

# BDS Workshop



**February 27-28, 2004  
Manheim, PA**



# MEDA BDS Workshop

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*We wish to acknowledge the support of the Office of Private Voluntary Cooperation, United States Agency for International Development (HFP-A-0-0-00020-00), and to thank them for making this workshop and publication possible. We would also like to extend our appreciation to the SEEP Network and their generosity in sharing BDS workshop materials and program design tools.*



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**MEDA BDS Workshop 2004**  
**Agenda**  
**Friday February 27 – Saturday February 28, 2004**  
**8:30 to 4:30**

***Day One***

- 8:30 – 10:00**      **Session One – Introduction - Linda**  
Introductions of Participants  
Goal of workshop / Review of agenda and binder  
Overview of current BDS theory  
Group formation – Becoming entrepreneurs
- 10:00 – 10:30**      ***Break***
- 10:30 – 12:00**      **Session Two – MEDA and PML - Steve**  
What is Production Marketing Linkages?  
Review of past PML projects  
Lessons learned  
Small group discussion on applying lessons learned
- 12:00 – 1:00**      ***Lunch***
- 1:00 – 2:30**      **Session Three – BDS Supply and Demand - Linda**  
Range of services  
Supply and demand  
Payment and delivery mechanisms  
Small group exercise – Delivery of Services
- 2:30 – 3:00**      ***Break***
- 3:00 – 4:30**      **Session Four – Subsector Analysis and BDS - Henry**  
Action for Enterprise methodology  
Small group exercise

## **Day Two**

- 8:30 – 10:00**            **Session Five – Subsector Analysis and BDS - Henry**  
Action for Enterprise Methodology  
Small group exercise
- 10:00 – 10:30**            **Break**
- 10:30 – 12:00**            **Session Six – Applying Tools and Techniques - Linda**  
Quantitative Tools - The UAI Survey  
Qualitative Tools  
Weak markets / Pakistan case study  
Small group exercise – Selecting Tools
- 12:00 – 1:00**            **Lunch**
- 1:00 – 2:30**            **Session Seven - BDS Program Design – Steve & Linda**  
Review of case studies  
Working in Groups:  
Identifying constraints and opportunities – supply, demand and transactions  
Determining priorities areas for intervention
- 2:30 – 3:00**            **Break**
- 3:00 – 4:30**            **Session Eight – BDS Program Design – Steve & Linda**  
Designing BDS program intervention  
Working in Groups:  
Selection of three services  
Development of three services through facilitation activities  
Focus on impact and sustainability

### **Facilitators:**

Henry Panlibuton, Action for Enterprise  
Linda Jones, MEDA  
Steve Rannekliiev, MEDA

## **MEDA BDS Workshop 2004 Table of Binder Contents**

- 1. Session One – Introduction**
  - Presentation
  - List of participants
  - Group membership
  - Opening exercise – “Becoming an Entrepreneur”
  
- 2. Session Two – MEDA and PML**
  - Presentation
  - Discussion outline on “Lessons Learned”
  
- 3. Session Three – BDS Supply and Demand**
  - Presentation
  - Large group exercises #1 - #3
  - Small group exercise – “Delivery of Services”
  
- 4. Session Four – Subsector Analysis and BDS**
  - Presentation
  - Illustrative Scope of Work / Tender Document
  
- 5. Session Five – Subsector Analysis and BDS**
  - Presentation
  - Focus Group Discussion Session Plan
  
- 6. Session Six – Tools and Techniques**
  - Presentation
  - Sample survey questionnaire
  - Large group exercise – Philippines Telecommunications
  - Pakistan case study handouts
  - Small group exercise
  
- 7. Session Seven -- BDS Program Design  
Assessment – Constraints and Opportunities**
  - Program Design Tasks
  - Case Study – Part 1
  - Program Design Tables and Worksheets
  
- 8. Session Eight – BDS Program Design**
  - Program Design Tasks
  - Case Study – Part 2
  - Program Design Tables and Worksheets
  
