

# **Seminar Reader**

**Business Development Services  
Testing the Guiding Principles**

## **BDS UPDATE**

**Fourth Annual BDS Seminar  
Turin, Italy  
September 2003**

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

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# FOREWORD

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

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

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

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

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

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

Alexandra O. Miehlsbradt  
Mary McVay  
Small Enterprise Development Consultants

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# 1. Introduction

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

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

This is the BDS Update.

*The purpose of this BDS Update is to help experienced BDS professionals—donors, researchers and practitioners—keep up with the latest trends, learn about recent innovations, and understand emerging challenges and debates in the field.*

## 1.1 Purpose

In 2001, the Donor Committee on Small Enterprise Development issued “Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention.” The “Blue Book” synthesized years of experience in helping SEs access business development services in order to stabilize and grow their businesses. It also outlined a new market-based strategy to increase BDS program impact, outreach, sustainability and cost-effectiveness. Since 2001, BDS donors and practitioners around the world have been adapting their on-going programs and designing new initiatives that reflect this “BDS market development approach.” Many are also pioneering innovation in the field by challenging themselves to:

- Identify and support services that help SEs stabilize and grow;
- Expand scale and outreach of these efforts;
- Strive for sustained development of the markets for these services; and
- Explore ways to reach the poor.

The purpose of this BDS Update is to help experienced BDS professionals—donors, researchers and practitioners—to keep up with latest trends, learn about recent innovations, and understand emerging challenges and debates in the field.

## 1.2 Outline to the BDS Update

This BDS Update is the second part of the annual BDS Reader now in its fourth year of publication by the ILO. The discussion is organized into the following key topics:

- **BDS Market Assessment and The Program Design Process**: Practical approaches to gathering and using information on BDS markets for the poor;

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

- Viable Business Models that Deliver BDS to the Poor: An area of renewed interest;
- New Types of BDS—Information and Communication Technologies: The promise of developing SEs and BDS markets;
- Innovations in Interventions: Tailoring BDS market development to different BDS markets;
- Managing BDS Market Development—Institutional Roles in New Programs;
- Performance Assessment: The challenge of linking BDS market development to impact;

- “BDS” Teams Up—How BDS Contributes To Broad Development Goals; and
- Big Debates in BDS.

The annexes include an extensive bibliography and list of examples. This Update assumes that the reader is familiar with common terminology in the BDS field and with the principles of the BDS market development approach. For definitions of terms and a resource list of useful reading material, websites, and training opportunities, see the BDS Primer.

## 2. BDS Market Assessment and the Program Design Process: Practical approaches to gathering and using information on BDS markets for the poor

For many development organizations, poverty alleviation is a key goal of BDS programs. Some agencies choose to address this by targeting formal small and medium enterprises with the aim of increasing employment and economic growth. Others want to reach the poor more directly by targeting “marginal” microenterprises, for example those owned by women; operating in post-conflict situations; or based in rural areas. Several agencies in the latter category are vigorously testing the market development approach to see how it can give poor entrepreneurs access to the business services they want and need. BDS markets for microenterprises are often weak, with few transactions, or they are “hidden,” with most BDS passing through informal or embedded channels.<sup>2</sup> A current area of innovation is learning how to effectively assess these weak and hidden BDS markets and using the information to design BDS market development programs able to target marginalized microenterprises.<sup>3</sup>

*When assessing weak or hidden markets, keep the demand orientation of private sector BDS marketing research tools, but use the language of business benefits rather than business services.*

### 2.1 Assessing weak and hidden BDS markets

In the first few years of applying the market development approach, the focus of BDS market assessment was on adapting and using private sector marketing research tools. This worked well for more active BDS markets. However, in weak and hidden BDS markets, practitioners are adapting and developing tools to elicit information from poor entrepreneurs who have had little, if any, interaction with formal business services. In these markets, BDS market assessment needs to be more extensive and more creative due to challenges that more developed, fee-for-service markets do not face.

For example:<sup>4</sup>

- There tends to be little, if any, secondary data available;
- SEs are not familiar with BDS and so cannot answer direct questions about it;
- Service providers are primarily informal or operate within product sub-sector chains and have difficulty answering direct questions about BDS; and
- Both SEs and BDS providers are sometimes wary of formal information gathering techniques.

<sup>2</sup> Anderson, 2000 and SEEP, 2003

<sup>3</sup> For example the SEEP Practitioner Learning Program on BDS Market Assessment. For more information see, [www.seepnetwork.org](http://www.seepnetwork.org)

<sup>4</sup> SEEP, 2003

In weak or hidden markets, the focus of BDS market assessment tools is shifting from the services themselves to the *benefits* that services can provide.<sup>5</sup> Researchers ask SEs where they get specific business benefits or what types of business benefits they want, such as links with markets, strategies for lowering costs, or new product designs. This allows researchers to learn about demand and existing markets from entrepreneurs who are unfamiliar with formal business services.

BDS practitioners are developing new ways of gathering information from poor microenterprises, informal BDS providers, and enterprises that provide embedded BDS to SEs. These include:

- Informal interviews in which the interviewer gathers particular information and uses a variety of indirect questions to obtain it;<sup>6</sup>
- Interviews focused on understanding business relationships, the services that flow through those relationships, and the benefits they deliver;<sup>7</sup>

## Example 1: Lessons in Interviewing Microentrepreneurs

### EDA Rural Systems in India

EDA Rural Systems, an Indian NGO, conducted a BDS market assessment in the leather footwear sub-sector in Rajasthan, India. Leather footwear microenterprises are usually family-based, with 2-3 workers, located in rural villages. Entrepreneurs are members of the *Raigar* community who are considered to be at the bottom of the social caste structure. The average income of these entrepreneurs is approximately \$30-50 per month.

EDA interviewed 134 leather footwear entrepreneurs using an exploratory approach based on a checklist of information they wanted. Interviewers constantly adapted the interview process and questions to the respondents. They found that it was critical to use entrepreneurs' own language and avoid terms like BDS. Key features of the interview process were to:

- Understand the entrepreneur's business and flow of inputs, production, and sales;
- Help entrepreneurs generate a list of all the people with whom they have a business relationship—input and service suppliers, buyers, other entrepreneurs, government agencies, etc.;
- Explore each relationship with the entrepreneur and the business benefits and services that flow through the relationship;
- Ask entrepreneurs what changes have occurred in the business and how they took place;
- Ask entrepreneur to prioritize the most important business services; and
- Ask entrepreneurs if they would be willing to pay for the prioritized services and how they should be delivered.

EDA found that the interview process was also educational for the entrepreneurs, who explicitly identified, often for the first time, the fee-for service, embedded, and informal BDS they received. This research was conducted as part of the SEEP Practitioner Learning Program (PLP) in BDS Market Assessment.

Kumar, 2003

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<sup>5</sup> Conversations and correspondence with various organizations including Mercy Corps Azerbaijan, Swisscontact, and Triple Trust Organization

<sup>6</sup> SEEP, 2003

<sup>7</sup> Kumar, 2003; EDA, AFE and IDE at SEEP, 2003

- Focus group discussions to gauge potential demand by investigating SEs' interest in particular business benefits and the services that can deliver them;<sup>8</sup> and
- Intensive group sessions with entrepreneurs to discuss, and gradually come to conclusions about, the business benefits they want.<sup>9</sup>

A critical lesson is emerging—when assessing weak or hidden markets, keep the demand orientation of private sector BDS marketing research tools, but develop appropriate mechanisms for gathering information from poor microentrepreneurs and unconventional BDS providers using the language of business benefits rather than business services.

## 2.2 Predicting Market Demand: Emerging tools for “testing” service products and interventions in the market

In the past, BDS market assessments were limited in predicting how the market might respond to new service products or market interventions. However, the past year has seen an increase in the use of “predictive” tools<sup>10</sup> able to gauge potential demand for particular services or assess how the market might respond to specific interventions:

- Product concept tests in a focus group discussion (FGD) setting;
- A range of efforts to measure willingness to pay for particular services; and
- Group discussions or workshops with various market players to generate ideas for market development interventions or gather feedback on proposed interventions.<sup>11</sup>

### Example 2: “What If” FGDs

#### Triple Trust Organization, South Africa

Triple Trust Organization is initiating a program to develop the “*spaza* shop” market in Cape Town, South Africa. *Spaza* shops are tiny retail shops offering basic consumer goods such as bread and matches in poor urban areas. (*Spaza* is a Zulu word meaning “hidden.”) After conducting basic research into the *spaza* shop market and the BDS that support it, TTO wanted to assess the potential for specific services they thought might be demanded by *spaza* shop owners. Using the idea of a product concept test, they developed “what if” scenarios that they then presented to *spaza* shop owners in a focus group discussion setting:

What if a service provider could provide your business with a service that transports your goods from the large grocery shops to your shop for a fee. The service would:

- Ensure that your stock arrives at your shop safely;
- Save you time by enabling you to spend more time at your shop;
- Save you money in terms of transport fees; and
- Allow you to move from one supplier to another when stocking your business.

Would you make use of this service?

If not, why not?

Would you be willing to pay for this service?

How much would you be willing to pay?

Tladi, 2003

For more information, contact Paul Bradnum,  
[Paul@tto.org.za](mailto:Paul@tto.org.za)

<sup>8</sup> TTO, at SEEP 2003

<sup>9</sup> Swisscontact at SEEP, 2003

<sup>10</sup> See the Turin BDS Primer, section 6.3.5

<sup>11</sup> For example, Action for Enterprise, 2001 and International Development Enterprises, 2003

## 2.3 Comparing BDS Markets Across Countries: What have we learned so far?

It can be difficult to judge the strength of demand and supply in a market without comparing it to other markets. For example, when considering market penetration, practitioners acknowledge that reaching 100% of target enterprises with a particular service is rarely realistic. At the same time, it is not clear what level of market penetration represents a feasible goal or a “well-developed” BDS market. Recent and on-going research strives to develop

### Example 3: The Market Potential of Consulting Services

#### GTZ in El Salvador and the Palestinian Territories

GTZ compared the findings of market research in El Salvador and the Palestinian Territories with secondary information on BDS markets in Germany and Spain. Some major conclusions were:

- There is a limit to outreach and a well-developed market might mean that consulting services reach about 40% of small enterprises;
- Relative prices (as compared to GDP per capita) for consulting services are higher in countries where market penetration for such services is lower;
- Quality and information are the most critical factors in the decision to outsource consulting services, while price is usually only the third most critical factor in making a decision; and
- Programs should focus on raising SE awareness and appreciation of services and on improving service quality so suppliers can use less intense and costly marketing efforts.

Schmitt-Degenhardt, 2003

For more information, see [www.schmitt-degenhardt.de](http://www.schmitt-degenhardt.de)

*In order to develop appropriate interventions, it is important to assess each BDS market a program plans to target.*

benchmarks for judging the relative strength and characteristics of BDS markets.<sup>12</sup>

Practitioners would like to see trends in BDS market assessment that diminish the need to conduct an assessment for every new program or reduce the amount of information needed to understand BDS markets. However, recent research indicates that every market is unique<sup>13</sup> and such trends are not emerging. Even within a country and a particular target group, one service may show relatively strong demand and weak supply, while another shows weak demand and strong supply. To date, BDS market assessment results often do not confirm preconceptions about BDS markets and some indicate that microenterprises are not underserved in all of them. In conclusion, to develop appropriate interventions, it is important to assess each BDS market a program plans to target.

## 2.4 Getting to Action 1: Using market information for program design

BDS market assessments from 1998-2001 focused largely on proving that BDS markets for SEs existed and on getting baseline information on markets to use in making broad program design decisions. Recent assessments concentrate on linking research to program interventions and looking at firms and

<sup>12</sup> Schmitt-Degenhardt, 2003 and Reichert and Kuessel, 2003

<sup>13</sup> Miehlbradt, 2002

*Increasingly, programs aim first to identify the high priority business benefits that SEs want or need most and then look at existing or newly developed supply strategies for delivering them.*

their business systems.<sup>14</sup> Additionally, they focus on discovering the many ways that BDS markets work and explore ways they can provide SEs with more benefits. In other words, they are becoming more flexible and integrated with the program design process.

The process of using BDS market assessment for program design is changing as programs strive to support services that deliver priority benefits to SEs. In the first few years of implementing the market development approach, programs tended to focus on strengthening the one-to-one match between SE demand for a particular service and BDS provider supply of that service. Increasingly, programs aim first to identify the business benefits that SEs want or need most and then look at existing or newly developed supply strategies for delivering them.<sup>15</sup>

In many programs, a facilitator develops several BDS markets—information on buyers, business links, product design, or technical training—to help SEs achieve a particular business benefit and respond to demand for their products. The strategy can involve developing stand alone markets in which different suppliers deliver each service; or a facilitator can develop one type of supplier to deliver services bundled together. For example, an input supplier may bundle together costing and pricing advice, inventory management systems, information on better inputs, and advice on work space improvements. Both strategies reflect a trend toward delivering a package of services to help SEs achieve specific business benefits.

To inform this type of program design, BDS market assessments look not only at the demand and supply of particular business services, but also at the way that business systems enable entrepreneurs to stabilize, grow, and/or develop their businesses. Facilitators then work to improve these systems by focusing on either specific business services markets or particular sub-sectors.

#### **Example 4: Linking Research to Program Interventions**

##### **World Education and the Ntinga LINK project in South Africa**

World Education conducted a sub-sector analysis and a BDS market assessment of the construction sector in South Africa that showed microenterprises in the sector wanted to win more and higher value sub-contracts. They needed stronger links with large firms. World Education used the market assessment information to design a program promoting win-win links between large and small firms in the sector. Using information from the market assessment, World Education developed a “relationship map” showing the links between existing players, which helped highlight potential opportunities for business relationships and profitable BDS. The project focuses on services for both large and small firms, such as information, compliance, project management, and transaction financing, and it works with existing providers, helping them develop new service products aimed at strengthening links between the firms.

World Education, 2002

For more information, contact Armin Sethna,  
[armin@worlded.co.za](mailto:armin@worlded.co.za)

<sup>14</sup> Bear and Rana, 2003

<sup>15</sup> Bear and Rana, 2003

## 2.5 Getting to Action 2: Integrating BDS market assessment into program implementation

Programs in operation for several years find it useful to integrate market assessment into program implementation. Although these assessments are not regular and fixed, they provide the kind of focused information that supports and contributes to program flexibility and market responsiveness. Facilitators gather BDS market information to identify opportunities for programs to boost markets, test specific program ideas, or support specific program interventions such as developing new service products. BDS market assessments carried out during program implementation are not as extensive or comprehensive as those used in program design. Instead, they concentrate on a small geographic area or use tools like focus group discussions (FGDs) that solicit feedback on program ideas from SEs and BDS suppliers. Integrating BDS market assessment into program implementation helps a program remain focused on the BDS market and respond quickly to new trends.

### Example 5: Integrating BDS Market Assessment into Program Implementation

#### GTZ Nepal and Swisscontact Philippines / Strategic Development Cooperation–Asia

**GTZ Nepal** is assisting existing BDS providers to develop and commercialize new products. The program carries out frequent and focused BDS market assessments to learn about the market for BDS in potential new program areas, gather information on specific service markets, and support the providers' product development efforts.\*

**Strategic Development Cooperation–Asia (SDCAAsia)**, formerly Swisscontact Philippines, manages several projects that are developing BDS markets for micro and small enterprises. In addition to those conducted during the design process, the projects have continued to conduct BDS market assessments during various stages of implementation. After supporting a new or improved BDS delivery model, SDCAAsia carries out a "pilot validation" of the model using a customer survey and financial sustainability analysis before proceeding to the "commercialization" stage for the BDS delivery model. During the commercialization stage, Swisscontact periodically monitors progress using a consumer survey and other tools to determine if:

- There is an increase in "copycat" providers delivering the BDS products that are being piloted;
- More enterprises are purchasing the BDS, particularly groups such as women-owned enterprises; and
- Target enterprises are using business services other than those being promoted.

