

Assessing BDS Demand and Supply in Weak or Limited Markets

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*The SEEP Practitioner Learning Program (PLP) in BDS Market Assessment, Discussion Synthesis #2,
Assessing BDS Demand and Supply in Weak or Limited Markets*

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PREFACE

This discussion synthesis, *Assessing BDS Demand and Supply in Weak or Limited Markets*, is a product of the collaborative, learning-oriented forum the Practitioner Learning Program (PLP) in Business Development Services (BDS) Market Assessment (MA) provides—in this case, a moderated, e-mail-based discussion to reflect critically on the question of how market information can be gathered in weak or limited markets.

The e-mail-based discussion was invigorating and thought provoking, as the following pages will illustrate. The discussion generated information and ideas that were of immediate use to the participants in the implementation of their market assessment. It also moved the PLP further ahead in its journey of discovery to explore and document experiments in conducting and using BDS market assessments to design better programs and more-targeted interventions that will develop sustainable BDS markets for microenterprises. The compass for this journey is a learning agenda—questions that are relevant to individual programs in the PLP, that cut across the individual programs, and that resonate with the wider BDS field.¹

We hope you will find this particular part of the journey as invigorating and thought provoking as it was for the discussion participants, and we look forward to letting you know where our next journey takes us.

Please e-mail any comments on this discussion paper or the topic of BDS market assessment to plp@seepnetwork.org.

¹ See Annex I, Practitioner Learning Program in BDS Market Assessment: Learning Agenda at the end of this paper.

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INTRODUCTION

During February through May of 2003, the Practitioner Learning Program in BDS Market Assessment (PLP in BDS MA) conducted its second e-mail-based, moderated discussion on the following topic:

*Assessing BDS Demand and Supply in Weak or Limited Markets.*²

While the discussion group did not adopt a specific definition of “weak or limited markets,” participants focused the discussion on markets in which few BDS transactions occur or in which most BDS acquisition is informal or embedded within other business transactions.^{3,4}

The aims of the discussion were to—

- Provide support (input, feedback, and ideas) to the participants as they each conducted and analyzed their market assessments; and
- Come to consensus on key challenges, lessons learned, and areas to consider for further exploration on market assessments in weak or limited markets.

The discussion culminated in a session at the PLP in BDS MA midterm workshop, where participants synthesized their key “epiphanies” related to assessing weak BDS markets.⁵ The discussion initially focused on the analysis of a case study—the market assessments conducted by Mercy Corps in Azerbaijan.⁶ As participants analyzed the market assessment and project design materials from the case study, Mercy Corps’ Kamran Abdullayev acted as a resource person throughout the discussion, answering the participants’ questions and providing insights from Mercy Corps’ experience. Later the focus of the discussion changed to participants’ own programs and

² The organizations participating in the discussion were EDA Rural Systems Pvt Ltd—India; Entrepreneurship and Career Development Institute (ECDI)—Pakistan; Intermediate Technology Development Group (ITDG)—Kenya and the United Kingdom; International Development Enterprises (IDE)—Bangladesh, India, and the United States; Jigiyaso Ba Credit Union Federation—Mali; MEDA (Mennonite Economic Development Associates)—Canada; PKPEK (Association for Community Economic Development and Study of Microenterprises)—Indonesia; Swisscontact—Kenya; Triple Trust Organisation (TTO)—South Africa; World Education—South Africa and the United States.

³ The PLP in BDS Market Assessment Discussion Synthesis #1, *Building a Team for Market Assessment and Key Issues to Consider when Starting BDS Market Assessment*, is available at www.seepnetwork.org.

⁴ An SE receives an “embedded” service when s/he has another commercial transaction or commercial relationship with the provider. The service comes as an added feature of the main business transaction. The SE does not pay for the service directly, but the provider recovers the cost of the service through the overall transaction.

⁵ For more information on the Cape Town workshop, see the July issue of the *PLP News* at www.seepnetwork.org.

⁶ See “Annex II. Mercy Corps Azerbaijan: Case Study Summary” at the end of this paper.

the challenges they had faced assessing weak or limited markets. In contrast to the first moderated discussion, the participating organizations led the discussions and proposed specific topics on which to focus.

All PLP in BDS MA participants are working toward designing programs that target microenterprises, most of which are poor. Many participants are working in challenging contexts, such as remote rural areas or urban slums, and targeting underserved microentrepreneurs such as women and small retail shop owners. In these contexts, many markets, but particularly BDS markets, are often weak. Demand for BDS is often ineffective because microentrepreneurs are not sure what benefits particular business services can offer. Supply is often limited or nonexistent, and often, services that are available are not appropriate for very small enterprises. Consequently, exploring how to conduct useful BDS market assessments in such contexts and how to use the results to design effective programs for marginalized microentrepreneurs is a priority for the PLP in BDS MA. Many early BDS market development programs targeted registered micro, small-scale, and medium-scale enterprises (SEs) in urban areas. Reaching poor microentrepreneurs in marginalized communities is a key frontier in the BDS field and is one that the PLP in BDS MA is exploring. Through the participants' experiences, the PLP is documenting lessons learned to stimulate dialogue among practitioners and to further the knowledge base in the field.

The discussion addressed the following issues:

1. What are the challenges of assessing weak or limited BDS markets?
2. How can organizations gather useful and accurate information on BDS in weak or limited markets?
3. How can market information inform an overall program strategy in weak markets?
4. What does facilitation mean in weak or limited markets?
5. How can organizations strengthen demand for BDS in weak markets?
6. How can organizations strengthen BDS supply in weak or limited markets?
7. How can organizations use a BDS market assessment to help design and launch market development interventions?

Each discussion issue in *Assessing BDS Demand and Supply in Weak or Limited Markets* is synthesized in the following sections.