- 9. Resource Materials**
  - List of Internet resources
  - Types of Business Development Services
  - Donor Guiding Principles – the blue book
  
- 10. List of Acronyms**





## MEDA BDS Workshop

### SESSION ONE - Introduction

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## Getting Started

- Goals of BDS Workshop
  - Introduction to the current industry thinking
  - Review of MEDA's PML history and product
  - Application of BDS learnings to PML projects and development constraints
- Review of Agenda
- Review of Binder Contents

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## Background on "BDS" Industry

- Donor initiative (blue book) since 1995
- Perceived gap in viable support to SEs
- Annual seminars and trainings, info sharing
- SEEP, USAID/IGP, CIDA and other funding opportunities



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## What are Business Development Services (BDS)?

- Services: non-financial
- Target: micro, small, medium enterprises (SEs)
- Goal: to help SEs overcome business limitations to:
  - Efficient operation of business
  - Growth of business

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## Types of Services

- Input Supplies
- Training and TA
- Market Access
- Policy / Advocacy
- Infrastructure
- Technology and Product Development
- Alternative Financing Mechanisms on loans



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## The Market Development Paradigm

*"The goal of market development interventions is for a large proportion of SEs to buy the BDS of their choice from a wide selection of products offered (primarily) by unsubsidized, private sector suppliers in a competitive and evolving market."*

BDS Turin 2002: Seminar Reader – Miehbradt & McVay pg. 12

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## Models of BDS Market Development

- Evolving models and best practices
- NGOs
  - From provider to **facilitator**
  - Develop markets without direct involvement in transactions
- Donors
  - Sensitive to market distortion
  - Supporting commercial markets

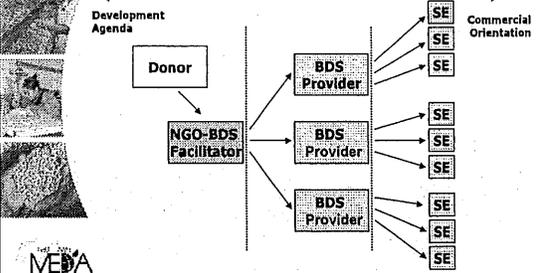
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## BDS Market Development: Subsidized Program Model



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## BDS Market Development: Commercial Model



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## BDS Markets

- BDS markets versus goods & service markets
- Client:
  - Micro, small, medium enterprises (SEs)
- Agent:
  - Business development service provider
- Transaction:
  - Mutually acceptable delivery and payment mechanisms

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## BDS Market Client: SEs

- Huge Range: e.g.,
  - Smallholder farmers
  - Rural women
  - Poor urban tradespeople
  - Artisans
  - Educated microentrepreneurs
  - Small-scale manufacturers



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## BDS Market Agents: Providers



- Also Wide Range: e.g.,
  - Rural traders
  - Wealthy exporters
  - Highly trained professionals such as lawyers/accountants
  - Friends, family, peers



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## BDS Market Transactions



- Delivery Mechanisms
  - Independent BDS
  - Embedded in other service (e.g., export)
  - Piggybacked on microcredit
  - Industry association or business network
  - Informal services through family, friends, peers
  - NGO or government agency
- Delivery Issues
  - Time, location, suitability



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## BDS Market Transactions cont...



- Payment Mechanisms
  - Cash
  - In-kind
  - Embedded
  - 3<sup>rd</sup> Party
  - Commission
  - Installments
  - Loan



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## Five Principles of BDS Market Development



1. High-Impact SE Development Strategy
2. Specific, Focused, Tailored Services
3. Demand-Driven Services
4. Sustainable Service Delivery
5. Development of vibrant, competitive BDS Markets

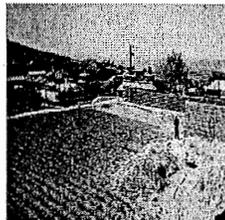


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## High Impact SE Development Strategy