This frequent and systematic market monitoring helps Swisscontact adjust its interventions to changing conditions in BDS markets.\*\*

\*GTZ Nepal, 2003; Tomecko, 2002-2003

\*\*Boquiren, 2002

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## 2.6 Don't Forget Serendipity

Despite the increasing use of systematic BDS market assessment in program design and implementation, many practitioners note that key innovations in BDS market development programs are often serendipitous. BDS program staff have found strategies that work through trial and error or by recognizing opportunities when they appear. Markets are dynamic and complex. Even the most extensive BDS market assessments do not reveal everything about them. Practitioners are finding that, while gathering BDS market information frequently is helpful, it cannot replace innovation, experimentation with different strategies, or paying constant attention to what is happening on the ground.

### Example 6: Serendipitous BDS Market Development

#### Helvetas Swiss Association for International Cooperation in Kyrgyzstan

Helvetas set out to link rural food processors to urban business management consultants. To initiate the process, Helvetas met with urban management consultants and representative agri-processors. "The result of these meetings was no response from the enterprises to the offer of service providers. The two sides had different expectations."

Helvetas then began focusing on helping rural enterprises link to markets and modernize their products and equipment. Meanwhile, the urban management consultants found that meeting together was quite useful. They formed the Association of Consulting Companies (ACC) and developed an Ethics Code for Consultants. The ACC works to:

- develop the market for consulting services;
- increase competence of consultants; and
- defend the consulting market from "market distortion" and "improper" interventions by donor agencies.

This initiative is funded by SDC and GTZ.

Helvetas, 2003

### 3. Viable Business Models that Deliver BDS to the Poor: An area of renewed interest

*Facilitators have been forced to seek out or develop alternative business models for the delivery of BDS to SEs in marginal markets.*

From privatization of agricultural extension services to micro-leasing for microenterprises—organizations using the BDS market development approach to target low-income and micro enterprises seek new business models for the commercial delivery of BDS to poor or marginalized entrepreneurs.

Organizations targeting formal small and medium enterprises often find an existing base of fee-for-service BDS providers to work with. However, those targeting SEs in marginal markets like remote rural areas have more difficulty finding providers who profitably serve this target population. In these situations, there are few providers and they often are not formal, fee-for-service suppliers. To deliver BDS to these SEs, facilitators must identify or develop alternative business models.

Traditionally when working in marginal markets, NGOs, donor-supported projects, or government agencies would deliver the BDS directly to SEs. In some cases, these projects tried to recover costs

and a few became sustainable or transformed into private sector enterprises. Increasingly, however, new programs are pushing to find, build on, or develop businesses that can deliver BDS to SEs in such markets. Four strategies are emerging:

- Disseminating information about existing businesses that deliver BDS;<sup>16</sup>
- Supporting replication of existing businesses that deliver BDS;<sup>17</sup>
- Improving the delivery of BDS by existing businesses;<sup>18</sup> and
- Developing new or modified businesses to deliver BDS.<sup>19</sup>

As they devise these new business models, practitioners build on local initiatives to make services affordable for poor entrepreneurs.

#### 3.1 Disseminating Information about Existing Businesses that Deliver BDS

Markets for the poor tend to be weak and many SEs in marginal markets do not have access to the BDS they want. Nevertheless, it is usually possible to find at least a few examples of commercial service providers who target these SEs. Exhaustive and creative searches for these businesses are starting to lead to more examples of commercial service delivery to SEs in marginal markets. Often, the BDS providers are SE product buyers, input suppliers, contractors, or exporters who deliver embedded BDS. In some cases, they are stand-alone providers offering SEs a bundle of services that are paid for by

<sup>16</sup> Tanburn, 2003

<sup>17</sup> Field, 2003 and Kumar, 2003

<sup>18</sup> Kumar, 2003, Swisscontact, 2002, Action for Enterprise, 2003, and Triple Trust Organization, 2003

<sup>19</sup> Swisscontact, 2002 and Triple Trust Organization, 2003

### Example 7: Disseminating Information About Existing Businesses That Deliver BDS

#### DFID/ILO in Uganda

In Uganda, the DFID/ILO Business Services Market Development (BSMD) project is finding existing businesses that provide embedded BDS to small farmers and then publishing information about them in local media. The April 8<sup>th</sup> edition of MONEY Monitor, a local newspaper, included an article about Amin Shivji, a local business owner who exports organic fruits and vegetable to North America. The article explains how the business works and how Shivji provides training as an embedded service to his farmer suppliers. The article ends with contact information for the company.

Tanburn, 2003 and MONEY Monitor, 2003  
For more information, contact Peter van Bussel,  
[pvbussel@bsmd.or.ug](mailto:pvbussel@bsmd.or.ug)

product buyers or exporters. Disseminating information about existing models has two important potential advantages:

- Enable SEs to link up with existing BDS providers; and
- Encourage investors to start similar businesses or existing private companies to begin offering embedded services to their SE suppliers or buyers.

## 3.2 Supporting Replication of Existing Businesses that Provide BDS

In several countries, organizations have found one or several outstanding examples of commercial BDS delivery, but the business models they use have not spread.<sup>20</sup> In this case, some organizations encourage the spread of these models to other areas. BDS facilitators replicate the business model in a variety of ways. Some provide training, technical advice and other services to suppliers who want to adopt

the model. Others help the original business establish a franchise.

### Example 8: Support for Franchising an Existing BDS Business

#### Intron's Accounting Services in Ukraine

Intron is a commercial accounting and training firm located in Dontesk in Eastern Ukraine. Intron pioneered a unique accounting service. It included not only bookkeeping and year-end financial statement preparation, but also a guarantee against tax inspection fines and on-call support services during tax inspections. These services were bundled and provided for a standard monthly fee.

The USAID-funded Newbiznet project understood the value of this service on several levels and wanted to help Intron offer the service wholesale to other business service providers outside of its target market. It shared the cost of an Intron marketing effort to present its product and provide training on the methodology and technology. Newbiznet also helped organize a licensing structure so that Intron could continue to provide technical support to buyers of the accounting service package. Intron has so far sold 30 licenses for this package around the country.

Field, 2003

## 3.3 Improving BDS Delivery by Existing Businesses

During BDS market assessment, many organizations find limited and weak commercial BDS delivery. Perhaps service quality and features do not match SE demand, or maybe they are delivered primarily to small enterprises and fail to reach microenterprises. When this happens, some facilitators work with these weak providers in an

<sup>20</sup> Triple Trust Organization, 2003, Field, 2003, and Kumar, 2003

## Example 9: Improving BDS Delivery to SEs in Remote Rural Areas

### Mercy Corps in Azerbaijan

Mercy Corps is implementing a program in Azerbaijan to strengthen the delivery of veterinary services and production advice to smallscale livestock farmers. The project targets remote rural areas where 68% of the population lives below the poverty line. It aims to help these farmers increase their incomes by reducing animal disease and improving meat quality. In these areas, Mercy Corps found veterinarians and the drug stores they own based in towns, but not in villages. The vets rarely traveled to villages, had poor promotion and marketing strategies, and lacked business skills. As well, their service products lacked the features farmers wanted—timely and consistent services, production advice, and disease diagnosis and treatment done in one visit. Mercy Corps realized that consumers located in remote areas were not always attractive for vets who did not want to travel far to serve a single client. In addition, there were cultural restrictions surrounding male veterinarians interacting with female livestock farmers.

Mercy Corps is providing veterinarians with training and assistance in marketing, business planning, and management. Mercy Corps also helps them develop service products for smallscale farmers—embedded production advice—and form a network for information exchange and links with government sources of veterinary information. In addition, Mercy Corps works with groups of smallscale farmers, teaching them how to schedule vet visits to groups to maximize service benefits. When gathered in groups, women are more able to interact with male veterinarians. The program is funded by the USAID.

Mercy Corps, 2002

For more information, contact Kamran Abdullayev, [kamran@mercycorps.az](mailto:kamran@mercycorps.az) and [www.usaidmicro.org](http://www.usaidmicro.org)

effort to improve BDS delivery using existing commercial delivery channels.

### 3.4 Developing New or Modified Businesses to Deliver BDS

Developing new business models for the commercial delivery of BDS is a difficult route for the sustainable delivery of BDS to SEs in marginal markets. In some cases, though, facilitators decide that it is the best method because:

- No commercial delivery of one or several demanded services can be found; or
- The existing services available through commercial channels are so inadequate or unattractive for development that it appears to be better to start with a new business model.<sup>21</sup>

When developing new business models, facilitators still rely on local initiative. They may build on and adapt proven models to meet local conditions. They also might co-invest in businesses with local entrepreneurs who become aware of opportunities during project planning. When possible, facilitators also try to build on local businesses by working with them to integrate the new model. They may, for example, develop models that bundle additional BDS with services already provided commercially. They want these business models to be commercial from the start, owned and operated by a local entrepreneur or existing business, and so must make them an attractive investment opportunity. Once pilot models succeed, facilitators work to expand delivery by encouraging firms using a similar model to enter the market. Despite the difficulties, there has been preliminary success with these efforts.

<sup>21</sup> International Development Enterprises, 2003

## Example 10: Bundling Services into Transactions that SEs are Willing to Pay For

### Strategic Development Cooperation–Asia / Swisscontact Philippines

Strategic Development Cooperation–Asia (formerly Swisscontact Philippines) is implementing a USAID-funded program to develop BDS markets for microenterprises in specific sub-sectors. Where high demand services are not available, SDCAsia plans to develop and pilot models for their delivery in cooperation with local firms. One example is the opportunity SDCAsia identified to integrate a product labeling service into the market space rental services for which SEs regularly pay. With assistance from SDCAsia, Forones, a market operator (a private firm that rents market space to SEs), plans to brand the “Larayan Quality / Ecology Label” and pilot the integrated delivery of product labeling with market stall rental. The package of services that Forones plans to deliver includes label / brand development and eco-efficiency standard certification bundled with market space development and rental. The anticipated cost to microentrepreneurs—US\$1/day. The Forones business plan calls for delivering these services to approximately 1,000 market vendors and producers. If the pilot is successful, SDCAsia plans to assist other market operators who have already expressed interest in replicating the model.

Boquiren, 2002

For more information, contact Marian Boquiren, [mb@sdcasia.ph](mailto:mb@sdcasia.ph)

## 3.5 Tools for Developing BDS Business Models

Most practitioners use standard business plans to help BDS providers assess the viability of BDS business models. When practitioners are faced with developing business models for the delivery of BDS, they also find it useful to situate their proposed model within existing business systems that include SEs.<sup>22</sup> Figure 1 presents a typography for illustrating both sub-sector and BDS market systems and suggests where a facilitator might intervene. This is part of the SEEP BDS Market Development Program Design Tool.

<sup>22</sup> Based on experience at the SEEP State of the Art in BDS course, 2002- 2003; see [www.seepnetwork.org/bdsguide.html](http://www.seepnetwork.org/bdsguide.html) ;

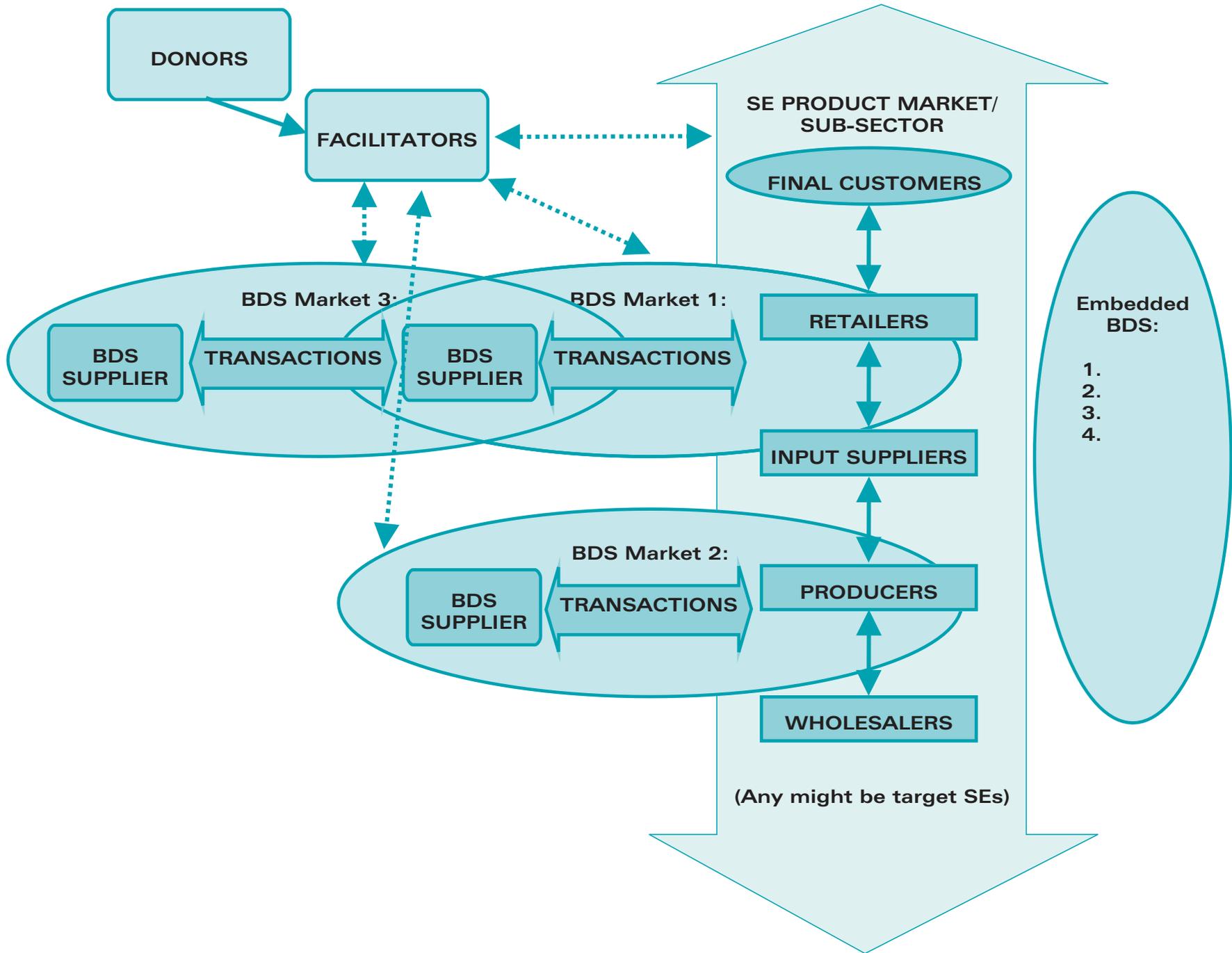


Figure 1: Delivering BDS within Business Systems

## 4. New Types of BDS— Information and Communication Technologies: The potential for developing SEs and BDS markets

*The most rapid innovations in services consumed by SEs occur, not surprisingly, in information and communication technologies (ICTs).*

The most rapid innovations in services consumed by SEs occur, not surprisingly, in information and communication technologies (ICTs). This section describes some of these services and the business models that providers use to sustain, and earn profits from, ICTs. It also explores how ICTs can contribute to BDS market development and the critical challenges and related research on BDS market development and ICTs.

### 4.1 ICTs for SEs

From radio to internet services, from print media to text messaging by cell phone— physically and economically isolated SEs are gaining better access to information and to communication technologies that put them in touch with markets. The information SEs receive ranges widely—from vegetable prices in urban markets to basic business tips, and from where to buy screws and bolts on sale to which large-scale companies are tendering to SEs and when. SEs use ICTs to communicate with suppliers, customers, workers, transporters, membership

associations, BDS suppliers, and policy makers. ICT services often form one part of a broader initiative to develop SEs. They are often combined to help lower income SE owners access and use information not normally available to them. In some countries,

#### Example 11: ICTs Helping SEs Reach Markets

##### Twendelee Women's Handicraft and Internet Cafes in Kenya

Twendelee! (Let's get moving!), a 114 member women's handicraft group based near Nairobi, Kenya is using the internet to improve their knitwear designs. A technical advisor, funded by the EU's Micro-Enterprise Support Program, is helping them learn how to surf the net and use the information in their business. Rosemary reports, "We went with Ann (the technical advisor) to the Internet place and it was wonderful. We saw things we don't have here in Kenya. The color choices and designs have helped us a lot. I have designed a (new) woman's cardigan in the past two months."