1. What are the challenges of assessing weak or limited BDS markets?

The ability to identify and understand the BDS services offered to and used by micro, small, and medium enterprises is the heart of BDS market assessment. Through their market assessments, PLP participants learned that most BDS services in weak or limited markets are offered in an embedded or informal manner. Consequently, BDS providers do not conceptualize their services as “services” per se but rather as value-added features of their core product or business. The SEs in these markets tend to have little awareness of any formal business services and when interviewed have trouble answering direct questions about their use and demand for BDS. In addition, little, if any, secondary data are available on BDS markets for microenterprises, or in some cases even on the markets for the microenterprises' products and services.

Cultural constraints also create difficulties during interviews with SEs, often resulting in longer interviews. In some cultures, standard research techniques, such as reading from a written questionnaire and recording SEs' answers in writing, are foreign to SEs—rendering the techniques

ineffective or less effective. Terms such as “BDS” and “embedded services” are not easy to translate into other languages, and even when translated, they are not readily understood by SEs and providers. Difficulties can be even more severe for specific groups of SEs that face particular cultural or economic constraints, such as women entrepreneurs or rural entrepreneurs.

2. How can organizations gather useful and accurate information on BDS in weak or limited markets?

From their experiences, PLP participants identified the following key elements in designing effective market assessments in weak or limited markets:

- Articulate a clear purpose for gathering the market information and be explicit about the program design decisions that the market information will inform. Use the identified purpose or objective as the guide for the market assessment design.
- Emphasize gathering qualitative information on business services rather than focusing on quantitative information.
- Plan a reasonably extensive market assessment since secondary data are usually very limited.
- Be flexible during the assessment to experiment with information-gathering techniques and build on emerging findings.
- To uncover hidden and informal services as well as latent demand, gather information on what business benefits SEs receive through business transactions and what business benefits they want, rather than only on what business services they receive or want.

PLP participants found the following techniques and strategies helpful in gathering accurate information in weak and limited markets.

Seek out SEs who would not normally come forward to answer questions. Those SEs who respond to announcements about information gathering are often the more successful or those with extra time. It is important to seek out other SEs as respondents as well because they often are smaller and have fewer resources.

- For example, PKPEK learned that its initial information gathering, which focused on business associations, BDS providers, and larger businesses in PKPEK’s chosen subsector, failed to capture the perspectives of microenterprises. PKPEK had to actively seek out microenterprise owners to interview them.

Put questions in the context that SEs understand. Many participants learned that terms such as “BDS” and “embedded services” were best avoided altogether. They got better responses if they asked questions using the entrepreneurs’ own “street language.”

- For example, ask, “Where do you get information or advice for your business?” or, “Who do you turn to when you experience business-related problems?” rather than, “Where do you purchase BDS?” or, “What BDS support have you received?”

Explore business relationships and the benefits SEs receive through those relationships. Several organizations started interviews by discussing SEs’ business relationships. These relationships might include product buyers, input suppliers, equipment suppliers, traders, other SEs, service firms (such as machine servicing, repair shops, or the media), informal service providers (such as friends, family, and colleagues), government agencies, and nongovernmental organizations (NGOs). Interviewers

then asked SEs about the various benefits they get from these relationships, not only the core product such as inputs, but also other benefits such as information, advice, and quality control.

- EDA interviewers helped microenterprise respondents describe their business relationships and the various benefits they gained through those relationships. Then interviewers explained that these benefits were “services” and helped respondents articulate, often for the first time, the various services they receive.
- To uncover a variety of sources for informal or unconventional services, Mercy Corps first found out about embedded services and their benefits and then asked, “Do you get this benefit from anyone else?”

Interview all the key market players, including SEs, trade associations, traders, and BDS providers that offer embedded or stand-alone services, using an exploratory interviewing technique and avoiding the use of foreign terminology. Interviewing embedded service providers can yield information about why and how they provide embedded services as well as additional information on what services they provide.

- PKPEK uncovered embedded BDS through interviews with trade associations by asking them who provides trading, brokerage, and intermediary services to their member enterprises. PKPEK also uncovered embedded services by interviewing traders in their chosen subsectors.

Research the subsector before the market assessment. Both TTO and EDA benefited from a good understanding of the subsectors in which each of them work before investigating embedded (and stand-alone) BDS in those subsectors. MEDA and ECDI were surprised to learn that each subsector in Pakistan is context specific. They had planned to investigate BDS markets in three different subsectors—handicrafts, garments, and information technology—with a similar approach. They realized, however, that while they could develop some generic tools, they would also have to develop modular components that could be adapted to specific contexts.

Use interviewers with strong communication skills and local knowledge; allow them to use their own techniques and language in interviewing.

- Both Mercy Corps and EDA gave interviewers a checklist of questions they wanted to have answered. The interviewers, however, were encouraged to use their own language and techniques to get the information.

Start interviews with a “warmup” conversation that establishes the context for later questions and discussion. Basic questions and discussion about an entrepreneur’s business are effective at the beginning of an interview.

Take culture into account when designing interviews.

- In Azerbaijan, Mercy Corps took into account that “asking questions right from papers is not a manner of conversation here.” Instead interviewers knew their topic well, asked questions from their heads, and recorded information directly after interviews.
- In Pakistan, women microentrepreneurs may not be comfortable talking to men or outsiders. ECDI found it easy to gather useful information through interviews with SEs because of their 12 years of promoting and serving women entrepreneurs in Pakistan.

Use exploratory techniques to experiment with different ways to get the same information.

Several organizations found that over time they improved at asking effective questions. A testing

phase or built-in learning-by-doing is a useful way to help develop the “right” questions to uncover hidden and embedded BDS. It may be more effective for interviewers to ask probing questions and “follow their noses” in discussions with SEs rather than stick to a rigid script.