- Effect a high number of underserved SEs
- SE growth (income, profitability)
- Job creation
- Poverty alleviation



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## Specific, Focused, Tailored



- Address specific SE needs
- Focus on high-priority issues
- Tailored to add measurable value to SEs
  - Increase sales
  - Reduce costs
  - Create employment



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## Demand-Driven Services

- Respond to SE wants and needs
- Commercial transactions must be demand driven
- Pressure on suppliers to provide relevant services



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## Sustainable Services



- Financially sustainable delivery mechanisms
- Commercial, profitable, relevant
- Issues of payment mechanisms, delivery methods
- Reasonable cost structures

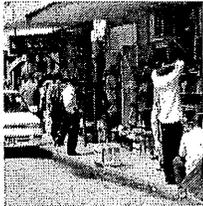



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## Develop Vibrant Competitive BDS Markets



- Range of SEs
- Wide selection of service products
- Competing commercial providers
- Leads to affordability reducing monopolies and gouging




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## Small Group Work



**MEDA BDS Workshop 2004  
List of Participants**

Last Name	First Name	City	Department	Position/Title
Achola	Pauline	Waterloo	IOPs	Technical Advisor
Affleck	Tom	Lima	IOPs	Market Research Intern
Andrews	Meagan	Waterloo	MF	Senior Consultant
Cerin	Jean Claude	Port-au-Prince	MF	Haiti Country Manager
Cortes	Octavio	Managua	MF	Nicaragua Country Manager
Dominguez	Sonia	Lima	PML	Peru Country Manager
Fehr	Pam	Waterloo	MF	Project Manager / Sr. Consultant
Foster	Greg	Dar es Salaam	PML	Tanzania Country Manager
Hess	Rachel	Lancaster	CED	Director of CED
Incer	Ivan	Managua	PML	COFAM & CHISPA Manager
Jones	Linda	Waterloo	PML	Project Manager / Sr. Consultant
Panlibuton	Henry	Arlington	AEF	Senior Manager
Peterson	Glen	Lancaster	CED	Regional Manager, CCF
Pityn	Kim	Waterloo	IOPs	Vice President, IOPs
Quigley	Jerry	Waterloo	PML	Director, PML
Rannekleiv	Steve	Waterloo	PML	Project Manager / Sr. Consultant
Rose	Peter	Lancaster	CED	Program Manager, Microenterprise Development
Runyan	Chris	Washington	USAID-PVC	Program Analyst
Salgado	Diego	Lima	PML	Project Manager
Sauder	Allan	Waterloo	Corporate	President
Schwartz	Trudi	Maputo	MF	Project Field Manager, MMF
Sharipova	Sanavbar	Khujand	NABWT	Executive Director
Shuh	Robert	Managua	PML	Project Manager - PRODUMER
Stirbet	Wendy	Waterloo	IOPs	IOPs Assistant
Tan	Cherie	Tarapoto	IOPs	Technical Advisor
Weber	Jeremy	Tarapoto	PML	Intern (as of June 2004)

**MEDA BDS Workshop 2004  
Group Membership**

<b>Group</b>	<b>Members</b>
Yellow	Allan Pauline Robert Wendy
Blue	Kim Diego Jean-Claude Sanavbar
Orange	Greg Glen Sonia Pam (Peter)
Mauve	Trudi Tom Ivan Rachel (Chris)
Pink	Jerry Cherie Octavio Meagan Jeremy

## **Session One – Group Exercise**

### **“Becoming an Entrepreneur”**

You are struggling to make ends meet for yourself and your family. You have heard that there is a small loans program beginning in your area, and you could access the funds to start a micro or small business (SE). As a group, select a type of SE that one or all of you could start and operate. Decide where it will be located (one of you must have first hand knowledge of the place). For example, you could operate: a hot-dog cart near the Skydome in Toronto, Canada; a used tire stall on the highway outside Maputo, Mozambique; a skate sharpening business in Dushanbe, Tajikistan; ecotours in Tarapoto, Peru; or an electronics fix-it shop in Port-au-Prince, Haiti. Be creative!! You must believe it could be a viable business, although you only have limited money for start-up. (If you like, you may choose an existing business of a client, friend or family member.)