The group plans to make higher value knitwear, which will fetch higher prices and help them earn more money. The technical advisor came free, but the women accessed the internet through a private sector internet café.

For more information see Oriang, Lycu "Nairobi, Kenya, Twendelee Handicrafts, Lavington Church," in Lisbeth A. Levey and Stacey Young (Ed.), *Rowing Upstream: Snapshots of Pioneers of the Information Age in Africa*, Ford and Rockefeller Foundations, 2003, [http://www.piac.org/rowing\\_upstream/](http://www.piac.org/rowing_upstream/)

## Example 12: Viable Business Models of SE-focused ICTs: Fee-for-Service, Embedded, and Third Party

### GTZ, FINTRAC / USAID, ILO / FIT

■ **Fee-for-Service:**\* Since 1998, GTZ, has helped organizations in eight Sri Lankan locations sell Business Information Services (BIS) and in 2002, 171,352 BIS transactions took place. The types of information the SEs purchased included:

- General Business Information (42%)
- Business Contacts (25%)
- Potential and Trends (market opportunities) (22%)
- Sector Statistics (11%)
- Business Mapping

The BIS was transacted using five delivery modes: email (34%), phone (23%), mail (22%), visits (17%), and fax (4%). With this track record of effective sales, BIS suppliers are now seeking profitability.

■ **Embedded Information:**\*\* FINTRAC, with support from USAID, is implementing a horticultural development program in Honduras that targets small-scale farmers. In addition to linking farmers with better input supplies and markets, FINTRAC provides information about input use, market trends, and prices. Input suppliers are trained to impart some of this information and a brochure provides additional information. The project conducts the research, prints the brochures, and gives them to the input suppliers to pass out to farmers for free. Distribution through input suppliers allows FINTRAC to reach 30,000 farmers, but the project is now struggling with how to continue the research and publication service over the long haul.

■ **Third Party Payment—Advertising:**\*\*\* The ILO/FIT Radio initiative promotes the use of advertising to create profitable radio programs and business-to-business magazines. The commercial radio programs reach several hundred thousand people and are the most profitable program for some stations. Cell phone companies, microfinance banks, travel agents, and others pay to advertise to this large market. The business-to-business magazines sell different types of advertising space to a wide range of firms. Microenterprises might place a one-line classified, while large firms may sponsor a supplement on a particular sector. The radio and newspaper service information is free for a number of SEs, particularly the smallest.

\*Gartner, 2003

\*\*Starkey, 2003

\*\*\*McVay, 2001 and Carpenter et al, 2002

Guinea is one, international NGOs running relief programs are the first to bring internet services into remote areas.<sup>23</sup> In others, such as Nepal, there are so many internet cafes in the capital that it has become a stereotypical “copycat” business for those with the education and capital to set one up.<sup>24</sup> In these diverse situations, ICTs show potential for helping SEs cross the digital divide.

## 4.2 Are ICTs for SEs Profitable?

It is challenging to find viable ICT business models that target SEs. Although ICT businesses are profitable in many circumstances, most have yet to tailor and market their services to SEs. Most BDS facilitators that have launched SE-focused ICT products or services are still experimenting with

<sup>23</sup> Marshal, 2002

<sup>24</sup> Tamang, 2003

### Example 13: ICTs Helping to Strengthen Other BDS Markets

#### Swisscontact / Peru and ITDG / Kenya

##### ■ *Information Magazine on the BDS Market:*\*

Swisscontact in Peru invested in a BDS magazine to publish information about SE trainers and the training market. It is funded in part by advertising from those suppliers. The SEs use the information to find good trainers and the trainers use it to advertise, learn about the competition, and find out about trends in the demand for the SE training. The venture is in its early stages, but it is a potential “exit strategy” from the information function of a voucher program.

##### ■ *Sector-specific Business Tips in Kenya:*\*\*

ITDG in Kenya is developing “business tips” for SEs in specific sectors like tailoring, hairdressing, carpentry, etc. The concept is to make this information available on the internet so that intermediaries can commercialize the information. For example, they may print out pages or record cassettes and sell them to SEs. The strategy is to enable SEs who cannot and would not access internet information to benefit from it by accessing it through very informal business advisors.

\*Rivera, 2002 and 2003

\*\*Wakelin, 2003

viable business models. In some instances, the information itself seems like a public good and it is hard to see how the research to generate it can be commercialized. In these situations, some programs attempt to embed the information into existing transactions between buyers and SEs, or between SEs and their suppliers. Others charge SEs for services that help them communicate rapidly and efficiently and that link them to up-to-date information. Some information suppliers successfully generate revenue from advertising.

## 4.3 Can ICTs Help Develop BDS Markets?

ICTs are also used to develop other BDS markets—the two activities often converge and blur the theoretical lines between “intervention” and “service” and between “service provider” and “facilitator.” As a facilitation activity, however, the provision of information and communications services is an on-going activity. Sustainability of ICT market “facilitation” is key to ensuring long-term SE access to ICT services.

## 4.4 Challenges and Research in ICTs for SEs and BDS Markets

The ICT service area is developing rapidly and, at the same time, facing a number of challenges:

- Discovering exactly how SEs use, and benefit from, ICTs; and developing tailored services that can have a significant impact on them.
- Developing viable business models for delivering sustainable ICTs that strengthen SEs directly and also support BDS markets.
- Creating bridges across the digital divide for illiterate, remote, poor, and very rural people; figuring out what kind of information and communication services they need and devising innovative and affordable ways of linking them to those services.
- Capturing the attention of ICT suppliers, many of whom profitably serve the general public and larger businesses, and convincing them to tailor some services to SEs.
- Identifying the most viable media to reach intended target groups and supporting the infrastructure needed to develop it.

Research is helping to address some of these challenges, for example research into the use of ICTs by SEs in Botswana resulted in the development of practical ICT handbooks for development organizations and SEs.<sup>25</sup> Some underlying principles of these manuals are:

<sup>25</sup> Heeks and Doncombe, 2001

- ICTs should be considered as tools in a holistic SE development strategy;
- Different SEs have different needs for different kinds of ICTs; and
- Projects should focus on discovering and unleashing SE demand for ICTs, rather than building capacity to supply ICTs that may or may not benefit them.

GTZ supports ICT initiatives around the globe and hosts a webpage with up-to-date information on the use of ICTs in private sector development. For

instance, GTZ supports a range of SE portals, some targeting SEs and others focused on BDS providers and/or associations of BDS support organizations. The web page, [www.gtz.de/ict-privatesector](http://www.gtz.de/ict-privatesector) contains over a dozen case studies and several analytical papers on how ICTs help SEs.<sup>26</sup> It provides opportunities to post case studies and participate in a discussion forum with others around the globe who are helping SEs access and take advantage of ICTs.

### Example 14: Different Types of SEs With Different ICT Needs—Recommended Strategies

- **“Non-ICT users:** those who do not use ICTs or telephones. The highest priority here is to build informal information networks and develop community telecommunications and radio/ TV/ newspaper-based communications channels, after which ICT intermediaries can be used.
- **Non-IT users:** those who use telephone / fax but not computers. For them, the priority is to gain access to ICT intermediaries and also to improve capacities for information capture, processing, and dissemination.
- **Non-networked ICT users:** those who have stand-alone computers. For them, the priority is to build basic management and information capacities and to help make better use of the computers they have. This group is a clear reminder that access to ICTs and effective use of ICTs are two quite different things.
- **Networked / intensive ICT users:** those making significant use of networked computers. For them, the priority is to adopt a more integrated and strategic approach to ICTs that applies the technology to key business goals. ICT initiatives for enterprise should focus on this group.”

Duncomb and Heeks, 2001

For access to ICT Handbooks and research findings, see

<http://idpm.man.ac.uk/rsc/is/ictsmc/index.html>

## 5. Innovations in Interventions: Tailoring BDS market development to different BDS markets

BDS markets vary in their level of demand and supply. As increasing numbers of BDS market development programs get underway, patterns in how BDS programs attempt to develop different kinds of BDS markets to serve a variety of SEs are beginning to emerge. Rather than assuming that only strong markets are worth developing, practitioners are devising a range of strategies for targeting the many different kinds of markets with various levels of supply and demand. They are also developing innovative strategies for reaching all types of SEs—microenterprises, small firms, exporters, and many others. This section uses a framework for identifying appropriate interventions for the different types of markets. It shares information on new approaches for reaching many types of SE in different BDS markets. Programs that explicitly develop the BDS market are new and often in the early stages of implementation or, in some cases, the planning stage.

*Rather than assuming that only strong markets are worth developing, practitioners are devising a range of strategies for targeting the many different kinds of markets and the various levels of supply and demand.*

### 5.1 A Framework for Matching Intervention Strategies to Different Markets

The framework summarized here evolves as BDS experts use it to elaborate in increasing detail BDS markets and market development initiatives.<sup>27</sup> The framework is useful not only for characterizing different kinds of BDS markets, but for describing and selecting intervention strategies that are appropriate for them. The framework assumes that development programs select and focus on particular BDS markets because they are likely to help SEs reach markets for their products and services, reduce costs, improve efficiency, or otherwise stabilize, grow, and create income for owners and employees.

The framework also assumes that development programs generally operate in markets with weak supply and demand. It divides these markets into four categories depending on whether they have low or very low supply or demand and it describes the types of interventions that might be appropriate in each market. These approaches are described using examples from new BDS market development initiatives. The framework reflects broad recognition in the field that different approaches are required, depending on program development goals and the challenges identified in targeted BDS markets.

<sup>27</sup> Gibson and Bear, 2001; Miehlbradt, 2002; Tomecko, 2002. Available at <http://training.itcilo.it/bdsseminar/>

Figure 2: Alternate Strategies for Donors / Facilitators<sup>28</sup>



<sup>28</sup> Tomecko, 2002

## 5.2 “Facilitating” in the Stronger of the Weak Markets: Reaching urban micro and small enterprises

**Box B** of the framework represents BDS markets that have low demand and low supply. However, compared to other, weaker markets, they have large numbers of small- to medium-sized firms and some active suppliers. BDS programs operating here conform best to the ideal BDS market development approach of facilitating BDS markets with lighter interventions, helping service providers:

- Identify market niches;
- Develop and commercialize new services;
- Improve their marketing strategies;
- Link SEs with BDS suppliers; and
- Remove macro-economic constraints to BDS market development.

## 5.3 “Stimulating” Markets with Low Demand and Very Weak Supply: Markets in former planned economies

This type of market (**Box A**) is challenging for many BDS market facilitators who look around their market and wonder, “How can I build the capacity of existing BDS suppliers when there are no suppliers?” Very weak supply is common in former planned economies in which businesses were state controlled. Interventions in BDS markets with very weak supply tend to focus on stimulating supply. In order to convince private sector suppliers to enter the market, facilitators sometimes take on the role of supplier by:

- Developing and testing viable business models for service delivery to demonstrate BDS market opportunities;
- Researching demand for BDS and publishing the results;
- Building the capacity of existing and new suppliers;

### Example 15: Facilitating BDS Market Development in Less Weak Markets: Reaching urban small enterprises

#### GTZ Nepal and Accounting Services for VAT Compliance

In assessing BDS markets in Nepal, GTZ found that, within the accounting and financial services market, urban micro and small enterprises were interested in accounting services that would help them comply with value-added tax requirements. Available (individual) accounting services were too expensive for smaller firms and GTZ worked with a small commercial accounting firm to develop and test a 3-day course entitled “How to Comply with the New VAT.” The total investment in the initiative was \$18,000, with the project paying only 17% or \$3,000. The provider paid 33% and fees generated from SEs covered the remaining 50%. 161 people were trained, 50% of them microentrepreneurs. 86% reported satisfaction with the course and the provider is now developing additional, related courses to sell. The provider piloting the service made a profit on all the trainings and the trainings helped double sales of its consulting services. GTZ is now working with the accounting firm to develop a franchise to expand availability of the training.

Tomecko, 2002

## Example 16: Stimulating Supply

### ACDI/VOCA Smallholder Linkage Program in Ethiopia

ACDI/VOCA is launching a horticultural development project to help Ethiopia capitalize on its comparative advantage in producing low-cost fresh fruits and vegetables for European markets. Farmers know there are market opportunities and Ethiopian crops are relatively competitive in global markets. However, small-scale farmers and the production chain generally are unaware of, and are unprepared to adhere to, the EU's quality standards. And, in addition to not understanding or even knowing about services that might help them address this problem, they are unable to pay for them. Ethiopia's private sector is weak due to its history of government control and years of war and political instability. There are only a handful of exporters in the sector. The only service providers that smallholder farmers interact with are cooperatives. The cooperatives and the private exporters distrust each other, politically and socially, yet they are the only ties between farmers and export markets. Because of the lack of stand-alone suppliers and alternative market channels, ACDI/VOCA is strengthening ties between exporters and cooperatives and introducing embedded services such as training and quality control standards into the market chain. The project is funded by USAID.

Campbell, 2002

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

- Linking with distant service providers;
- Helping SEs work together (clusters, associations, etc.) to access services;
- Conducting policy research to identify barriers to entry for suppliers; and
- Offering suppliers temporary incentives such as matching grants.

### 5.4 “Informing” in Markets with Low Supply and Even Lower Demand: Reaching rural small enterprises

In markets where there are some BDS suppliers, there may nevertheless be a fairly large gap between the services the supplier offers and SE

understanding of their own need for them (**Box D**). In BDS markets with very low demand, such as those in rural areas, the framework suggests that programs should aim at “informing” SEs about the potential benefits of particular BDS by:

- Devising a social marketing campaign;
- Improving supplier marketing capabilities;
- Assisting suppliers to develop a customer referral system; and
- Conducting service demonstrations for target enterprises.

This demand stimulation could be coupled with capacity building of service providers to help them respond better to SE wants and needs.

## Example 17: Informing in Markets with Very Low Demand: Reaching rural small enterprises

### Helvetas Swiss Association for International Cooperation in Kyrgyzstan

In its Support to Private Initiatives Project, Helvetas Swiss Association for International Cooperation has been helping small- and medium-sized agri-processors in Kyrgyzstan increase production and reach markets. The ultimate aim of SPIP is increasing livelihood security and income for smallscale farmers. The original concept was to link rural enterprises with existing urban management consultants through a voucher-type initiative. However, when staff visited rural agri-processors, they found “no demand” for consulting services and had to change tactics: “After the first week of visits to rural Kyrgyz enterprises where we saw people sitting idle behind obsolete Soviet production lines with stores full of old fashioned products that could not be sold. It seemed to us to be of little value to make those enterprises buy sophisticated consulting services, even if they were heavily subsidized, as long as they were not able to produce a saleable product. And our first impression was that there was not only no BDS market in rural areas, but also very little real market (products sold, value-added) at all.”

A market assessment revealed only 87 small-scale (formal) agri-processors in the country—a very small target SE market. Owners had no idea what consulting services were, but they were very clear on what they wanted—increased sales, more modern equipment, and access to finance. To stimulate demand, Helvetas met with urban management consultants and representative agri-processors. The meeting confirmed the agri-processors’ lack of demand for management services that, from an outsider’s point of view, could help them access markets and acquire the equipment and finance they wanted and needed.

The project decided to try a different tactic and develop firms directly in order to stimulate demand for services. It facilitated links between food processors, Kyrgyz traders, and buyers in Russia by hosting workshops and buyer-seller meetings. Firms responded positively and began engaging in more market transactions. New trading companies formed to sell Krygyz goods to Russia and the agri-processing firms began to see the need to purchase services that would help them reach these new markets. Seeing a business opportunity, a private company established an Information and Technical Center to sell information about markets, equipment, and finance to food processors and traders.