Adapt the interview on a case-by-case basis. Each microentrepreneur or other respondent may have a different level of understanding regarding business services. It is helpful for interviewers to adapt their questions and techniques to the respondent in each interview.

Use focus group discussions (FGDs) to gather feedback from SEs on their potential demand for new services. To gather information on demand for services that SEs have never experienced, it is helpful to discuss the service and its benefits with them in a group setting.

- TTO developed service ideas based on common microenterprise business constraints and held FGDs with SEs to determine the potential demand for each type of service. During the discussions, TTO also gained feedback on the service features and delivery mechanisms that SEs demand.

Use a combination of techniques to uncover hidden and embedded BDS. For example, ECDI and MEDA conducted group discussions followed by in-depth interviews, whereas EDA did in-depth interviews followed by group discussions.

3. How can market information inform an overall program strategy in weak markets?

Discussion participants debated whether developing embedded or stand-alone services is more appropriate in weak markets. Those in favor of a focus on embedded services pointed out that embedded services can act as a natural driving force of market transactions and thus provide programs with an advantage in developing markets. Furthermore, embedded services are well tailored to improving transactions between SEs and other businesses. They also pointed out that the smallest enterprises may not be able to afford BDS in any form that requires direct payment. Those in favor of a focus on stand-alone services argued that stand-alone BDS provide SEs with more choice and give them more power to effect service provision.

Other participants noted the synergies between embedded and stand-alone services. For example, services embedded with another service may stimulate the demand for stand-alone services.

- Jigiyaso Ba (Federation of Credit Unions and World Education’s partner in Mali) is considering offering its credit clients information about and referral to training providers. They believe this embedded service could be profitable for them because higher-skilled borrowers are more likely to repay loans and request additional credit.

Discussion participants agreed that program focus will differ depending on the context of the situation and the results of the market assessment. The presence of embedded BDS does not automatically lead a facilitator to a particular program strategy. Rather, the participants identified the following three options for program design:

1. Leave the embedded service as it exists.
2. Improve and/or expand the BDS as an embedded service.
3. Introduce a competitive, stand-alone BDS or another competitive embedded service.

The participants found the following information necessary to help make a sensible choice among these options:

- Origins and context of the service,
- Linkages to core products or services,
- Hidden costs of the embedded service,
- Overall satisfaction of both the recipients and providers of the service,
- Competitive landscape, and
- Potential market size for the service.

Specific factors within the information gathered can provide clues about which design is more appropriate. For example, if the market reach of the embedded services is already significant, or when the embedded service is already perceived as being efficient and convenient, it is sensible to leave the service alone. If there is potential for an existing embedded service to reach significant numbers of microenterprises—for example, because a few large companies interact with many microenterprises—then it makes sense to build on or expand existing embedded service delivery.

In contrast, if the embedded providers have insufficient capacity to provide satisfactory services, it is sensible to develop a stand-alone BDS to compete with existing embedded service providers. Additionally, if embedded services are not responding to SEs' demand and/or the demand for stand-alone services is large enough for stand-alone service providers to survive and be profitable, it is also sensible to develop a stand-alone BDS.

- IDE in India found that agricultural input suppliers are providing advice that is of such poor quality that farmers suffer and lose faith in the service provider. These agri-input suppliers do not have the level of training necessary to offer good-quality advice.

Participants closed this discussion by acknowledging that it may also be appropriate in some contexts to promote both embedded and stand-alone services, or to test both and see which works better.

4. What does facilitation mean in weak or limited markets?

In the discussion, one participant noted that within the market development approach, NGOs are encouraged to act as facilitators, not providers, to meet the objective of creating sustainable, locally owned, commercial BDS providers. Current thinking in BDS best practice states that NGOs should facilitate, not interfere with, the development of commercial BDS markets. If NGOs provide business services, a commercial market does not develop; or, if commercial providers exist, they cannot compete with the fees (if any) of an NGO. Thus, a sustainable service market is not developed.

Several participants, however, pointed out that although the ideal is to act as a facilitator, in weak markets it may be necessary for an organization to act as a provider for a limited time. The participants agreed that the intervening organization can act as a facilitator, provider, or a combination of both at different stages in a program. Deciding what role to play should be made internally (at the organization and enterprise level) based on the organization's overall objectives, goals, policies, and competencies, as well as those of other existing players vis-à-vis opportunities and gaps in the market. Furthermore, NGOs should ensure that their efforts do not distort, but facilitate, market development and should follow a pragmatic approach, depending on the level of

development of BDS markets. In general, acting as a provider should be only an interim measure, and an exit strategy should be part of the upfront design.

- IDE initially acted as a service provider for micro-irrigation technology to generate the demand for the service and gradually became a facilitator by involving other stakeholders such as manufacturers, retailers, and distributors.

5. How can organizations strengthen demand for BDS in weak markets?

Several organizations emphasized the importance of demand stimulation in weak or limited markets. In fact, stimulating initial demand for a new service has been a rationale for temporarily acting as a service provider. A few of the participating organizations have successfully intervened in markets through performing different market roles and then have withdrawn, leaving behind a viable/sustainable BDS. Their experiences taught them key lessons about generating demand for BDS among SEs.

- IDE learned that the value of services has to be clearly demonstrated and the market well evolved and robust to generate demand.
- In the carpentry sector in Uganda, Swisscontact tried three different approaches before intervening by pilot testing training courses. They found that making promises and sharing research findings were not enough to generate demand. They had to demonstrate a real increase in business to change the mind of market actors.
- EDA demonstrated positive market interventions in a practical way when they intervened in the honey market. They attracted entrepreneurs into the market by educating them about the benefits of the honey market, resulting in lower prices and a more competitive environment.