Describe the business with reference to the following details:

**Type of Business:**

**Location:**

**Description of Staff (e.g., number, qualifications, remuneration):**

**Basic Start-up Needs (e.g., equipment, space, communications):**

**Customer Base:**

**Method of Reaching Customers:**

**Key Challenges Anticipated:**

**Sources of Financing:**

*Think this through carefully, and be prepared to present to the larger group (about 2 minutes per presentation). Note that this business will be used as a basis for other workshop exercises.*





## Session Two Linking Marketing and Production

MEDA's experience in guiding SME production towards lucrative markets



## What is MEDA?

*The Mennonite Economic Development Associates* Mission:

As an association of Christians, in business and the professions, committed to applying Biblical teachings in the market place, MEDA members share their faith, abilities and resources to address human needs through economic development.

## MEDA's Product Lines

- Over the past 50 years, MEDA has developed 3 major tools for fulfilling its mission of International Economic Development:
  - Investments
  - Microfinance
  - PML- Production and Marketing Linkages (Market Access, BDS)

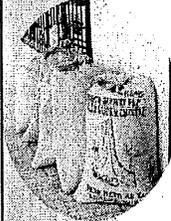
## What is "Production and Marketing Linkages"

- Part of "BDS"
- Includes:
  - Working with small producers to guide production towards specific markets (choosing product, improve yields/quality)
  - Opening up new markets
  - Improving/ developing marketing channels
  - Providing Market information
  - Social Marketing (Developing markets for beneficial products such as treated bed nets)



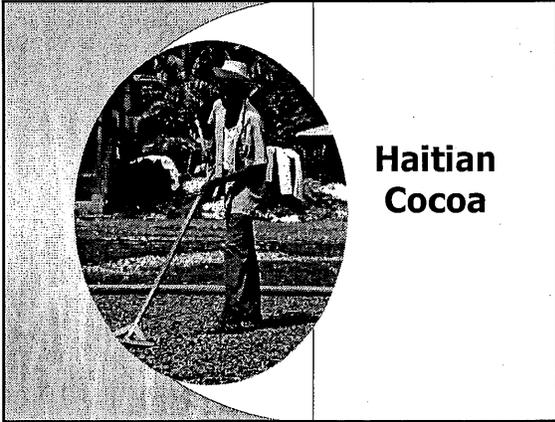
## MEDA's Experience in PML

- First significant PML experiences began 20 years ago.
- MEDA has executed 15-20 significant PML projects/ programs, as well as other smaller initiatives
- Consulting and training for institutions such as CARE, ACDI VOCA, Aga Khan, Eastern College

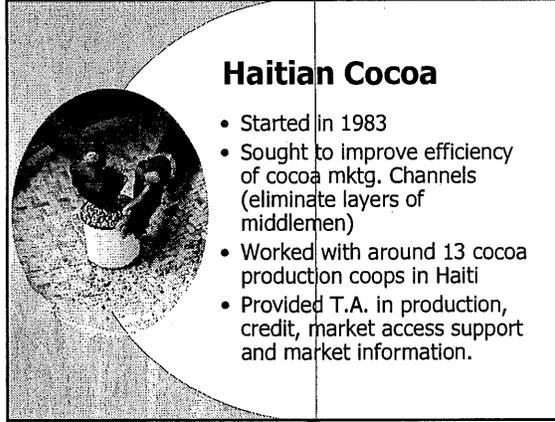


## Examples of Past Projects

- Haitian Cocoa
- Bolivian Beans
- PROCOR
- Proarte
- Agromonitor
- Peruvian Produce
- Pakistan Garments