By facilitating interaction among sub-sector players, the project helped firms become aware of market opportunities, which stimulated their demand for services to help them reach markets. Suppliers responded to this increased awareness and demand. Finally, there was demand to assess and two years after the project was launched, Helvetas conducted a formal BDS market assessment. The initiative is supported by Swiss Agency for International Cooperation (SDC) and GTZ.

For more information, see [www.helvetas.kg](http://www.helvetas.kg) or contact Irina Artaeva, [spip\\_adm@helvetas.kg](mailto:spip_adm@helvetas.kg)

## 5.5 “Educating” in the Weakest Markets: Reaching the rural poor

### Example 18: “Educating” in the Weakest Markets

#### SEWA’s work with salt workers in India’s desert areas of India

“White salt has a black blood shadow.” This is how SEWA describes conditions of self-employed salt workers in desert areas of India. The workers, 60% of whom are women, work long tortuous hours for little reward, without adequate healthcare, water, housing, childcare, or other critical social services. Many are indebted to the salt traders who supply them with inadequate equipment and loan them money when they are in crisis. SEWA helped salt workers take charge of their businesses, find a more powerful niche in the market, create and gain access to social services, and stabilize their financial situations. SEWA used several different interventions to help improve salt workers’ lives:

- **Organized workers** into groups and associations and provided leadership training to help them address a range of issues on an ongoing basis.
- **Established social services** such as childcare, health, and water services, which women often organized and provided themselves. SEWA helped women identify the business opportunity of collecting and supplying water and assisted them in accessing technology and establishing water supply businesses. Other social services were provided through links with the government.
- **Improved access to markets** and production quality by linking women with technical advisory services that helped them access more productive and safe equipment and produce high grade, high priced salt. SEWA also linked women directly with salt wholesale buyers to get an even better price.
- **Provided Capital:** SEWA capitalized microfinance funds through the organized groups to help women get out of debt, save in case of an emergency, and develop self-insurance systems.

SEWA’s interventions are designed to establish sustainable markets, linkages, and representative bodies so that the women are independent by the end of the project.

Dave, 2003

For more information, see the case study presented at the SCD SED Workshop in Gerzensee, January 2003 – papers available at [www.intercoop.ch/sed/main](http://www.intercoop.ch/sed/main); See also SEWA’s website at [www.sewa.org](http://www.sewa.org)

In some situations, BDS market facilitators ask themselves, “How can I develop a BDS market when there is no market?” In “marginal” BDS markets<sup>29</sup> (**Box C**), there are few enterprises. External markets have been disrupted or have yet to develop. There are few community organizations or private firms with the potential for delivering services. Often, there are extremely exploitative trade relationships. The framework suggests that interventions in these very weak markets should strive to influence the business culture by helping potential clients understand what business development services are and how they help people start, stabilize, and grow businesses. Activities might include:

- Basic business education,
- Skills training for self-employment,
- Business awareness creation and opportunity identification to help people identify viable businesses,
- Identification and capacity building of potential service suppliers, and
- Tours to other areas where business is more vibrant and BDS markets exist.

<sup>29</sup> “Marginal Markets” refers to markets in very remote areas, that target the very poor, refugees, women subject to a range of social limitations, HIV/AIDS-affected communities, and other very weak markets.

*Interventions in these very weak markets should be aimed at influencing the business culture by helping potential clients understand what business development services are and how they help people start, stabilize, and grow businesses.*

Some organizations also engage in establishing social enterprises in such settings. In many situations, social service, charity, or public sector institutions work with BDS market development organizations for a more holistic approach. Sometimes, as illustrated in Example 18, empowerment is a critical element in these programs.

## 6. Managing BDS Market Development: Institutional roles in new programs

The BDS market development approach challenges traditional institutional roles in small enterprise development programs. Early BDS market development initiatives occurred primarily as practitioner innovations within more traditional BDS programs. In the last two years, however, a variety of institutions involved in small enterprise development have established new programs with the explicit goal of developing BDS markets. This section explores how some institutions involved in BDS market development are structuring their new programs.

### 6.1 Private Sector BDS Suppliers and BDS Market Developers

Some entrepreneurs are taking up the call of development organizations and view SEs as a viable market for profitable business services. These entrepreneurs include:

- individuals with a social calling,
- staff of development organizations,
- staff of larger business service firms who do not target SEs,
- young professionals in the sector, and
- private sector entrepreneurs never before involved in development.

While some entrepreneurs are simply responding to market conditions, others are aware of the BDS market development approach and advance their businesses using proven tools—BDS market assessments and the concept of embedded services.

#### Example 19: Private Sector BDS Suppliers

##### Creative Business Development Group in Uganda

Habib Tibrichu is making plans to make money by helping other businesses make money. An experienced private sector manager, Mr. Tibrichu, who currently works for a donor-funded development project, has been examining the BDS market in Kampala. Using BDS market assessment data, he found a niche with unmet demand—services to help agro-processors and exporters access markets, manage input supply, and improve their technical management skills. With input from focus group discussions, he has developed a series of training courses and consulting packages of currently unavailable services to address the critical needs of target firms. He'll use his contacts in the development world to market his services to SEs, and will charge a profitable rate for them.

Tobrichu, 2003.

For more information, contact Mr. Habib Tibrichu, [Hat\\_bud@yahoo.com](mailto:Hat_bud@yahoo.com)

Other entrepreneurs are taking BDS market development a step further by selling their services to BDS providers. What those in the field might call “commercial facilitation of BDS markets,” these entrepreneurs see as a business opportunity.

### Example 20: Private Sector BDS Market Developers

#### Selling Services to SE Advertisers in Nepal

Sunim Tamang of Business Service Aadhar in Kathmandu, is an entrepreneur in the business services market. He recently assessed the market for services to strengthen Nepal's advertising sector, which mirrors the private sector with:

- Sophisticated advertising firms that target large enterprises and have the capacity to produce radio and TV ads and provide strategic marketing services; and
- Small scale advertising companies and desktop publishers (DTP) target SEs and provide basic layout and graphic design for print advertising.

SEs would like to advertise more on radio and TV because these media contribute greatly to growth. But, they cannot afford these high-end advertising outlets and the small scale companies and desktop publishers do not have the capacity to provide them. Mr. Tamang wants to help the DTPs become advertising firms that can offer a wider range of affordable services to SEs. He is developing a business plan to sell his services to the DTP firms—enabling them to produce radio and TV commercials and help SEs develop a marketing strategy and brand.

Tamang, 2003

For more information, contact Sunim Tamang,  
[sunim@hotmail.com](mailto:sunim@hotmail.com)

## 6.2 National Level NGOs as BDS Market Facilitators

The role of national level NGOs in BDS market development is not very clear—should they be facilitators or providers? In recent years, many have been working hard to achieve cost-recovery by delivering BDS or operating social enterprises, only to be told suddenly that direct service provision is a “no-no.” Some NGOs who support the BDS market development approach choose to remain BDS providers, but register as a private company or social enterprise. Others opt to become facilitators, balancing income from donor contracts with fees charged to BDS providers.

### Example 21: National Level NGOs as BDS Market Facilitators

#### SEEDS BDS Market Brokers in Sri Lanka

SEEDS operates a microfinance institution and runs a BDS program for the very poor in rural Sri Lanka. It plans to achieve financial sustainability while accomplishing its social mission. For several years, SEEDS offered BDS services—training, counseling, and technology access in targeted sub-sectors—for a fee. The SEEDS outreach strategy is to place business advisors in rural areas to conduct client assessment, help clients identify service needs, and then link them to the correct department within SEEDS. Outreach, impact, and sustainability have been lower than hoped and SEEDS has begun pioneering a strategy to link clients to existing BDS suppliers. SEEDS will use the same outreach and client assessment strategy, but its “marketing agents” will now link clients to external services.

Abeyasurya, 2003

## 6.3 International NGOs

The majority of international NGOs that support the BDS market development approach place themselves squarely in the role of facilitator, at least in theory. They are aware that their institutions are not sustainable as a business and if they play a direct provider role, it is a temporary measure—a demonstration to stimulate the market, or a strategy to achieve short-term impact while developing the market.

Many international NGOs are rethinking their traditional partnerships with national level NGOs and donors. Some international NGOs are educating their local NGO partners about BDS market development and helping them determine their preferred role—facilitator or provider—and to then realize it. In other situations, traditional partnerships are breaking down as international NGOs begin working directly with private sector businesses. In addition, as donor agencies increasingly contract, rather than grant funds, international NGOs are behaving like private contractors to donors. Many are hybrids between traditional mission-driven

NGOs and private sector contractors who implement donor-driven initiatives.

## 6.4 Donor-Commissioned BDS Market Development Programs

Donors also are changing the way they structure SE programs as they move toward a BDS market development approach. This approach challenges traditional donor modes of operation because it calls for:

- The private sector to deliver services;
- A flexible response to changing BDS markets;
- Low profile, lower cost donor activities; and
- The provision of small amounts of technical assistance through contracts rather than grants.

These kinds of activities are not typical of donor agencies, which usually grant large sums of money, find it challenging to interact directly with small-scale BDS providers, and are generally slow to adjust their program parameters. In many of the

### Example 22: The Role of International NGOs

#### Action For Enterprise (AFE)

Action for Enterprise is a sub-sector and BDS market development NGO based in Washington, DC that plays several roles in BDS market development programs.

**Facilitator and Action Researcher:** In Mali, AFE managed a program linking microenterprise artisans to international markets. From 1999-2002, the program worked with eight importers, six exporters, and over 1,000 SEs and resulted in more than \$1 million in export sales and a 100% increase in revenue for participating SEs. The project created over 100 new jobs and fostered more than 200 market links between importers, exporters, and producers. It helped exporters access critical services such as finance and built exporter capacity to provide market access, product development, production management, and quality control services to artisans. The USAID Office of Microenterprise Development's Implementation Grants Program for BDS, an action-research initiative, funded the program.

**Trainer and Technical Advisor:** AFE provides sub-sector-based BDS market development training to BDS professionals and provides technical advice to donors designing and implementing large-scale BDS market development programs. AFE helped design the USAID Kenya BDS project and trained professionals involved in the Swisscontact and GTZ BDS program in Bangladesh.

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

new, large-scale BDS projects<sup>30</sup>, donors now contract out their BDS market development programs to a consulting firm or international NGO. Contractors have the flexibility to work with a range of partners and use a variety of agreements to meet broad development goals and respond to changing markets.

### Example 23: Large Donor Programs, Contracted Out

#### USAID Kenya Business Development Services Program

The USAID Kenya BDS program is a five-year, \$5 million program launched in 2002 “To increase access to business development services for rural micro and small enterprises (MSEs).” The program is designed to contribute to USAID’s overall objective of increased rural household incomes. Following is a description of the steps USAID took in the program design process, from conception to implementation by private firms and NGOs. The time frame was around 18 months.

**STEP 1:** AFE conducted research and introduced a theoretical framework using the sub-sector approach to BDS market development (September – November 2001). Research included two sub-sector / market assessment studies—Dairy and Fresh Vegetables for Export—and six qualitative BDS market assessments.

**STEP 2:** In a competitive bidding process, USAID awarded program implementation to one contractor, Deloitte Touche Tohmatsu Emerging Markets, Ltd. USAID gave them broad flexibility in program implementation, provided they meet specific targets at the activity, output, and impact level. (September 30, 2002).

**STEP 3:** Kenya BDS selected the tree fruit sub-sector, with a focus on mango, passion fruit, and avocado, as the first area of assistance (January 2003).

**STEP 4:** Kenya BDS conducted participatory sub-sector analyses and vetted the findings through a stakeholder workshop. The workshop and follow-on focus group discussions were also used to identify appropriate business services to overcome constraints. Services include product assembly and grading, quality assurance, market information, financial brokering, research and development, appropriate technology, business skills training, and material input supply (March 2003). In parallel, managers designed the grant and sub-contract award process.

**STEP 5:** The project conducted BDS Market Assessments on the first three business services to be targeted—quality assurance, product assembly and grading, and material input supply—to identify supply- and demand-side constraints. Following feedback from the market assessments, corresponding market interventions were drafted for tender. For example, one focuses on strengthening links between small-scale tree fruit farmers and buyers selling to export markets, potentially by organizing and building the capacity of small-scale farmer groups.

**STEP 6:** Market intervention tenders were released for bidding by facilitators—international and national NGOs and private firms—that had pre-registered with the Kenya BDS Program. Open and on-going pre-registration provides an initial filter for quality control and efficiency for program funds management. Tender awards are for sums ranging from \$5,000 to \$50,000.

Deloitte Touche Tohmatsu Emerging Markets, Ltd, 2002 and AFE, 2001  
For more information, contact David Knopp, [david@kenyabds.com](mailto:david@kenyabds.com)

<sup>30</sup> GTZ, 2003; Deloitte Touche Tohmatsu, 2003; Tanburn, 2003; MONEY Monitor, 2002; ADB, 2003

## 7. Performance Assessment: The challenge of linking BDS market development to impact

Donors and practitioners still struggle with many of the basic performance measurement questions, including:

- What is the logical link between BDS market development and impact goals such as poverty alleviation?
- How can individual programs, or the field as a whole, measure the impact of BDS on SEs?
- How can programs measure their impact on BDS markets?
- How can practitioners design and implement effective and simple performance measurement systems that help program managers and BDS providers improve services to SEs?

Although the field has not reached any startling new conclusions on performance assessment in the last two years, progress has been made in each of these areas.

### 7.1 The Circular Logic of BDS Market Development: Linking programs to impact goals

BDS programs aim for a mutually reinforcing chain of events by stimulating demand for services, which...

- Stimulates the supply that the BDS program is also strengthening, which...
- Helps more SEs buy services, all of which...
- Develops the BDS market, which...
- Helps SEs expand and grow, which...
- Further increases demand for services.

This circular pattern is difficult to capture in a logical framework which lays out the linear chain of cause and effect linking program activities → outputs → outcomes → impacts. Yet, BDS experts attempting to understand, measure, and enhance impact need to describe these logical links and assess whether they work in practice. Otherwise, making the case that BDS market development creates impact remains a significant challenge.