Another role for the intervening organization is to advocate for other types of services in the market with the hope of expanding the skill set of SEs. To determine if this approach is appropriate, hold an FGD for a sample of SEs, and help them articulate their desired business outcomes and identify the link with other services. The key is to help the providers market the services so that the potential clients can see the link between that service and their desired business outcome.

6. How can organizations strengthen BDS supply in weak or limited markets?

Several discussion participants noted that one key problem in weak or limited markets is that few, if any, BDS providers are serving the target SEs. One participant noted that in the private sector new businesses often “spin off” from existing businesses when an employee leaves to start his/her own business. PLP participants discussed this process and explored its potential for increasing the supply of BDS in weak markets.

In practice, the spin-off process most often occurs through four different situations.

First: Large companies help small providers or other micro-businesses spin off by providing specific support and/or services. A large company might lend capital, equipment, and/or resources to help a micro-business start up.

- In Pakistan, Singer Sewing Machines offers skill development courses to sell its core product—sewing machines. The skills development helps the women to start new businesses. The motivation for the large company is promoting brand loyalty and access to the market as well as demonstrating social responsibility.

Second: Individuals build an expertise and credibility at a company and then start their own businesses. Important factors in employees' willingness to take this risk include startup costs, required investment and expected pay-back period, having credibility and positive client relationships, ability to initially survive with little or no revenue, overhead costs and the ability to adjust pricing, ability to offer a service with unique features (such as after-hours availability) even if the service is not new, alternative career opportunities in case of failure, access to resources (such as government), and legal issues.

- In Pakistan, women SEs learn the beauty trade in large beauty shops and then set up their own smaller beauty shops.

Third: Individuals gain skills and connections through work in the government, an NGO, or an association and then leave to start their own businesses.

- In Azerbaijan, some veterinarians worked for the State Veterinarian Department and then left to start a private business because they could earn more money.

Fourth: Government or NGOs help entrepreneurs start up service providers.

- In India, the government offers an initial subsidy to poor farmers to purchase high-cost agricultural equipment and become equipment rental providers. These Agro Service Centers provide high-cost agricultural equipment such as tractors, power tillers, and irrigation devices to poor farmers on a fee basis. The investment in the center consists of loans from a commercial bank (nine-year repayment term) as well as subsidies from the government. The service centers are working well and reaching poor farmers with reasonable rental prices.

PLP participants discussed a wide range of challenges and risks in developing spin-off services, basing their discussions on personal and third-party experiences. Entrepreneurs might be reluctant to take a risk that requires a high investment with a long payback period. Building strong relationships and credibility in the market is important to the success of the spin-off service. In addition, a willingness to go above and beyond the regular service may be needed to draw customers to the new service provider. For example, offering services when most needed, including evenings, weekends, and holidays, helped one entrepreneur develop his business.

In addition, many entrepreneurs lack access to business services needed to develop a viable service business, including financial and non-financial services. In Pakistan, NGOs initiate programs on an ad hoc basis, and government programs are all supply driven and do not meet market demands. Due to poor planning or market failures, certain services are not available for female microentrepreneurs.

Having a solid contingency or backup plan helps to mitigate the risk of failure in the new venture. Kamran Abdullayev from Mercy Corps was encouraged to start his own business consulting firm because he knew he had alternate employment options in case of failure.

Participants also discussed the potential effects on competition in the market if stand-alone service providers spin off from embedded service providers. One participant argued that there is a risk that spinning off stand-alone services from embedded services threatens the provision of a bundle

of embedded services. For example, if the individual spin-off services are more lucrative than the bundle of original services then the embedded service provider may not be able to survive. Certain players in the production process might be able to make a profit on contracting out services. These services might be able to spin off as stand-alone services, leaving the original producers with a bundle of costly services to deliver. Another participant responded that a spin-off provider does not necessarily take away services from an existing provider but rather serves as competition for the same services. That is, the hiring out of equipment would not be removed from the embedded service provider unless a spun-off competitor cornered the market and put the original embedded service provider out of business.

Participants agreed that a facilitator has no set role in helping to develop spin-off services. The facilitator can promote the process by assessing demand and the ability of the market to support additional service providers. When planning how to promote spin-off service providers, the facilitator can examine the existing competition, economic context, and operational environment of the country, as well as internal factors that promote entrepreneurship, such as willingness and ability to take risks and desire to manage a business. The facilitator can promote the process of spinning off services by playing the role of a consultant to spin off providers and offer guidance on key aspects of the process throughout initiation, management, and expansion.

This discussion ended with several unanswered questions:

- Are spin-off businesses only viable in stronger markets?
- Is it possible to motivate the private sector to initiate the spin-off process without incentives?
- Is some subsidy required to initiate the spin-off process in weak markets or for services (such as equipment rental) in which the initial investment is high and the payback period is long?

7. How can organizations use a BDS market assessment to help design and launch market development interventions?

In their discussion, participants identified many ways to use market information to determine appropriate interventions and contribute to market development, from generating awareness to test marketing. Some examples from their plans and experience follow.

Identify service provision channels. In their assessment of rural leather shoe production in India, EDA identified business relationships the artisans have with various stakeholders and explored them in detail to understand how the relationship can be used effectively in BDS provision. EDA learned that it might be possible to increase the provision of BDS through some of these business relationships.

Identify new services that might be demanded. TTO learned that in the spaza (small retail shop) market, a third party might be able to help make links to address spaza owners' limited financial options and/or the lack of knowledge on how to pursue them. A BDS provider could act as the intermediary between the SE and the financier, ensuring that the SE delivers what was promised for a fee from the financier.