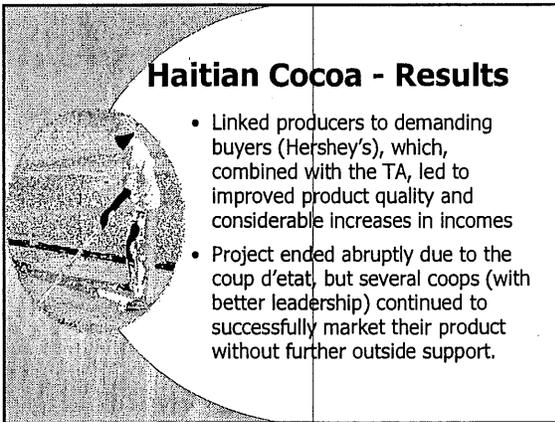


## Haitian Cocoa



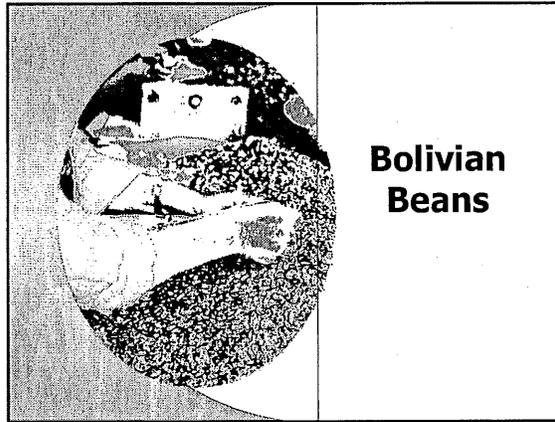
## Haitian Cocoa

- Started in 1983
- Sought to improve efficiency of cocoa mktg. Channels (eliminate layers of middlemen)
- Worked with around 13 cocoa production coops in Haiti
- Provided T.A. in production, credit, market access support and market information.

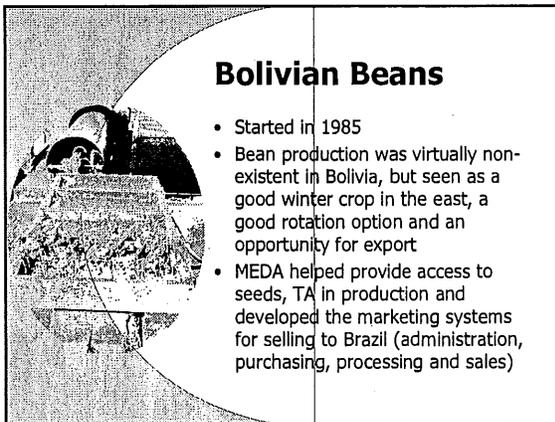


## Haitian Cocoa - Results

- Linked producers to demanding buyers (Hershey's), which, combined with the TA, led to improved product quality and considerable increases in incomes
- Project ended abruptly due to the coup d'etat, but several coops (with better leadership) continued to successfully market their product without further outside support.