In the last few years there has been a call to develop logical frameworks that can outline how BDS market development leads to desired impact goals within the context of specific programs.<sup>31</sup> As a consequence, practitioners are making a greater effort to clearly specify the links between inputs, activities, outputs, outcomes, and ultimate impacts. The field as a whole is also trying to develop tighter logical frameworks for how BDS market development can lead to poverty reduction, economic growth, employment creation, and other social objectives.<sup>32</sup>

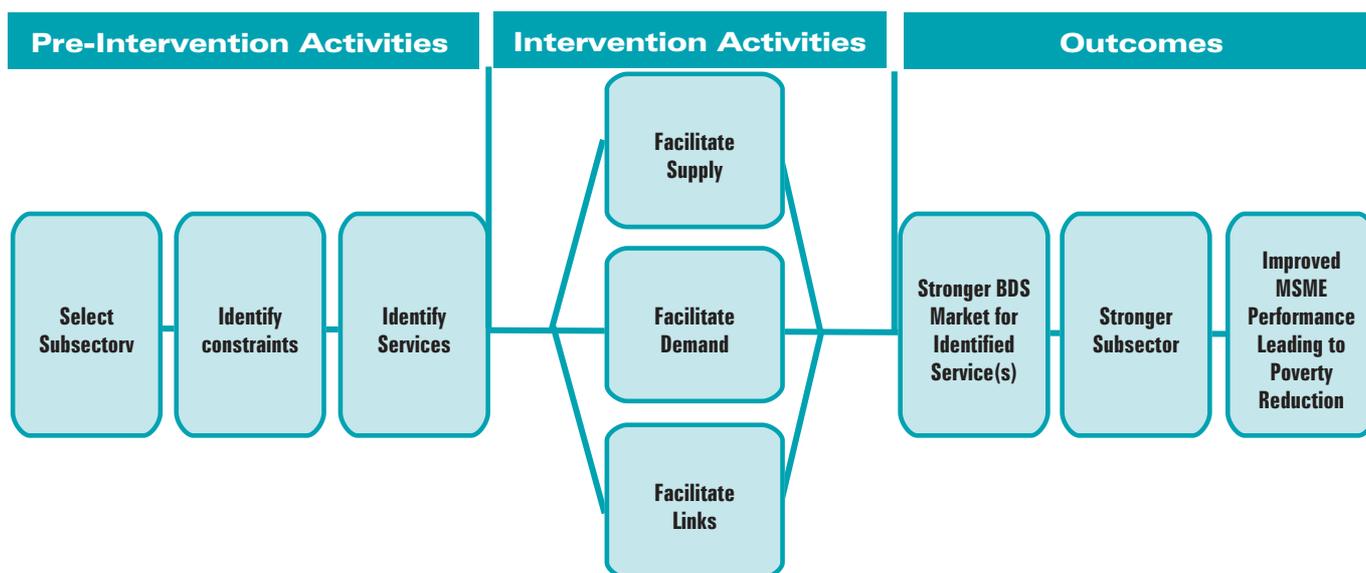
For example, a paper from USAID, specifies logical models for three types of BDS market development programs: sub-sector based, BDS market-focused, and “portfolio” programs.<sup>33</sup> One such model is presented below, in Figure 3. The paper goes on to outline specific indicators that would relate to each of these models and highlights the many indicators they have in common. While there is not broad agreement about the delineation of the program models or the logical frameworks, the paper provides useful ideas on how to practically link logical frameworks and indicators.

<sup>31</sup> Oldsman Hallberg, 2002. Available at: [www.intercoop.ch/sedm](http://www.intercoop.ch/sedm)

<sup>32</sup> The ILO is working on causal models for how various BDS may or may not lead to employment creation in different situations and the Donor Committee on Small Enterprise Development’s Impact Working Group is focusing its discussions on causal models.

<sup>33</sup> Snodgrass, Downing, and Field, 2002. Available at: [www.usaidmicro.org](http://www.usaidmicro.org) (Knowledge Sharing, MicroServe)

Figure 3: Subsector Model



The causal chains on the ground may not, however, be as straightforward as those found in conceptual papers. Recent research on the impacts of radio programs for small enterprises in Africa show that even within a single project, there are many ways in which the service leads to development impacts. In real impact studies, it is difficult to capture just how these causal links play out and over what timeframe one can expect to assess results.<sup>34</sup>

### Example 24: Linking Listening to Increased Incomes and Employment

#### ILO and Radio Programmes in Africa

The ILO outlines four possible causal chains leading from the various programme topics to increases in MSE sector employment and household incomes for the poor.

- Two chains lead from radio programme content focused on policy legislation and public sector investment. Features on hot policy topics contribute to positive changes either by directly influencing policy makers or by empowering SEs to advocate for change and resist corruption. Better policies improve the SE operating environment, which can lead to better business performance and, ultimately, increased incomes and employment.
- SEs take advantage of market opportunities they learn about on the radio which sometimes helps them increase sales and, ultimately, their household incomes and employment.
- A fourth chain leads from business advice and tips provided over the radio which help SEs improve their management practices, which can lead to better business performance and, ultimately, the same goal—increased incomes and employment.

In addition, the program stimulates demand for BDS and promotes suppliers, which may stimulate the BDS market for other services, each with its own causal model.

Anderson, 2003

For more information, Contact Gavin Anderson [fitafrica@busnet.net](mailto:fitafrica@busnet.net)

<sup>34</sup> Seeley, Appiah and Murphy, 2002; and Anderson, 2003

## 7.2 Untangling Attribution in SE Impact

It is difficult enough to learn objectively how SEs are changing. It is even more difficult to attribute specific changes to particular business services. Many practitioners are taking one of two routes in assessing the impact of BDS on SEs:<sup>35</sup>

- Using an SE's own judgment about how the use of BDS has affected it; or
- Using market-based proxies for measuring impact on SEs. These may include actual payment for services, satisfaction with services, and repeat purchase of services.

However, many donors and practitioners would like to see more scientific studies examining the impact of BDS on SEs. The "Training for Women in Micro and Small Enterprises" project in Vietnam conducted a study using test and control groups to trace the impact of management training on women-owned micro and small enterprises (*Example 25*).<sup>36</sup> The study concluded that training did indeed have a positive and measurable impact on participating enterprises. Although not generally viewed as a practical approach to impact assessment on a regular basis, impact assessments such as these can help the BDS field justify programs to donors and governments.

*Many donors and practitioners would like to see more scientific studies examine the impact of BDS on SEs.*

### Example 25: Evidence of Impact

#### The TWMSE Project in Vietnam

The "Training for Women Micro and Small Enterprises – Phase 2" (TWMSE2) project in Vietnam is conducting a "tracer study" to systematically measure the impact of management training courses offered by local trainers to women entrepreneurs. Each course was preceded by a baseline study of a sample of women entrepreneurs that participated later in the training (test group, 365 women) and those who did not participate (control group, 47 women.) Four to six months after the training, the project team sent a questionnaire by mail to both groups—102 women from the test group and 43 from the control group responded.

Key findings from the study:

- The management training promoted introduction of new management practices—between the baseline and subsequent measurements, 84% of trainees introduced new management practices, while only 36% of those in the control group did so.
- The women who received training enjoyed higher sales and personal income increases than women in the control group—81% of trainees reported modest or high sales increases, vs. 58% of the control group; and 78% of trainees reported a slight to much higher personal income in contrast to 65% of the control group. However, the evidence on employment creation resulting from training was inconclusive.
- While the study showed some evidence of improvements in the trainees' quality of life and sense of control, the data is not conclusive.

Voeten, 2002

<sup>35</sup> The PMF 2001 outlines both these routes to assessing impact, McVay et al, 2001

<sup>36</sup> Voeten, 2002

### 7.3 Do Programs Create Sustainable Changes in BDS Markets?

There is increasing interest in the question: “Are programs influencing BDS markets beyond those market players with whom they directly interact?” While methods for measuring changes in BDS markets are now commonplace, attributing those changes to program interventions is much more difficult. Understanding the timeframe in which such change can be expected and measured is also challenging. The PMF field research showed that programs could get a range of clues about their influence on markets by comparing data from the market at large and program-assisted providers over time—how long is still in question.<sup>37</sup>

As an example, consider a program that aims to increase SE awareness of services by helping providers improve their marketing. If awareness of both services and program providers increase in the market over time, it is likely that the program is positively contributing to SE awareness of services. This hypothesis could be further explored by investigating where newly-aware SEs got their information—from the activities of program-supported providers and market copy-cats, or from other sources. Because other methods are more difficult to use in attributing market changes to program activities, these types of “clues” are the most common means of assessing program effects on the market.<sup>38</sup>

Quantifying the sustainability and impact of BDS market development is another challenge. The World Bank attempted to quantify the market-level impact of a training and business development services voucher program in Kenya (*Example 26*).<sup>39</sup> The study concluded that the voucher program sustainably increased the demand for and supply of training services, although not at the transaction level achieved during program implementation. However, the benefits have to be set against the costs. Market development and other, external benefits of the project were not high enough to cover the training subsidy and project management

#### Example 26: Measuring Impact on Markets

##### The World Bank Kenya Voucher Program

The impact assessment of the World Bank Kenya Training and Business Development Services Voucher Program, which ended in December 2002, included a benefits/cost analysis of the program. The benefits measured included:

- Benefits to SEs and trainers that participated in the voucher program;
- Benefits to SEs and trainers in the broader BDS market that were stimulated to engage in training transactions as a result of the program; and
- Indirect benefits to employees and the economy from these actors.

Costs included:

- Program costs;
- Monetary and opportunity costs of SEs attending training; and
- External costs, such as provider costs.

Interviews with training and BDS providers and participants after the end of the program complemented two previous tracer studies to generate the data used in calculating market development benefits.

Phillips, 2003

costs. The author suggests that program costs were high due to difficulties and inefficiencies in implementation. A more effectively designed and implemented program would likely show a positive market development benefit/cost ratio. Again, while not widely viewed as a practical measurement tool for most programs, such research adds to the field’s ability to make the case for BDS and to better understand the comparative impact of different BDS programs.

<sup>37</sup> McVay et al., 2001; Available at [www.usaidmicro.org](http://www.usaidmicro.org) (Knowledge Sharing, MBP)

<sup>38</sup> Miehlbradt, 2003

<sup>39</sup> Phillips, 2003

## 7.4 Performance Assessment in Practice

While modest progress is being made in conceptual frameworks and impact measurement, practitioners are managing the challenge of designing and implementing practical performance measurement systems and are doing so in the context of increasingly short, results-based programs. More specific outcome indicators are being developed and applied and BDS market development programs are orienting themselves to achieve these targets. As part of this process, BDS market development practitioners often find themselves pulled between competing objectives—creating immediate results while also developing sustainable market systems. Thus, along with finding and applying performance

systems, comes the challenge of using that information wisely to balance and achieve short- and long-term BDS market development goals.

Several different systems are being implemented. Many practitioners are turning to the PMF 2001 for guidance in developing a simple, effective system for monitoring and evaluating the performance of BDS market development programs.<sup>40</sup> A number of programs have adapted the PMF to suit their own objectives and contexts (*Example 27*). To provide practitioners with practical guidance, DFID launched the Enterprise Development Impact Assessment Information Service (EDIAIS) website,<sup>41</sup> which contains information on how to assess the impact of enterprise development programs and includes papers, cases studies, tools, and an enquiry desk.

### Example 27: Adopting and Adapting the PMF 2001

Some of the agencies that have integrated part or all of the PMF 2001 into their performance measurement systems are:

- **Swisscontact:** The Swisscontact offices in Peru and the Philippines were involved in the PMF field research and many agency offices now use or adapt the resulting PMF 2001 or aspects of it. Swisscontact Peru is repeating the BDS market assessment, originally conducted in 2000, to assess recent developments in the market.<sup>a</sup>
- **USAID:** The Office of Microenterprise Development has adopted some of the PMF 2001 indicators for its BDS Implementation Grant Program.<sup>b</sup> Many of those indicators are also presented in USAID's recent paper on causal models and monitoring and evaluation, and in the Kenya BDS program logical framework.<sup>c</sup>
- **UNCTAD:** In 2003, UNCTAD's EMPRETEC network of programs launched its linked MIS system for monitoring performance of the EMPRETEC centers. The system is based on the PMF 2001.<sup>d</sup>
- **SNV:** FAIDA in Tanzania continues to use the PMF as a critical monitoring tool for its BDS initiative and the PMF is included in the SNV reference guide on BDS.<sup>e</sup>
- **GTZ:** Many GTZ programs are adapting the PMF 2001. For example, its office in South Africa plans to use the PMF 2001 for guidance in developing a monitoring and evaluation system for their new BDS market development program.<sup>f</sup>

<sup>a</sup>Correspondence with various Swisscontact offices

<sup>b</sup>USAID Office of Microenterprise Development BDS IGP Table 1; Available at [www.usaidmicro.org](http://www.usaidmicro.org)

<sup>c</sup>Snodgrass and Downing, 2002; Deloitte Touche Tohmatsu, 2002

<sup>d</sup>EMPRETEC, 2003

<sup>e</sup>Ribbink, 2003; Mensick, 2003

<sup>f</sup>Conversation with Gabriele Trah, 2003

<sup>40</sup> The PMF 2001 can be found at [www.seepnetwork.org/bdsguide.html](http://www.seepnetwork.org/bdsguide.html) under "Performance Measurement" or at [www.usaidmicro.org](http://www.usaidmicro.org) under "Knowledge Gathering" then "MBP"

<sup>41</sup> The EDIAIS website is at <http://www.enterprise-impact.org.uk/>

## 8. “BDS” Teams Up—The Contribution of BDS to Broader Development

A critical focus of many organizations involved with BDS is the incorporation of BDS into integrated development programs and the integration of broad development goals into BDS market development programs. This trend is occurring in many fields:

- local economic development<sup>42</sup>
- agriculture<sup>43</sup>
- gender<sup>44</sup>
- employment and labor relations<sup>45</sup>
- environmental preservation<sup>46</sup>
- democratization, empowerment, and good governance<sup>47</sup>
- fair trade<sup>48</sup>
- relief and the transition from relief to development<sup>49</sup>

As BDS programs transition to a market development approach, organizations that integrate cross-cutting themes—gender, environment, etc.—are challenged to continue pursuing these development goals as they release direct service delivery to the private sector. And, traditional development programs experience difficulty in integrating a BDS market development approach into their usually more subsidized activities. Some hope that integration can ensure there is

*As BDS programs transition to a market development approach, organizations that integrate cross-cutting themes—gender, environment, etc.—find it hard to continue pursuing these themes once they hand direct service delivery over to the private sector.*

“development” in BDS, while others remain skeptical that a strong, market-based approach can deliver on development goals.<sup>50</sup> This section explores the integration of BDS within a few development fields.

### 8.1 BDS and Agricultural Development

The fields of BDS and agricultural development are beginning to work together to develop synergistic strategies. The BDS market development approach

<sup>42</sup> Community Business and Technology Developers, 2002; Helmsing, 2001; LEDA, 2003; Southern Province Rural Economic Advancement Project, 2002; United Nations Development Program, 2002;

<sup>43</sup> MEDA, 2003; Jones, 2002; Starkey, 2003; IDE, 2003; AFE 2003; Deloitte, Touche, Tohmatsu Emerging Markets, Ltd, 2002

<sup>44</sup> Foundation for International Training, 2001; Dave, 2003; Esim, 2003; Giles, 2003; Gminder, 2003. Grupo Intercambio website; Voeten, 2002

<sup>45</sup> Criscuolo, 2003; Dave, 2003; Esim, 2003

<sup>46</sup> Foundation for International Training, 2001; Tellus Institute, 2003; Weijers, 2002; Millard, 2003; Martinez, 2003; SEEP On-line Guide to BDS

<sup>47</sup> Hitchens, 2002; ILO, 2002; Kyrgyz Community Based Tourism Association, 2003; Lebbezoo, 2002; Mayoux, 2003; Phillip, 2002; Seeley, 2002; Swisscontact Nizhny Novgorod, 2002; Zuin, 2003

<sup>48</sup> Redfern, 2002

<sup>49</sup> Ward, 2003; McVay, 2003

<sup>50</sup> Phillip, 2003

## Example 28: Incorporating BDS Market Development into Agricultural Development Programs

### Fintrac in Honduras

The USAID-funded Fintrac / Centro de Desarrollo de Aronegocios (CDA) Agribusiness Project in Honduras aims to increase incomes for small farmers and agro-businesses. Begun in 2002, its direct technical assistance and technology transfer services help farmers increase sales. Fintrac has expanded outreach by incorporating a BDS component focused on increasing the demand for, and availability of, local commercial services to micro and small enterprises. Although Fintrac / CDA works directly with 2,000 farmers, its use of BDS providers enables it to reach another 40,000. The commercial transactions impact the bottom line of both providers and farmers and are sustainable in the farm-to-market agribusiness chain. Agribusiness BDS suppliers provide a wide range of services—from hybrid seeds and drip irrigation to transportation and certification. Following are two examples of commercial market development support services.

#### Customs Clearance Services

Growers and producer groups exporting fruits and vegetables from Honduras to buyers in neighboring Guatemala and El Salvador require a range of services to help farmers tap into new markets—the services of customs agents to help meet the administrative requirements for product entry, documentation, permits, etc.