Generate initial awareness and demand for services. IDE used its market assessment of micro-irrigation technologies to generate initial demand and awareness for those services. IDE introduced new micro-irrigation technologies into the marketplace where no low-cost technologies previously

existed, enabling farmers to efficiently access water and grow new high-value crops. IDE educated entrepreneurs on the benefits of the technology through rural-based mass marketing, while developing an array of supply chain actors (local manufacturers, distributors, retailers, installers, etc.), and essentially created new markets. Once a large demand for the technology had been generated, IDE exited the market, enabling the newly created businesses to meet the demand.

Identify ways to stimulate demand. Mercy Corps also used its market information to generate demand and awareness of veterinarian services in Azerbaijan. Mercy Corps then conducted educational campaigns to help farmers recognize symptoms of animal diseases, resulting in an increase in the demand and usage of veterinarian services.

Identify ways to demonstrate service benefits. Although it is thought that subsidized services generally distort markets, EDA learned that when a government agency organized a number of technical training programs, the demand for technical training increased in the target area as microentrepreneurs recognized the benefits of training.

Deepen the understanding about SE problems and stimulate demand for BDS. Swisscontact's market assessment in Kenya provided them with information about gaps of knowledge in the market. It also helped them identify the "real" problems that microentrepreneurs are facing. Swisscontact found that a lack of business education and problem-sharing among business colleagues caused SEs to focus their attention on perceived problems that often are uncontrollable and have little relevance. Through Action Learning group discussions, Swisscontact discovered that entrepreneurs gained a deeper insight into the complexity of their own problems. As a result, their perceptions of their business problems tended to move away from uncontrollable to more controllable problems and many recognized their need for particular business services.

Learn what services and service features SEs want. TTO's market assessment uncovered unexpected constraints in the spaza market. TTO staff were surprised to learn that environmental issues such as pests and rain are significant constraints for small-retail shop owners. They also were surprised about some of the obstacles they faced in implementing interventions—for example, there are strict and lengthy legal requirements for setting up a pest control service. Lastly, they were surprised that SEs often really wanted to learn a particular skill, such as costing and pricing, rather than having a BDS provider simply do it for them.

Determine an appropriate role for an implementing organization. World Education is helping Jigiyaso Ba (JB) in Mali assess the providers of training services to determine whether JB should continue in its role of providing training services or play a different role in that market. JB's decision will be based on such factors as profitability, accessibility of training to SEs, interest of SEs in training delivered specifically by JB, and the quality and availability of training from other providers. World Education and JB aim to determine whether JB can better develop the training market as a provider or as a facilitator.

Develop an appropriate package of services and service features. ITDG in Kenya is focusing on traders who provide a range of embedded BDS to microenterprise producers to meet orders from high-volume or high-value buyers. ITDG concentrated on understanding what business outcomes SEs and embedded service providers wanted to achieve through the provision of BDS. They used their market assessment information to determine service features and packaging, including consumer needs, attitudes toward the proposed solution, and their willingness and ability to pay

for it. ITDG worked with a trader to use trial production with a group of microenterprises as a market assessment technique, identifying the strengths and weaknesses in the embedded BDS that the trader provided. They learned, for example, that the microentrepreneurs were more diligent in their work when they knew there was a quality control service. They also learned that while having the trader work with a cluster of microenterprises had its benefits in terms of the microenterprises putting pressure on each other to ensure quality, it also had a negative aspect in that an error by one microentrepreneur would get replicated by others in the group. These findings helped ITDG and the trader improve the embedded services provided to the microenterprise producers.

Concluding Thoughts from the PLP Facilitator

While this discussion was very helpful to the participants, it raised as many questions as it answered for them. Gathering accurate information on weak and limited markets stimulated participants' thinking about how to use that information to develop effective BDS market development programs that genuinely help microenterprises. They were, however, able only to begin discussing their ideas, plans, and experiences for developing weak BDS markets for microenterprises. Indeed, this is the frontier of BDS market development as many organizations around the world strive to make markets work for the poor.

PLP participants are now moving forward with testing market development interventions in weak markets using the market information they have gathered. To support this step, participants are engaging in a third listserv discussion that builds on the discussion summarized here. This third discussion addresses how to use market information to develop—

- Strategies to attract commercial BDS providers,
- Strategies to stimulate demand for BDS, and
- Pricing and payment options for BDS.

Through this and subsequent discussion summaries, the SEEP PLP in BDS Market Assessment aims to share its collective thinking with other practitioners in the BDS field and stimulate further dialogue on how to use market information to develop BDS markets for microentrepreneurs.

ANNEX I. PRACTITIONER LEARNING PROGRAM IN BDS MARKET ASSESSMENT: LEARNING AGENDA

The learning agenda for the PLP in BDS MA, developed by the PLP participants, consists of one main, overarching question and several other related questions.

Main Question

How can market assessment be used to design a program (a program that increases commercial transactions for BDS and benefits SEs—micro, small-scale, and medium-scale enterprises)?

Other Questions

- How can MA help a program manager choose or design BDS that are relevant, have high impact, and have the greatest demand?
- How can market information be gathered and applied in weak markets; for example, markets in which consumers have little or no understanding of BDS and markets for typically underserved groups of entrepreneurs such as low-income entrepreneurs or women entrepreneurs?
- How can MA lead to an in-depth understanding of dynamic SE and BDS markets? For example, how can MA lead to an understanding of embedded services, substitutes for transactional BDS, and latent or unexpressed demand in changing markets?
- How can a program manager choose appropriate MA tools by weighing factors such as cost vs. benefit, available time and resources, and the size of the market opportunity?

Participants address the learning agenda questions in two ways. First, they address the questions through the lens of the implementation of their individual programs. Second, as they implement their individual programs, they join together to address common learning themes.

ANNEX II. MERCY CORPS AZERBAIJAN: CASE STUDY SUMMARY

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Project Background and Approach

In 2002, Mercy Corps responded to a request for proposals from USAID with a successful proposal to develop the markets for veterinary and production advice services for rural, low-income livestock farmers in Lenkoran and Massali, two southern regions of Azerbaijan. These regions were chosen because they showed economic potential, but the poverty rate was high (68 percent). The most important sector in the area is agriculture and much of the area is characterized by remote mountainous villages.

