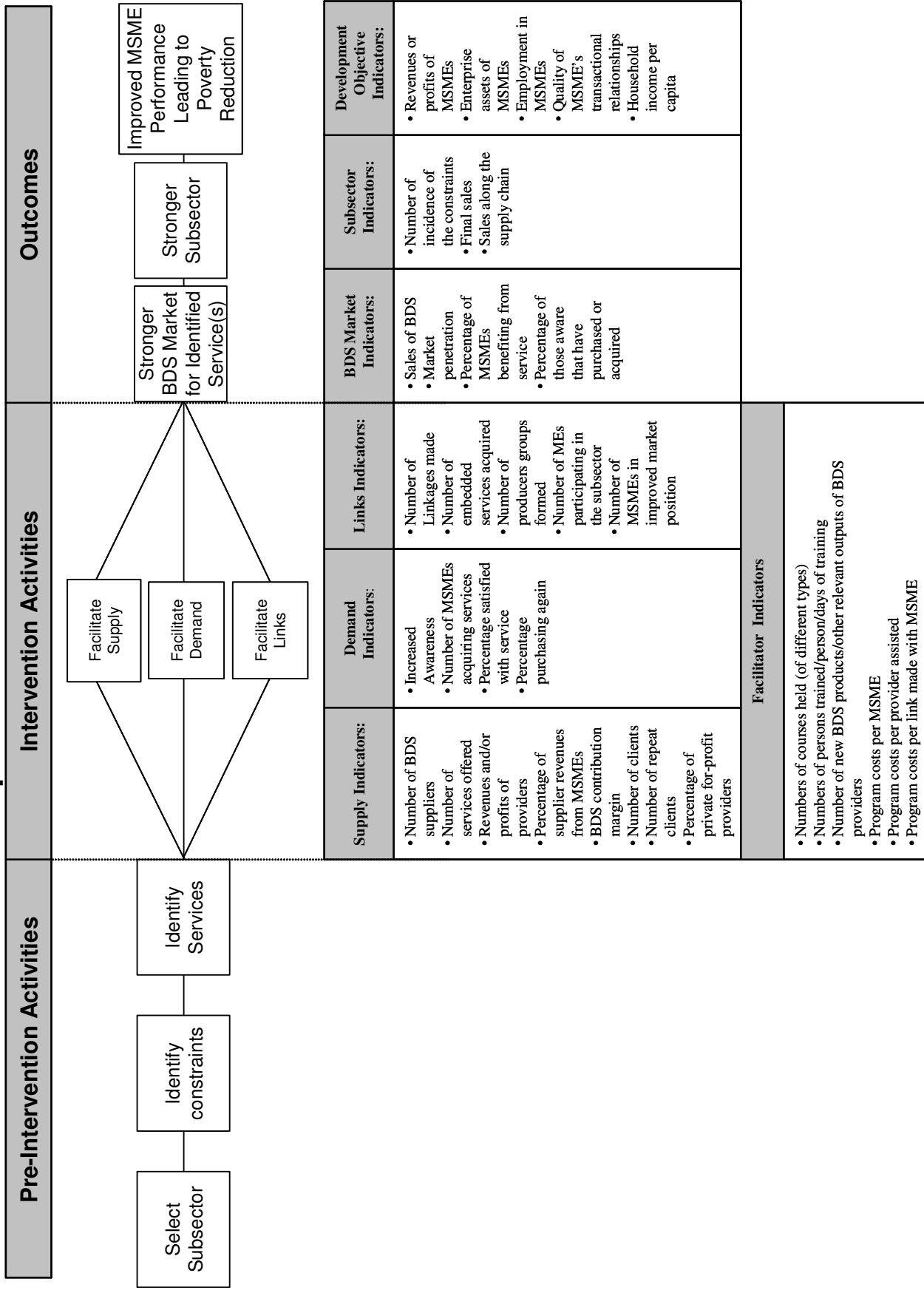
Graph 4: Portfolio Model



Graph 5: Services Market Model



Graph 6: Subsector Model



II. Conclusions

The aim of this paper has been to make the case for common approaches and indicators for assessing the impact of BDS programs. The rationale for common indicators rests on the logic models for the three approaches to BDS market development explored in this paper. Despite variations in hypotheses and underlying assumptions, the three approaches share intermediate and final impact objectives, which can be measured using the common indicators.

The BDS field has grappled with the diversity of business services, leaving some to argue that service products are too different to allow for common indicators for impact assessment. This paper argues that a certain level of conceptualization, there are commonalities among BDS programs focused on disparate services. The commonalities rest not on the products or services but on the impact objectives of the programs, which share underlying assumptions about the role of BDS market development in MSME performance.

A less emphasized but equally important argument for common indicators relates to establishing the credibility of the BDS field. Common indicators – it is argued here – are not only possible and useful, but they are necessary in order to advance knowledge in the field. Given the nascent stage of the field, donors and other practitioners need to prove to that BDS market development leads to poverty reduction and/or economic growth. We also need to be able to improve practice by learning from our experiments in the field and the respective impacts of various interventions. For both our proving and improving objectives, we need good practice in impact assessment and the learning afforded by common indicators. To learn from our successes and failures, we need common approaches and indicators to monitoring and evaluation.