Two trading companies interested in sourcing fresh jalapeños from Honduran growers needed a customs agent who could provide the necessary paperwork and permits for exporting to Guatemala. Fintrac / CDA felt this BDS had the potential to help its Honduran clients expand their market base and contacted local customs agents at the Guatemalan border to let them know of the need. From January to December 2002, Mr. Arturo Valverth helped 12 Honduran growers from three regions export more than 800,000 pounds of jalapeños (equal to 45 truckloads worth over US\$165,000.) The Guatemalan companies want to buy 2,500,000 pounds of jalapeños from Honduran growers in 2003, a contract worth more than US\$500,000. Mr. Valverth, who makes around US\$75 per shipment, will provide customs services to these growers.

#### Marketing/sales services to smaller growers and processors in rural areas

A main limitation to economic growth for small agribusinesses is limited access to markets. The demand by Honduran smallholder farmers for brokerage services was strong, requiring no subsidies or artificial pricing. CDA worked on the “supply-side,” linking brokers with rural growers and facilitating contacts between providers and national supermarkets interested in sourcing new products. In one year, 20 microprocessors increased their sales 60 percent (\$88,000 in 2001 to \$141,000 in 2002) and surpassed the 2002 total in the first half of 2003. The broker expanded her offerings to seven product lines and a larger geographic area, doubled her sales, upgraded her operations, and purchased a new truck.

CDA also assisted brokers in La Esperanza, helping one introduce his products into a major supermarket chain in Tegucigalpa which increased his sales, and the sales of the growers with whom he worked, by up to 25 percent. Besides increases in sales and profitability, the market information provided by brokers to their suppliers has stimulated other BDS activities. Brokers contract the services of legal experts and labeling and packaging designers for help in registering their companies and upgrading their packaging and labeling practices to make their products more attractive. In 2003, several new brokers targeting different channels—local hotels, restaurants, souvenir shops, fast food chains—joined the program, increasing market access for Honduran growers and microprocessors.

Fintrac, Inc., “The BDS Component of the Fintrac/CDA Project” funded by USAID. For more information, contact:

Jay Kaufman, [jay@fintrac.com](mailto:jay@fintrac.com).

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

is providing useful models for agricultural input supply, extension, and marketing services initiatives and encourages them to seek private sector delivery mechanisms. For example, the embedded services model appears useful for scaling up agricultural input and extension services and it also helps to create more widespread and sustainable farm to market linkages. In addition, sector-focused BDS programs in rural areas are often focused on ag-related sub-sectors.

## 8.2 BDS and Gender

Targeting women and integrating gender into BDS programs presents challenges to the BDS market development approach that some practitioners are working to overcome. In a market-based BDS program, it is impossible to require private sector providers to target women only. However, some programs are:

### Example 29: Integrating Gender into BDS Programs

#### Foundation for International Training (FfIT) in Egypt

FfIT, with funding from CIDA and the Government of Egypt, launched the “Small Enterprise Development in Upper Egypt Project” in 1996 to improve economic conditions for marginalized population groups. The project aims to develop innovative, new small- and medium-sized firms through a combination of finance, training, and counseling. The local market was characterized by lack of demand and supply and FfIT established new suppliers, Regional Enterprise Development Centers, aimed at becoming self-sufficient, and a facilitating NGO, El Mobadara, to replicate the model in other regions and with other providers. The project has helped establish 1,300 new businesses employing more than 5,000 workers. Almost half (45%) of the businesses are owned by women and one third of employees are women. Taking into account Egyptian cultural traditions, the program has incorporated gender objectives throughout its structure and activities—at the program partner institution, enterprise, worker, and stakeholder levels. At the institutional level, the program models a gender appropriate workplace as follows:

- Women hold senior program staff positions;
- Staff take gender sensitization training;
- Personnel policies reflect gender concerns such as equal opportunity and pay, and adequate maternity leave;
- Gender working groups function at the central and partner level; and
- A gender expert and advocate vets and addresses gender concerns in the workplace.

At the service level, the program:

- Incorporates gender sensitivity into the business training program, selling it to SEs based on ways a gender appropriate working environment increases productivity;
- Offers optional, targeted, women-only courses; and
- Encourages women owners (and workers) who attempt to enter non-traditional sectors and upgrade their technical skills.

The program uses a similar approach to address environmental and child labor concerns.

Foundation for International Training, 2003  
For more information, see [www.ffit.org](http://www.ffit.org)

- Targeting sectors with high concentrations of women entrepreneurs and workers;<sup>51</sup>
- Demonstrating the viability of women entrepreneurs as a market;
- Using market research to pinpoint the business benefits, services, and service features women entrepreneurs want;<sup>52</sup>
- Establishing business models that are likely to reach women; and
- Training providers in the benefits of considering gender in their services and service delivery mechanisms.<sup>53</sup>

Gender experts and established organizations like SEWA<sup>54</sup> recommend addressing the underlying power and patriarchal relations that exclude women from markets or place them in exploitative positions within markets. Mainstream organizations focused on integrating gender into development programs<sup>55</sup> recommend that organizations create internal, gender-supportive working environments to help them develop projects that have a positive impact on gender relations and on women. In the context of BDS market development programs, two different approaches are emerging to accomplish gender goals:

- Get private sector players on board with gender initiatives by demonstrating that gender consideration makes good business sense; or
- Confront and outmaneuver them by facilitating power shifts in the market.

The BDS market development approach can contribute to or undermine gender equity, depending on the extent to which development organizations focus on the issue.

## 8.3 BDS and Local Economic Development

Local Economic Development (LED) focuses on coordinating the efforts of the public and private sectors and civil society to strengthen local economies based on available human resources, institutions, and the unique conditions of the region.<sup>56</sup> BDS features prominently in LED efforts. Some initiatives:

- Deliver BDS to SEs—training, technology access, etc.;
- Facilitate strategic market linkages or promote the region; and
- Engage in typical public sector activities such as infrastructure development and regulatory and tax reform.

In most situations, LED initiatives use a traditional, subsidized approach to these BDS related activities.

Because LED initiatives are intimately involved with BDS, some have begun recognizing the relevance of a BDS market development approach to their work in stimulating local economies. Likewise, some BDS programs have begun to recognize that BDS markets can be highly localized. Collaboration among public, private, and not-for-profit organizations supporting a BDS market development approach is important for reducing subsidies in BDS markets. This kind of partnership is also critical for infrastructure, regional marketing initiatives, and other public goods. Finally, LED programs facilitate the coordination of social services and BDS that can help the poor start, stabilize, and grow their businesses.

<sup>51</sup> MEDA / ECDI, 2003

<sup>52</sup> Swisscontact, 2003; Tanburn, 2002

<sup>53</sup> Abdulayev, 2003; Giles, 2003; Weijers, 2003; Foundation for International Training, 2003

<sup>54</sup> Phillip, 2003; Dave, 2003

<sup>55</sup> Weijers, 2003; Gminder, 2003

<sup>56</sup> Community Business and Technology Developers, 2002; Helmsing, 2001; LEDA, 2003; Southern Province Rural Economic Advancement Project, 2002; United Nations Development Program, 2002

### Example 30: Local Economic Development and BDS

#### **UNDP, ILO, Ministry of Labor and Social Policy— Job Opportunities through Business Support (JOBS) Project in Bulgaria**

The JOBS project in Bulgaria used the LED principles of consensus among different local actors in the private and public sectors and reliance on locally available human resources. Its goal is to strengthen businesses in poor areas of Bulgaria having high concentrations of Turkish and Roma (Gypsy) populations and a low human development index. The project established 24 business centers, 11 incubators, and 3 business information centers. Between 1995 and 2002, these centers trained 5,000 people, consulted with 7,700 firms, and helped create 6,000 jobs. One element of success was building on local initiatives, creating simple models for fast replication, and addressing both social and business issues. The five oldest centers, launched in 1995, cover 33-84% of their costs through earned income. One, the Razlog BC, “spins off” profitable side businesses—timber drying, an internet service provider (ISP), a radio station and an employment agency—and these private companies then generate income for the center.

As an outreach strategy, the centers brought the internet to local communities, which built trust and helped them engage in dialogue with businesses. This service also helped the centers identify and deliver other services—training, technical and information services, leasing programs, and business incubators—that are relevant for different types of businesses. One client, “...an agricultural producer from Polski Trambesh, took computer training sessions early in the morning or late in the evening so they would not conflict with his work at the farm. Eventually, the grain and vegetable producer set out to search the net for used agricultural machinery that he needed for his businesses. The business center provided him with a list of web sites announcing upcoming bids for agricultural machinery. Georgi closed a deal and bought a pre-owned harvester which he now uses both on his farms and to render services to other farmers.”

In reaching out to minority populations and helping them overcome fears of engaging with the larger economy, JOBS provides basic self-esteem and self-motivation classes. The program also attempts to market to particular sectors and attract buyers for market-ready firms. Its website for business, [www.madeinbulgaria.info](http://www.madeinbulgaria.info), lists some 200 Bulgarian apparel and textile manufacturers.

UNDP, 2002

## 9. Big Debates in BDS

As the BDS field moves forward, experts continue to challenge each other about the best ways to design, implement and assess BDS programs. This section summarizes some of the current debates in the field. These are critical areas for on-going dialogue and research and form the conclusion of this BDS Update.

### 9.1 Sub-sector or Cross-sector Approaches: How do we maximize outreach and impact?

Sub-sector BDS programs focus on developing BDS markets that serve enterprises in a particular product sub-market—furniture, vegetables, or clothing. BDS services are provided to SE players in sub-sector chains to help them take advantage of market opportunities and earn more profits within the sub-sector. Cross-sector programs focus on developing business service markets for many small enterprises across a range of sub-sectors. Accounting, legal, marketing, and telecommunications services are “cross-sector” services that help firms increase productivity, reduce costs, and access markets.

So, which approach maximizes outreach and impact?<sup>57</sup> Proponents of sub-sector BDS programs say that a focus on helping SEs achieve specific business advances can lead to significant impact for SEs and growth for the sub-sector as a whole. In addition, large numbers of SEs can benefit from specific services because most SEs in a sub-sector face similar constraints and opportunities.<sup>58</sup> They say that there is little point in offering services to SEs operating in saturated markets unless those services help them reach new markets.<sup>59</sup> They

*Proponents of **sub-sector** BDS programs say that a focus on helping SEs achieve specific business advances can lead to significant impact for SEs and growth for the sector as a whole.*

critique cross-sector services as being too generic to have a significant impact.

However, proponents of cross-sector BDS programs say that their focus on developing services for a mass market of SEs can lead to more significant and deep outreach. They argue that, rather than investing significant resources in tailored services that reach only a limited number of enterprises, the same investment can reach many more by focusing on services with mass appeal. And, cross-sector services create impact by helping firms reach their individual goals.

*Proponents of **cross-sector** BDS programs say that their focus on developing services for a mass market of SEs can lead to more significant and deeper outreach.*

<sup>57</sup> The dialogue summarized here took place in a variety of fora, such as the annual ILO Turin BDS Seminar, the SEEP “State of the Art in BDS” training and Annual General Meeting, the SEEP PLP program, and in numerous interviews and email exchanges with donors and practitioners in the field

<sup>58</sup> Lusby and Panlibuton, 2002

<sup>59</sup> Carpenter, et al, 2002

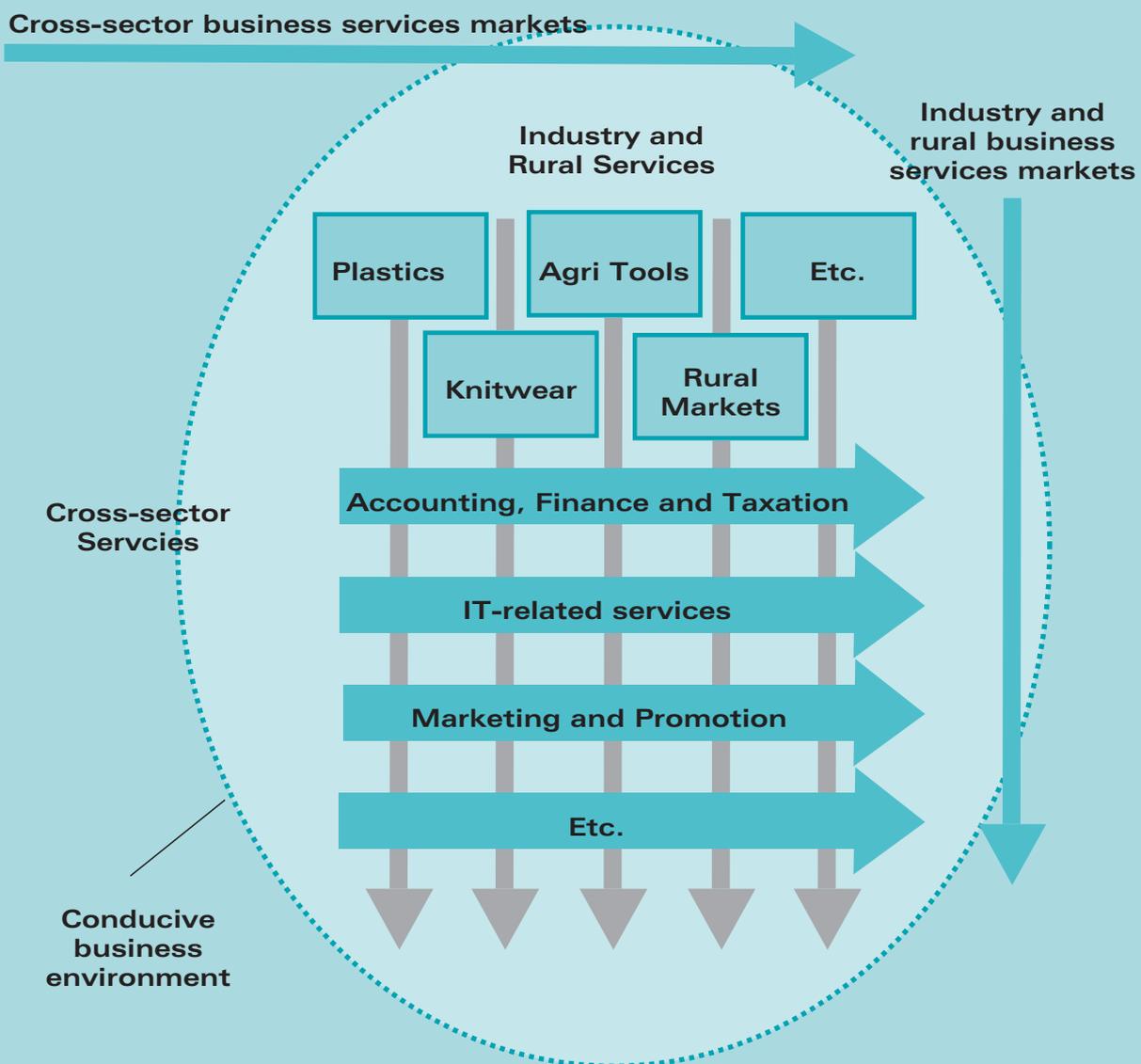
### Example 31: Cross-sector and Sub-sector Based BDS

#### KATALYST in Bangladesh

KATALYST, former DBSM in Bangladesh, is funded by a donor consortium and implemented by Swisscontact and GTZ International Services with a variety of partners. It includes three divisions that develop:

- Cross-sector business services markets
- Industry and Rural business services markets
- Media services markets and Conducive Business Environment

KATALYST integrates crosscutting issues such as environmentally responsible business, socially responsible business and gender in the three divisions. The program envisions the three divisions as working together to increase SME growth and competitiveness. The approach is depicted as follows:



For more info, contact: Patrick S. Renz, General Manager, KATALYST ([patrick.renz@swisscontact-bd.org](mailto:patrick.renz@swisscontact-bd.org))

In another aspect of this debate, both sides claim to reach the poor more effectively. Proponents of the sub-sector approach suggest that poor people who cannot pay for services are better able to access embedded services available only through sectoral market chains.<sup>60</sup> Proponents of the cross-sector approach suggest that sub-sector programs are biased towards producers, but the majority of poor people are concentrated in trade and services businesses.<sup>61</sup> They also argue that only growth-oriented, better skilled, and more capitalized entrepreneurs are able to take advantage of the high-value market opportunities presented by sub-sector development initiatives.