Market Assessment

At the time of the market assessment, Mercy Corps already had a sizeable portfolio of BDS projects in Azerbaijan. Mercy Corps' market assessment for this project had three main components: (1) an overview assessment of 12 BDS markets for microenterprises in the two regions, (2) a more detailed assessment of the markets for veterinary and production advice services, and (3) a rapid subsector analysis of the livestock subsector. These components are summarized in Table II-1.

Key Findings of the Market Assessment

Mercy Corps used information from the market assessment to help decide on which services to focus and how to develop those service markets. Mercy Corps also used the market assessment to help establish targets for the program.

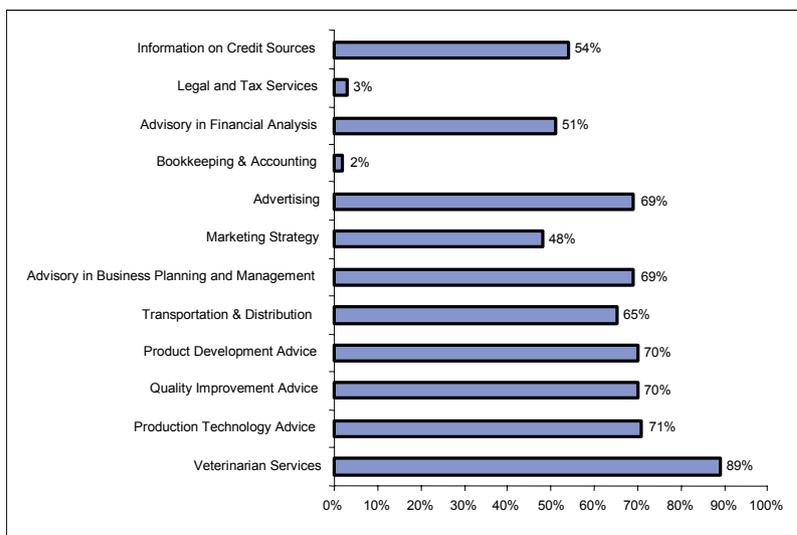
Which services?

Mercy Corps decided to focus on the service markets with the most potential for expansion. They measured this potential by contrasting the percent of SEs that considered a service important for their business with the percent of SEs that had not yet acquired that service. Figure II-1 shows the results of the analysis.

Table II-1. Three Components of Mercy Corps' Market Assessment in Azerbaijan

Study	Date	Main Objectives	Assessment Methods
Overview assessment of BDS markets	Nov-Dec 2000	<ul style="list-style-type: none"> • To understand an overall picture of the BDS markets in the area • To assess the current usage, including awareness, reach, and retention of various business services by SEs • To describe the main consumer segments for BDS in general and specific business services • To identify specific demand for services and opportunities for commercial service provision • To help design market development interventions for one or several BDS markets 	<ul style="list-style-type: none"> • Key informant interviews with local NGOs providing BDS, international programs, business associations, and business people. • Survey of 120 SEs • FGDs with SEs • Interviews with 37 BDS providers
Detailed assessment of the veterinary and production advice services markets	Nov 2001	<ul style="list-style-type: none"> • To present a clear picture of the market for veterinary and production advice services, including market size, penetration, trends, customers' purchase habits and satisfaction, and key reasons for purchase and non-purchase • To pinpoint key weaknesses and opportunities in the market for these services • To help design program interventions for developing the market for veterinary and production advice services 	<ul style="list-style-type: none"> • Survey of 100 livestock farmers through group discussions • FGDs with service providers (veterinarians and veterinary drug suppliers)
Rapid subsector analysis of the livestock subsector	Nov 2001	<ul style="list-style-type: none"> • To identify the growth potential of the animal husbandry and poultry business for commercial purposes. • To verify that veterinary and production advice services address key constraints to the growth of the subsector and the business performance of small-scale farmers in it. • To identify other key constraints to the growth of the subsector and the business performance of small-scale farmers in it. 	<ul style="list-style-type: none"> • Survey of 100 livestock farmers through group discussions • Key informant interviews with other actors in the subsector, including traders, government agencies, and veterinarians

Figure II-1. Potential for BDS Markets in Lenkoran and Massali



Note: Product development advice, quality improvement advice, and production technology advice were commonly identified by clients as production advice and were therefore grouped together in the program. This figure demonstrates that there was significant unmet demand for veterinary services and production advice services that are embedded within traditional veterinary services. Unmet demand signals market potential.

Veterinary services comprise animal disease prevention, treatment measures, and production advice services, which include information on breeding and feeding techniques. They are provided by veterinarians who travel to farms to treat animals for a fee and veterinarian drug stores that provide embedded production advice at the point of sale.

Basing their decision on the initial comparative BDS market assessment, Mercy Corps decided to focus on the veterinary and production advice services markets for the following reasons:

- The market for this type of service has the most potential to expand;
- The nature of veterinary services enables focusing on the specific sectors in the target area—animal husbandry and poultry production, which have a potential for growth, and thus, for fueling demand for services that will ensure the highest program impact; and
- The nature of veterinary services enables developing a supply for embedded production advice services for animal husbandry and poultry businesses.

To confirm the choice, Mercy Corps conducted a subsector analysis of the animal products market. They found that the subsector was very significant to the local economy and was growing substantially. Of the estimated 40,000 registered landowners in the two regions, 10,025 were involved in animal husbandry and poultry production activities for commercial purposes. An estimated 45 percent of these were women, who primarily engaged in the poultry business. These findings confirmed that this subsector was an important and viable one in which to intervene. The subsector analysis also showed that animal death and disease, rejection of animals for sale due to health problems, and poor breeding and feeding practices were three of the most severe constraints to the profitability of small livestock farmers. Mercy Corps found that these three problems could be addressed effectively by using veterinary and production advice services. This finding confirmed that veterinary and production advice services would have a significant and positive impact on SEs that used them.

What interventions?

Mercy Corps aimed to design interventions to address the key constraints to the growth of the markets for veterinary and production advice services. The detailed assessment of the veterinary and production advice markets gave them information on the key constraints in those markets.

Group discussions with small livestock farmers revealed the following *demand-side constraints*:

- Consumers do not fully understand the potential benefit of the service to their businesses and are risk-averse to trying new services.
- Consumers are not aware of the payment options and assume they must pay cash up front; as a result, they do not use the services, thus losing access to production advice in the process.
- Consumers located in the remote areas are not always attractive for service providers, who note that they are generally not interested in making long journeys to serve single clients or groups of fewer than three.
- The local culture limits women from directly contacting the service providers, who are all men.

On the supply side, Mercy Corps found that 119 veterinarians were practicing in the Lenkoran and Massali regions. Of these, 101 worked in the field, traveling to farms and treating animals. After the collapse of the Soviet Union, they began to provide services independently to private animal husbandry and poultry businesses on a fee basis; these fees have become their primary source of income, although they also serve noncommercial clients. Another 18 veterinarians operated their own veterinarian drug stores, providing production and disease-prevention advice bundled with the sale of veterinarian medicines. Both veterinarians and veterinary suppliers admit to long-entrenched behaviors arising out of the former centralized system in which marketing services or customer satisfaction simply were not business concerns. Because their services historically are targeted for large businesses, the veterinarians do not promote the fact that they offer payment options when it comes to smaller clients. Moreover, the veterinarians rely almost fully on word of mouth: a “clients will find me” attitude. In FGDs, clients reported dissatisfaction with particular features of veterinarian services. They described veterinarians making the long trek out to remote villages without any medical supplies; the veterinarians would diagnose conditions but could not offer the appropriate medical treatments.

Supply-side problems include the following critical constraints:

- Service providers have poor promotion and marketing strategies.
- Service providers lack business skills to develop and market attractive service products.
- Service products lack the features that consumers want; service package (the availability of necessary drugs and facilities during the service delivery) and service consistency (accuracy in delivering the service in a timely manner) both were identified as desirable service features.

What targets?

Mercy Corps used market assessment information to help set targets for impact at the level of SEs, BDS providers, BDS markets, and product (meat) markets.

At the level of SEs, Mercy Corps found that a change in behavior regarding knowledge of illness, symptoms, and treatment could reduce animal deaths, thus increasing profits by 7 to 9 percent for large animals and 20 percent for poultry. Increased productivity resulting from improved breeding rates and feeding practices could increase profits by 2 to 3 percent. A reduction in the rejection of animals for sale by the State Animal Disease Control Board Examination could increase profits by 45 percent for large animals and 20 percent for poultry. Mercy Corps used this information to set targets for increased profits at the level of SEs.

At the level of BDS providers, Mercy Corps found that the 101 veterinarians typically earned approximately US\$960 annually serving 20 commercial clients for veterinary services and 10 for embedded production advice services. Mercy Corps used this information to set targets for the number of providers involved and the expected increase in their earnings.

At the level of BDS markets, Mercy Corps found that 21 percent of small livestock farmers had used veterinary services and that this market was worth approximately US\$133,894 annually. Twelve percent of small livestock farmers had used embedded production advice services. While women made up 45 percent of the market, only 5 percent of them had accessed veterinary or production advice services. Mercy Corps used this data and other market information to develop targets for increases in market penetration, both in general and for women farmers in particular.

At the level of the meat market, Mercy Corps used information (from secondary sources) on the overall size and growth of this market combined with the information on potential impact at the microenterprise level to set targets for increases in the sales volume for meat products in the target areas.

Program Design

Goal: To improve profitability for clusters of rural poor and women micro-entrepreneurs (SEs) by increasing access to a network of trained veterinary and production advice service providers, resulting in significant expansion of the service and final goods markets.

Objectives:

- **Microenterprise:** Increase sales by an average of 35 percent for 4,158 microentrepreneurs—of whom 44 percent are women—through greater access to services via 67 client clusters.
- **Provider:** Strengthen the capacity of a network of 54 veterinarians and veterinary suppliers to provide innovative and high-quality services through improved business and marketing skills, resulting in an 87 percent increase in profitability.
- **BDS Market:** Expand the veterinarian and production advice services markets by 70 percent and 59 percent respectively; sustain expansion through network and cluster revitalization and development.
- **Product Market:** Increase sales volume by 22 percent for meat products in the target area over three years.

Timeframe: Three years.

The Mercy Corps program strategy is to serve as a BDS facilitator, building on existing relationships and developing both client clusters and a provider network that will address market constraints and boost individual profits.

Demand-side Approach:

Raising Awareness: To increase awareness about how veterinarian and production advice services can maximize microenterprise profits through proactive and preventative animal care, Mercy Corps will reach out to clients using three primary contact points: (1) the local bazaar, (2) the State Animal Disease Control Department, and (3) existing client clusters. Mercy Corps' activities will include the following:

- Promoting the benefits of the services and payment options through testimonials, demonstrations, and newsletters, using regional and local markets that serve as natural information centers.
- Using the State Animal Disease Control Department, a mandatory stopping point for producers before going to market, to disseminate information on the services; for example, a directory of providers.
- Encouraging existing client groups in remote areas to spread the word about service benefits and payment options in nearby villages.
- Accessing women by visiting village points that are frequented by women, such as clinics and water sources, to ensure increased awareness among this target population.