In practice, there is a continuum of approaches between sub-sector and cross-sector strategies.<sup>62</sup> Some larger programs acknowledge the benefits of both approaches and include components of each in their program designs.<sup>63</sup>

## 9.2 Demand-driven vs. Impact-driven Program Design: What is the critical factor in the choice of services?

Most practitioners agree that services should respond to SE demands and offer them significant benefits which create impact for businesses, entrepreneurs, workers, and local economies. But, when choosing service markets to develop, program designers debate whether to allow SE demand for services to drive service selection, or to consider other, “objective” analyses before determining which services would best benefit businesses and have the most impact.

Impact-driven program design prioritizes services that offer SEs the greatest potential for stabilization or growth. This design process, often associated with sub-sector development programs, analyzes the sub-sector or business system, identifies constraints to SE growth, hones in on services that can alleviate those constraints, and helps SEs take advantage of

*Proponents of the impact-driven approach argue that without an overview of the business systems in which they operate, SEs do not know what services would be most beneficial to them.*

market opportunities. Proponents of this approach argue that, without an overview of the business systems in which they operate, SEs, especially those that are marginalized, do not know which services are most likely to benefit them. Demand for services may need to be stimulated, or services can simply be embedded in market chains. Concentrating on a specific outcome for SEs—e.g., accessing new market opportunities—keeps programs focused on increasing sales and achieving impact.

Demand-driven program design prioritizes services that appear to have the greatest unmet demand from SEs. This design process is often, though not always, associated with cross-sector programs. It starts with consumer research to identify the services or business benefits SEs want. Proponents

*Proponents of the demand-driven approach argue that SEs know best the assistance they want from others.*

<sup>60</sup> McKee, 2002

<sup>61</sup> Stack, 2002

<sup>62</sup> Carpenter, et al. 2002

<sup>63</sup> Developing Business Services Markets 2002

### Example 32: Demand-driven Design

#### GTZ in South Africa

GTZ is initiating a BDS market development program in selected urban areas outside of the main cities in South Africa. The program aims to improve the growth and competitiveness of SEs in these areas. The primary basis for program design is a BDS market assessment with a focus on consumer research. GTZ hired a private sector marketing research firm to conduct focus group discussions and a survey of SEs. Following an analysis of the resulting data using sophisticated private sector tools for identifying unmet demand and pinpointing service features and benefits that consumers want, GTZ will choose service markets to develop.

Correspondence with Gabriele Trah, 2003  
For more information, contact Gabriele Trah,  
[trah@gtzpsdp.co.za](mailto:trah@gtzpsdp.co.za)

### Example 33: Impact-driven Design

#### The IDE PRISM program

International Development Enterprises is piloting the “Poverty Reduction through Irrigation and Smallholder Markets” (PRISM) model in five of its country programs. The goal of PRISM programs is to increase smallholder farmer incomes up to \$500 per year. Each program uses sub-sector analysis to identify specific market opportunities that enable smallholder farmers to achieve this income increase. Business services are chosen with the aim of helping small farmers overcome constraints to reaching market opportunities and they are designed with input from farmers to respond to demand for specific features, benefits, and cost parameters.

International Development Enterprises, 2003  
For more information, contact John Magistro,  
[jmagistro@ideorg.org](mailto:jmagistro@ideorg.org)

of a demand-driven approach argue that SEs know best what assistance they want from others. Programs must begin where SEs are and respond to their need for particular services or, when they are unaware of services, to their demand for specific business benefits. By focusing on demand, programs maximize outreach and can sometimes help SEs achieve outcomes not anticipated during the program design process. Cross-sector programs often identify services based on demand and then figure out the benefits SEs are looking for and the impact the program is likely to achieve.

## 9.3 BDS Market Assessment: Can we shorten the process?

Many early BDS market assessments relied on quantitative SE surveys with modest sample sizes (ranging from 100-1,000), yet practitioners are looking for ways to make BDS market assessment

even simpler, cheaper, and quicker.<sup>64</sup> While practitioners agree that there are ways to make BDS market assessment more useful and more appropriate for different types of markets, it is unclear whether or not efforts to make it quicker and less costly are effective. Two strategies for shortening the process have emerged:

- Combining sub-sector analysis and BDS market assessment into one study, relying mainly on secondary source research in combination with qualitative interviews with sub-sector players, key informants, and BDS providers. Some organizations also hold stakeholder workshops with these groups.
- Using qualitative tools for BDS market assessment without complementing them with quantitative information gathering.

A combined sub-sector analysis and BDS market assessment study was used in several recent program design processes.<sup>65</sup> The obvious advantage

<sup>64</sup> SEEP PLP in BDS MA, 2002

<sup>65</sup> For example Action for Enterprise, 2002 and 2003 and International Development Enterprises, 2003

of combining these two steps is the time and cost savings. However, some practitioners have found greater advantages in separating the two activities, for example:<sup>66</sup>

- BDS market assessment questionnaires or other tools can be better formulated once a reasonable understanding of the sub-sector is gained.
- Separating the studies can allow time for reflection on the program design during the research process and enable practitioners to focus information gathering more tightly on essential information and avoid gathering unnecessary information.
- The information yielded is more comprehensive, allowing for a better tailored program design.

The resolution to this debate may lie in taking a step-by-step process approach to information gathering and integrating it with program design and structured learning-as-you-go implementation.

Some programs are moving toward primarily qualitative information gathering for program design while others continue to conduct quantitative surveys of SEs as a key part of the program design process.<sup>67</sup> While it appears that qualitative research is more effective than quantitative research in very weak markets, it is not clear whether gaining a comprehensive picture of BDS markets using only qualitative tools is quicker and cheaper than implementing a survey. In practice, BDS market

*While it appears that qualitative research is more effective than quantitative research in very weak markets, it is not clear whether gaining a comprehensive picture of BDS markets using only qualitative tools is quicker and cheaper than conducting a survey.*

assessments that rely only on qualitative information gathering appear to have a less comprehensive picture of BDS markets than those combining quantitative and qualitative tools. The lack of quantitative data may negatively affect program design. On the other hand, while quantitative surveys provide useful baseline information for monitoring and evaluation, the information tends to be harder to apply to program design decisions. The resolution to this debate may lie in matching the level of investment in BDS market assessment to the size of the program. Larger programs warrant more investment, including quantitative and qualitative research, while smaller programs may be able to rely primarily on qualitative information gathering.

## 9.4 Is Direct / Subsidized Service Provision Ever Appropriate?

As with any new paradigm, there are purists and gradualists. Some BDS professionals feel that, in order to develop very weak markets that serve the poor, it is necessary for BDS market development programs to subsidize direct service delivery for a time, phasing it out as the market develops. Some BDS market development activities that temporarily subsidize service delivery include:

- Matching grants and vouchers that support service purchases;
- Contracting BDS providers to serve SEs;
- Operating or “deficit” financing to help BDS providers get started and/or “equity” investments that are actually never paid back to the development program;
- Providing services to test and develop new business models; and
- Playing a role in a sub-sector, for example as a wholesaler, to demonstrate that the market is viable.

<sup>66</sup> SEEP PLP in BDS MA, 2003

<sup>67</sup> For example, IDE is using only qualitative tools supported by secondary source research for designing their PRISM programs while many GTZ field offices continue to conduct quantitative SE surveys as a central component of their market assessments.

Supporters of these types of subsidies point out that the short-term nature of many BDS market development initiatives also pushes them toward direct services provision in order to achieve impact in a short time frame.

Opponents of direct subsidies and service provision are skeptical about the “weaning” process and doubt the effectiveness of development organizations that establish profitable private enterprises. Instead, they recommend finding private sector solutions right from the start of the project, providing only training and technical assistance to suppliers and temporary demand stimulation—information and linking services—to SEs. Even weak markets, they argue, are best developed by supporting local initiatives.

In practice, BDS markets and market development initiatives are much messier. Many programs that attempt a purist approach find themselves pulled into direct service provision in order to accomplish short-term objectives. Others may begin by strengthening new institutions, but find that these institutions are unprepared to sustain themselves through sales to SEs after the project ends. In their exit strategies, the latter programs sometimes work with private sector providers after all. Some programs are training indigenous suppliers to deliver direct services by modeling a supplier business—combining both approaches. The field is still exploring a number of paths toward sustainable exit strategies.

### Example 34: Sustainable Exit Strategies

#### Aid to Artisans and AGEXPRONT in Guatemala

Aid to Artisans (ATA) is working with AGEXPRONT, an association of exporters in Guatemala, to increase the incomes of rural artisans and help them preserve cultural traditions. Historically, ATA and AGEXPRONT linked exporters and producer associations with international markets by providing direct, subsidized services. They obtained subsidies for exporters and associations to attend trade shows, provided free training on how to take advantage of these shows to reach markets, and provided subsidized product development services. These activities may be viewed as facilitation of embedded services to artisans. However, the funder, USAID, was looking for an exit strategy that would allow the facilitation services to continue over the long term. In their latest program, ATA and AGEXPRONT have devised strategies for providing sustainable services in all three areas:

- **Trade Shows:** AGEXPRONT plans to organize, for a fee, joint participation and training for international trade shows. In addition, it will organize and charge fees for local trade shows and training that link exporters, producers associations, and other traders to strengthen the market chain between artisan and exporter.
- **Product Development:** ATA and AGEXPRONT provide training for exporters and designers for a fee. They will continue international linkages, but international designers will mentor Guatemalan product designers and issue temporary vouchers to exporters and producer associations to stimulate them to use local product design services. The AGEXPRONT business plan details information and linkage services to be paid for through membership fees and proceeds from workshops and other events.

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

### Example 35: Alternative and Integrated BDS and Finance

#### Mennonite Economic Development Agency (MEDA) in San Martine, Peru

The USAID-funded Project to Reduce and Alleviate Poverty (PRA), implemented by Chemonics and ITDG, helps farmers gain access to advice, inputs, markets, and finance with assistance from an innovative financing and information system developed by MEDA. With this system, input suppliers, agro-processors, buyers, and an MFI (Caha Rural San Martin) co-finance loans to farmers and share collateral. If the crop is good and sale successful, buyers pay the MFI, which then pays all parties. In case of disaster, all parties take a loss. The project is supported by an information gathering system “Agromonitor,” developed by MEDA and sold by Mega System, a company established with MEDA investment. Agromonitor tracks farm data for each borrower and reports it to input suppliers, the MFI, and buyers. Input suppliers use the information to estimate quantity and timing of farmer input requirements. The project uses the information to determine when farmers need technical advice and buyers use it to estimate when crops are ready for harvest. The MFI uses it to establish whether a farmer can repay a loan. The approach is new and in the experimental phase, but this combination of finance and BDS shows promise for improving the agricultural production and market chain to the benefit of all parties.

MEDA, 2003; Jones, 2003

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## 9.5 BDS and (Micro) Finance

Both the BDS and microfinance fields are taking “systems” approaches to their work, with the microfinance field focused increasingly on financial systems and the BDS field on developing BDS markets. It is unclear how these two approaches, working in distinctly separate arenas, can help SEs gain access to both services, which most practitioners in both fields agree are needed to create intended impacts.<sup>68</sup> Some experts see BDS and microfinance as distinct fields using different approaches to address problems that are separate issues. The danger of combining the two approaches is that programs might fail to apply best practices in each field. MFI sustainability might be threatened and BDS markets could be dominated by MFIs that would subsidize services.

Proponents of a combined approach argue that unless BDS and finance programs work together to coordinate their service offerings, SEs will not be able to access both and this will inhibit their growth and ability to create development impact. Practitioners are innovating with mixed results. Emerging patterns in programs attempting to help SEs access both BDS and finance and using best practice in both fields include:<sup>69</sup>

- **Demand-driven integration:** Attempts to integrate basic business education or referral services into MFI operations, but charges a fee and/or offers clients a choice about whether or not to take training;<sup>70</sup>
- **Parallel programs:** When a development organization offers both services through separate initiatives that reach the same client;<sup>71</sup> and
- **Alternative finance:** Strengthens existing, market-based financing mechanisms—supplier or buyer credit, bank or equity financing, equipment leasing, etc.<sup>72</sup>

<sup>68</sup> Stack, 2002

<sup>69</sup> SEEP On-line Guide to BDS, 2003

<sup>70</sup> Stack, 2002; Macaulay, 2002

<sup>71</sup> SEED, 2003; Macaulay, 2002; Chalmers, 2003

<sup>72</sup> Albu et al, 2002

## 9.6 Franchising: Does it support or distort BDS markets?

Several development institutions with standardized training packages for SEs want to sell these packages to trainers in developing countries at cost recovery or profitable rates. These organizations are attempting to develop the training market by offering new training products to existing service providers in a sustainable manner (recovering the cost of training trainers) and by training more trainers. They also hope to ensure that quality services are available in the market.

Critics suggest that attempting to develop private sector delivery within the context of highly subsidized training markets is a losing proposition from both a business and a development point of view. Concerns include:

- Training products developed and subsidized by donor agencies may not be demand-driven or reflect the high priority services SEs want;
- There are so many subsidies in this service market that the only payers are other donor programs; and
- The overheads for these organizations are high so only formal, subsidized trainers can afford to pay them.

This results in franchising initiatives that continue to support subsidized service provision and to miss the informal, local markets for services that SEs may value more.

The resolution of this debate may revolve around a better examination of different franchising models. For example, private sector franchisers may offer low-cost agreements open to a wide range of providers, or they may be predatory and create monopolistic BDS markets. Action research into this and other strategies for developing and disseminating new BDS services might prove useful in resolving these debates.

### Example 36: Franchising

#### GFA CEFE Franchising in Malawi

GFA and GTZ are attempting to establish a franchise of CEFE training products in Malawi, a very poor, land-locked African nation with significant public sector subsidies in the training market and few private sector suppliers. In the original model, GFA established BEED, a private company, as the franchiser and license holder. BEED trained trainers who were to sell training to entrepreneurs and pay a licensing fee to BEED, which would re-invest profits in further capacity building of franchisees. However, the trainers were not able to sell training directly to SEs, due to high costs, lack of marketing skills, and highly distorted training markets. Instead, BEED became a broker for training contracts to trainers and the payers were government and parastatal organizations, with contributions from participants. GFA hopes this structure will develop a brand name for CEFE and stimulate the demand for direct purchase by SEs. Some progress indicators include: 850 courses sold (49% women), 30% repeat customers, and high level of satisfaction with the course.

Legien, 2002

See Legien, Katja, "Franchising Training Services in Malawi: Putting the New BDS Principles into Practice," Presented at the Third Annual ILO BDS Seminar, "Developing Commercial Markets for Business Development Services: Are How-To-Do-It Recipes Possible?" in Turin, Italy, September, 2002. Available at <http://training.itcilo.it/bdsseminar/>

#### Intron, Newbiznet, and Licensing VAT Accounting Services

The USAID-funded Newbiznet in Ukraine identified a valuable accounting service developed by Intron, a private firm providing a guarantee against tax inspection fines. The Newbiznet project, understanding the value of this service on several levels, decided to facilitate the service being offered wholesale to other business services providers outside Intron's target market. Newbiznet cost-shared a marketing effort in which Intron presented its product and provided training on the methodology and technology. Newbiznet also helped organize a licensing structure so that Intron would continue to provide technical support to the buyers of the accounting service package. Intron has sold 30 licenses for this package around the country.