Cluster Development: Mercy Corps' approach is to use client clusters, through which service providers can reach SEs more cost effectively. This approach has proven to be successful when used in projects in Azerbaijan and worldwide.⁷ In many of the target villages, informal groups of farmers already exist; together, they purchase inputs and share transportation costs for greater economies of scale. Access to suitably customized veterinary and production advice services will be addressed through the following:

- Teaching groups of women (including existing Mercy Corps Child Survival women's health groups) involved in animal husbandry in 37 remote villages, which is the most efficacious way to schedule veterinary visits so they have access to information about prevention measures, breeding activities, and common home remedies. The local culture is more open to women accessing services in groups than as individual clients.
- Strengthening existing groups and facilitating the formation of new clusters as a way to raise the profile of often-neglected women farmers and farmers in remote villages.
- Organizing cross-visits between existing and potential clusters to inform new groups about the economic benefits of clustering.
- Involving respected community leaders, such as school principals, local officials, and doctors (especially women), in the client clusters. These leaders can serve as a bridge between the veterinarian and female group members.

Supply-side Approach:

Skills and Network Development: Mercy Corps' approach is to build local providers' capacity so they will be able to meet emerging microenterprise demands. Providers will gain the skills modeled by Mercy Corps, apply them in the field, and finally transfer them to other providers, thus forming the framework of a providers' network. By establishing these links within a network, providers can identify common issues and increase capacity to identify their own needs and access resources. Mercy Corps' interventions on the supply side will include the following:

⁷ The UAI revealed that 69 percent of farmers preferred to receive services in groups.

- Developing an outreach strategy with the provider to explain benefits and payment options.
- Providing training on business planning and management principles to improve performance quality and consistency.
- Developing products with appropriate features to respond to customers' requirements.
- Modeling the usefulness and financial advantages of participating in a network in which providers exchange market information, best practices, and effective techniques.
- Strengthening links with the Ganje Agricultural Academy and State Animal Disease Control Board for information and referral purposes.⁸

Lessons Learned on Gathering and Using Information

Strategies that worked well

- One factor contributing to the success of the assessment was having a well-selected and trained assessment team. It was important to not only provide an appropriate orientation for the team, including information about the questionnaires and target group, but also to provide the team with basic knowledge on BDS and the possible ways microentrepreneurs can access and use the services.
- Pre-assessment testing, daily monitoring, and daily feedback discussions during the assessment were tremendously helpful for identifying and addressing emerging problems or misunderstandings in the process. Post-assessment discussions with SEs were very important to understand the reasons why they decided to purchase or not purchase a service.
- To reveal embedded BDS acquired by SEs, it is crucial to ask SEs not only “who do you purchase BDS from?” but also “which businesses do you link to (suppliers, wholesalers, dealers, and etc.)?” and “what kind of non-financial assistance do these businesses provide you?” and “Do you get the same assistance from other sources (friends, media, state organizations, and others)?” Here the interviewer may give examples of non-financial assistance, such as advice, information services, or training to “warm up” respondents. Through this approach, Mercy Corps discovered that veterinarians are very effective and are the only breeding and feeding (production) advice providers to the farmers. Mercy Corps also learned that veterinarians provide not only veterinary and production advice, but also many other services, such as information on market prices, new drugs and food, and potential meat or animal buyers.
- Subsector assessment helped Mercy Corps confirm that the interventions in developing the fee-based veterinary and embedded production advice services will have a quick impact because the demand for meat and its byproducts is growing, and the subsector has potential for growth. During the subsector study Mercy Corps also uncovered a need for other services—information on product demand and sales prices and affordable credits in the remote villages.

Strategies that did not work well and lessons learned

- Mercy Corps chose to focus on fee-based veterinary and embedded production advice services because, from the first assessment, they saw a clear potential to develop markets for those two services and knew existing mechanisms (veterinarians providing services)

⁸ Linkages for ongoing educational and informational exchange with the Ganje Agricultural Academy already exist, since it is the only academy in the country with a degree program in veterinary sciences; 55 percent of veterinarians in the target area graduated from this academy.

were available upon which to build in the target area. The major goal of the subsector assessment was to ensure that the target sector is a promising one, the service will target SEs, the interventions will have the most possible impact, and program investment will not be in vain. For these particular objectives, the survey worked well and revealed that these services really do address highly prioritized problems for farmers. But during the subsector assessment, Mercy Corps could see that farmers also face other constraints in doing their businesses (such as market information, information on demand and sales prices, affordable credits) and that a more comprehensive BDS market assessment, focusing only on meat and poultry producers, could be very helpful. Luckily for Mercy Corps, the veterinarians are very active stakeholders in these sectors and provide many other embedded services. They often provide advice on the subject of animal health to the resellers when they buy animals, thus ensuring a good-quality purchase. Veterinarians also often provide treatment services for the resellers' animals, just as they do for farmers. Finally, resellers in turn refer farmers with sick animals to the veterinarians. Mercy Corps concluded that solid, functioning relationships are in place and are worth developing further. When implementing the project, Mercy Corps plans to apply the "incremental" approach so veterinarians can incorporate other embedded services that solve the identified problems for targeted farmers.

A big lesson for Mercy Corps is that if they had done the assessment again, they would have done the subsector analysis first and then, using its findings, would design and conduct BDS market assessment for the specific subsector.

- Another lesson learned was the importance of filtering out data collected during the assessment, especially during the FGDs. One example that demonstrates misuse of data is the finding on lack of credit. During the FGDs with small enterprises (first assessment), many respondents referred to a lack of credit as a major constraint to SEs' expansion. But further questioning revealed that most entrepreneurs would not know what to do with a loan if they got it. Mercy Corps used this lesson to help separate "good" data from "bad" data during the veterinary services survey.