Field, 2003

## 9.7 Old Programs and Partners: Abandon them or transition them?

In the past, many BDS organizations invested significant resources in developing subsidized BDS programs and partners and some are now helping them transition to a BDS market development approach. Others, though, prefer to “start fresh” and are finding new partners and services. Those who

support transitioning reflect the significant institutional, human resource, and service development that has occurred over the years. They are convinced of the continued relevance of their partners and services and feel it is worth further investment to help them make the transition. Opponents, however, raise several challenges:

- Traditional service products of general business education are not demand-driven;

### Example 37: Making Transitions

#### FAIDA Small Enterprise Program in Tanzania

FAIDA SEP, an SNV project in Northern Tanzania, targets rural microenterprises in an historically socialist country with a weak private sector and widely dispersed population. FAIDA started by directly providing basic business training and counseling in towns and rural areas. Since the advent of the BDS market development approach, FAIDA has attempted two different strategies for its transition to developing BDS markets. The first was to support 3 established, formal BDS training and consulting firms / centers. This worked to a certain extent, staff were interested and entrepreneurial and FAIDA provided “deficit financing” to help them gradually earn a profit. However, the costs of the approach were impossible for rural microenterprises to pay.

FAIDA and its partners then created a different approach—helping new commercial providers sell services through a network of grassroots promoters. The promoters, trained by commercial BDS providers, deliver basic services for very low cost, on-location in rural areas. They also sell the commercial providers’ advanced services to businesses and/or clients able to afford and take advantage of them. At the same time, providers devised new services—buyer-seller workshops to facilitate market linkages is one—that responded to market demand. Outreach and cost-effectiveness improved dramatically with this new approach.

**Cost effectiveness and outreach of BDS in FAIDA SEP over the years.**

| Year:                       | 1999                               | 2000                                      | 2001                | 2002  |
|-----------------------------|------------------------------------|---|---------------------|---|
| 1. Total clients served     | 417                                | 1,320                                     | 759                 | 1,215   |
| 2. Total costs in US\$      | 74,000                             | 117,000                                   | 60,000              | 41,000  |
| 3. Costs per client in US\$ | 177.5                              | 89  | 80                  | 33.5  |
| Remarks:                    | Deficit financing to two providers | Competitive bidding for deficit financing | Continued from 2001 | Grassroots promoters, incl. support to the network of 21 promoters. |

Mensink, 2003

- Local, private sector BDS markets better reflect SE demand for services;
- Traditional programs have high cost structures and tend to move up-market when they try to become sustainable; and
- Traditional markets remain highly subsidized and difficult to develop commercially.

Instead, they suggest that identifying and building on new service markets that show promise are more likely to respond to SE demand; support sustainable providers; and develop viable, competitive markets.

Caught in the middle are the national level NGOs and professionals who face difficult choices about how to continue their role in private sector development—development professionals or entrepreneurial BDS providers.

## 9.8 The Role of Government and Advocacy in BDS Market Development Programs

There are at least two critical debates occurring around the role of government and advocacy in BDS market development programs:

1. What is the appropriate role for national governments in BDS market development?
2. Is it appropriate for BDS market development programs to engage in advocacy? And, when BDS programs do engage in advocacy, should they support a sustainable advocacy service, or engage in one-time interventions around specific policies?

The Donor Committee guidelines advise national governments to get out of the business of providing subsidized BDS, but provide few suggestions for their appropriate role. In a recent paper, Robert Hitchens suggested areas of government involvement that might be appropriate—policy, regulation, enforcing competition and standards, co-ordination of SE development initiatives, information provision, investments in science and technology, procurement, and explicit business service market facilitation. He also suggests that different governments should play different roles

### Example 38: The Role of Local Government in BDS Market Development

#### Southern Province Rural Economic Advancement Project (SP-REAP) and ILO SIYB in Sri Lanka

SP-REAP, a provincial-level government project in Sri Lanka, tenders SEs to upgrade rural roads. It is very difficult, however, for small enterprises to win government tenders due to both technical and managerial skills deficits. In an effort to develop the market for managerial and technical training packages to help SE construction firms win tenders, the ILO SIYB program works with SP-REAP and the Community Business and Technology Development (CBTD), a development consulting group and certified SIYB master trainers. Together they are developing a managerial and technical curriculum appropriate for construction firms. CBTD will then train trainers from BDS organizations to train target SEs. CBTD has conducted a demand analysis to help develop the training and assist BDS providers in developing appropriate pricing and marketing strategies for this market. The specific role of local government in this situation is to:

- Procure road construction services;
- Procure services from CBTD to develop, test, and deliver the curricula through independent BDS trainers. Provide technical input to the curricula; and
- Explore ways that BDS providers can be used in other initiatives.

Training is to be delivered to SEs at 30% cost-recovery.

Community Business & Technology Developers, 2002  
For more examples of advocacy by and for small enterprises, see [www.seepnetwork.org/bdsguide/html](http://www.seepnetwork.org/bdsguide/html) or [www.grassrootsfreemarket.org](http://www.grassrootsfreemarket.org)

depending on their capacity, starting with general policy and establishment of a strong regulatory environment, and working toward more pro-active roles like coordination, research, and BDS market facilitation.<sup>73</sup> Several experts and practitioners in local economic development (which advocates for the close coordination of public, civil, and private sectors) suggest a pro-active role for local government in coordinating BDS market development activities as part of broader local economic development strategies.<sup>74</sup>

The second debate in the policy and advocacy arena is whether, and how, BDS market development programs should be involved with advocacy. Historically, many BDS programs contain an advocacy component, which is often hidden, under-funded, and implemented without a clear plan or relevant technical expertise.<sup>75</sup> Some programs organize associations, such as the National Association of Smallholder Farmers in Malawi (NASFAM), that help SEs advocate for themselves.<sup>76</sup> Many BDS experts feel that advocacy is not a BDS and that BDS programs should not be involved in it or policy work.<sup>77</sup> However, others recognize that on-the-ground reality dictates some involvement in advocacy or policy reform, and that it is better to be explicit about the work, its goals, and the technical expertise and resources required—whether or not it is technically a “BDS.”<sup>78</sup> They point out that it is not very effective to develop BDS markets in a policy and regulatory environment that discourages growth of the business services sector. A third group observes that some commercial BDS have the side-effect of empowering SEs to advocate for themselves, which is a more sustainable process than having projects advocate on behalf of SEs.<sup>79</sup>

### Example 39: BDS and Advocacy—Commercial BDS as Tools for Democratization

#### ICTs Contributing to Democracy in the Middle East and Africa

Information alone is not enough, but in some situations information and communication technologies—often thought of primarily as a business service—are transforming people’s ability to represent themselves.

Photocopying services in the Middle East are becoming widely available even in small villages. They allow individuals to distribute messages widely, at low cost, without the expense and traceability formerly inherent in using print shops. Messages originate from individuals, the internet, or organizations located in cities and towns nearby.

Radio and cell phones played an important role in recent elections in Senegal, as reporters and election monitors immediately reported any irregularities, which were then broadcast over the radio. ILO FIT-supported commercial radio programs are uncovering local policy concerns specific to SEs and facilitating dialogue among SE listeners and policy makers.

Hewitt, 2001; Tanburn, 2003; McVay, 2002.

<sup>73</sup> Hitchens, 2002

<sup>74</sup> Community Business and Technology Developers, 2002; Helmsing, 2001; LEDA, 2003; Southern Province Rural Economic Advancement Project, 2002; United Nations Development Program, 2002

<sup>75</sup> SEEP BDSWG Meetings, 2003

<sup>76</sup> See the BDS Reader Primer and [www.acdivoca.org](http://www.acdivoca.org)

<sup>77</sup> Committee of Donor Agencies for SED, 2001; De Ruijter de Wildt, 2002

<sup>78</sup> Developing Business Services Markets, 2002; SEEP on-line guide to BDS

<sup>79</sup> McVay, 2001; Seeley, 2002; Hewitt, 2001

## 9.9 Reaching the Poorest: Is the market development approach appropriate?

For many donors and practitioners, reducing poverty is a critical, if underlying, goal of BDS programs. When programs aim to reach the poorest and most marginalized entrepreneurs directly, can they adhere to the BDS market development principles? Or are some modifications to the approach necessary and appropriate for reaching these populations?

Proponents of adhering to the BDS market development approach argue that very poor entrepreneurs can escape poverty only by integrating into markets as suppliers and buyers. They maintain that treating poor entrepreneurs as beneficiaries, rather than market actors, further marginalizes them. They also say that programs are able to reach significant numbers of very poor entrepreneurs only if they adhere to the market development approach. Otherwise they can help just the few that subsidies reach. Research shows that even very poor entrepreneurs often get some business services through commercial or informal channels, while only a very few receive subsidized services from programs or governments.<sup>80</sup> Proponents also point to the few programs that have reached marginalized SEs with commercial business services.<sup>81</sup>

Those who support modifying the approach for marginalized entrepreneurs argue that the poor are poor because markets are inherently inequitable, because they are based on unequal resource allocation, skills, education, and power relations.<sup>82</sup>

Unless poor entrepreneurs are helped to increase their resources, skills, and bargaining power, it is unlikely that they will benefit from enhanced market linkages. In order for poor entrepreneurs to successfully enter mainstream markets, they should be able to access basic business and social services, at prices they can afford, which is below the equilibrium market price. Programs must also include measures to address empowerment, gender equity, and the other factors that marginalize these populations.<sup>83</sup> They point out that when existing BDS programs attempt to become sustainable, they often drift upscale, targeting larger and more prosperous SEs operating in functional markets. They also point to the success of selected programs that include some subsidized services for integrating poor microenterprises into mainstream markets.<sup>84</sup>

Donors and practitioners are actively engaged in sorting out this debate:

- The SEEP Network BDS Working Group plans to implement an action research project entitled “BDS on the Margins” to explore the applicability of the BDS market development approach to marginalized entrepreneurs such as those in remote rural areas, women facing significant barriers to participation in markets, refugee populations, and HIV/AIDS-affected communities. The project will include virtual conferences, case studies, and action research projects, depending on funding opportunities.<sup>85</sup>
- The SDC annual SED conference in January 2004, will foster debate on the capacity of the BDS market development approach to promote employment and income in rural areas.<sup>86</sup>
- *Grupo Intercambio* recently published the analysis of its contest “Promoting Business Services Based on Gender Equity,” along with the case studies of competing programs.<sup>87</sup>

<sup>80</sup> Anderson, 2000, Committee of Donor Agencies, 2001

<sup>81</sup> For example, ILO-supported radio programs in Africa and IDE and ApproTEC micro-irrigation programs in Asia and Africa

<sup>82</sup> Phillip, 2002

<sup>83</sup> Mayoux, 2003

<sup>84</sup> For example, SEWA in India and BRAC in Bangladesh

<sup>85</sup> The SEEP Network, 2003

<sup>86</sup> Le Favre, 2003

<sup>87</sup> Hofstede, 2003 available at [www.intercambio.org.pe](http://www.intercambio.org.pe)

■ USAID is funding a SEEP Network initiative to clearly define who the “poor” are and how microenterprise development programs can easily track whether or not they are targeting the “poor.”<sup>88</sup>

This topic has been a cross-cutting theme throughout this document. It is the single most significant challenge facing the BDS market development approach. The field continues to push to develop markets that work for the poor and to ensure that there is “development” in business development services.<sup>89</sup>

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<sup>88</sup> To participate in the survey and contribute to the research, see [www.seepnetwork.org](http://www.seepnetwork.org)

<sup>89</sup> Phillip, 2003

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# LIST OF ACRONYMS

|                  |   |
|------------------|---|
| <b>AFE:</b>      | Action for Enterprise   |
| <b>AT:</b>       | Appropriate Technology  |
| <b>ATA:</b>      | Aid to Artisans   |
| <b>ApproTEC:</b> | Appropriate Technology for Enterprise Creation                                |
| <b>BDC:</b>      | Business Development Center   |
| <b>BDS:</b>      | Business Development Services   |
| <b>BRAC:</b>     | Bangladeshi Rural Advancement Committee                                       |
| <b>BSO:</b>      | Business Support Organization   |
| <b>CARE:</b>     | Cooperative Assistance and Relief Everywhere                                  |
| <b>CEFE:</b>     | Competency-based Economies Formation of Enterprise                            |
| <b>CI:</b>       | Conservation International  |
| <b>CIDA:</b>     | Canadian International Development Agency                                     |
| <b>DBSM:</b>     | Developing Business Services Markets (Bangladesh)                             |
| <b>DFID:</b>     | United Kingdom Department for International Development                       |
| <b>DTP:</b>      | Desktop Publishing  |
| <b>EDIAIS:</b>   | Enterprise Development Impact Assessment Information Service (a DFID website) |
| <b>FIT:</b>      | An International Labour Organization small enterprise development program     |
| <b>FfIT:</b>     | Foundation for International Training (Egypt)                                 |
| <b>FGD:</b>      | Focus Group Discussion  |
| <b>GAMA:</b>     | <i>Grupo de Asesoàia Multidisciplinaria</i>                                   |
| <b>GEMINI:</b>   | USAID research project preceding the Microenterprise Best Practices project   |
| <b>GTZ:</b>      | German Agency for Technical Cooperation                                       |
| <b>ICT:</b>      | Information and Communication Technology                                      |

|                 |  |
|-----------------|--|
| <b>IDB:</b>     | Inter-American Development Bank  |
| <b>IDE:</b>     | International Development Enterprise   |
| <b>IFC:</b>     | International Finance Committee  |
| <b>IFP:</b>     | InFocus Programme (ILO)  |
| <b>ILO:</b>     | International Labour Organization  |
| <b>ISP:</b>     | Internet Service Provider  |
| <b>ITDG:</b>    | Intermediate Technology Development Group (Kenya)  |
| <b>JOBS:</b>    | Job Opportunities and Business Support Program (USAID)   |
| <b>LED:</b>     | Local Economic Development   |
| <b>MBLP:</b>    | Manicaland Business Linkage Project  |
| <b>MBP:</b>     | Microenterprise Best Practices project   |
| <b>MFI:</b>     | Microfinance Institution   |
| <b>MPDF:</b>    | Mekong Project Development Facility  |
| <b>MSEs:</b>    | Micro and Small enterprises  |
| <b>NASFAM:</b>  | National Association of Small Scale Farmers of Malawi  |
| <b>NGO:</b>     | Non-Governmental Organization  |
| <b>PMF:</b>     | Performance Measurement Framework  |
| <b>PRA:</b>     | Participatory Rural Appraisal  |
| <b>PRISM:</b>   | Poverty Reduction through Irrigation and Smallholder Markets (IDE)   |
| <b>PROARTE:</b> | A private, for-profit marketing and craft exporting company in Nicaragua initiated with support from MEDA; profiled by the IDB and the Donor Committee |
| <b>SDC:</b>     | Swiss Agency for Development and Cooperation   |
| <b>SDCAsia:</b> | Strategic Development Cooperation–Asia   |
| <b>SE:</b>      | Small Enterprise (refers to a micro-, small-, and/or medium-sized firm)  |
| <b>SED:</b>     | Small Enterprise Development (SDC)   |
| <b>SEED:</b>    | Small Enterprise Development (ILO)   |

|                |   |
|----------------|---|
| <b>SEEDS:</b>  | Sarvodaya Economic Enterprises Development Services (Sri Lanka) |
| <b>SEEP:</b>   | Small Enterprise Education and Promotion network                |
| <b>SEWA:</b>   | Self-Employed Women’s Association                               |
| <b>SIDA:</b>   | Swedish International Development Agency                        |
| <b>SIYB:</b>   | Start and Improve Your Business (ILO)                           |
| <b>SMEs:</b>   | Small and Medium Enterprises                                    |
| <b>SNV:</b>    | Netherlands Development Organization                            |
| <b>TA:</b>     | Technical Assistance  |
| <b>ToT:</b>    | Training of Trainers  |
| <b>UAI:</b>    | Usage, Attitude, Image market study                             |
| <b>UNCTAD:</b> | United Nations Conference on Trade and Development              |
| <b>UNDP:</b>   | United Nations Development Programme                            |
| <b>UNIDO:</b>  | United Nations Industrial Development Organization              |
| <b>USAID:</b>  | United States Agency for International Development              |
| <b>VAT:</b>    | Value Added Tax   |

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