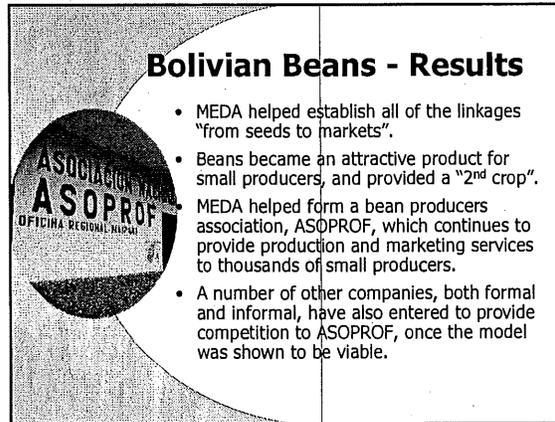


## Bolivian Beans



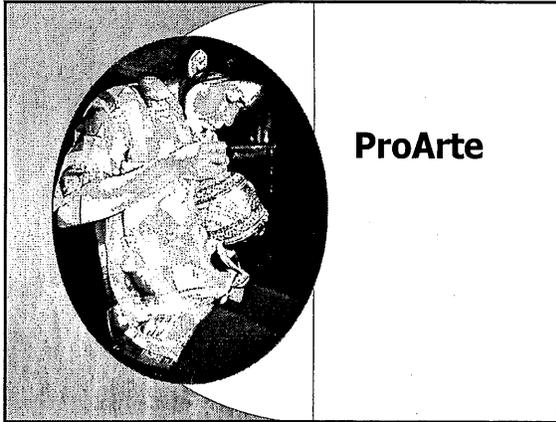
## Bolivian Beans

- Started in 1985
- Bean production was virtually non-existent in Bolivia, but seen as a good winter crop in the east, a good rotation option and an opportunity for export
- MEDA helped provide access to seeds, TA in production and developed the marketing systems for selling to Brazil (administration, purchasing, processing and sales)

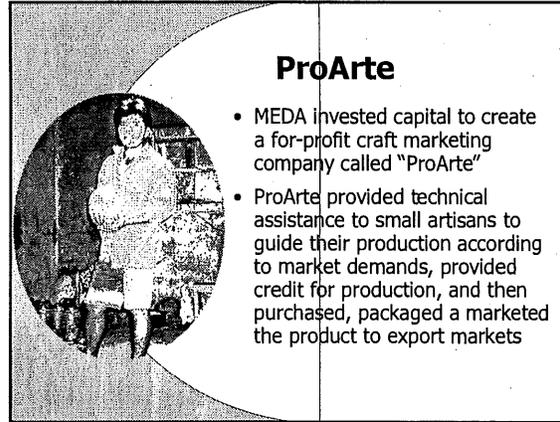


## Bolivian Beans - Results

- MEDA helped establish all of the linkages "from seeds to markets".
- Beans became an attractive product for small producers, and provided a "2<sup>nd</sup> crop".
- MEDA helped form a bean producers association, ASOPROF, which continues to provide production and marketing services to thousands of small producers.
- A number of other companies, both formal and informal, have also entered to provide competition to ASOPROF, once the model was shown to be viable.

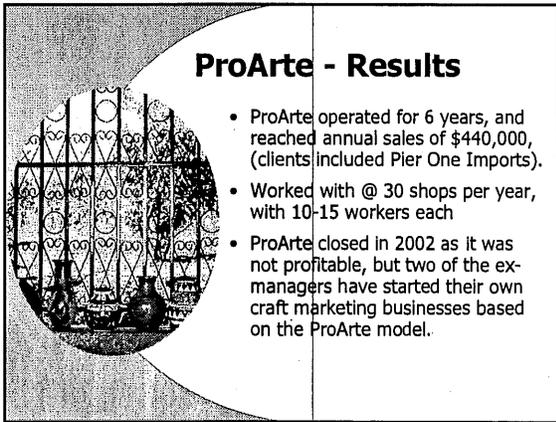


## ProArte



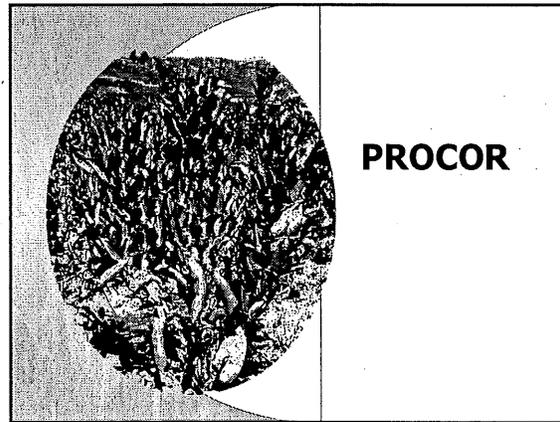
## ProArte

- MEDA invested capital to create a for-profit craft marketing company called "ProArte"
- ProArte provided technical assistance to small artisans to guide their production according to market demands, provided credit for production, and then purchased, packaged a marketed the product to export markets

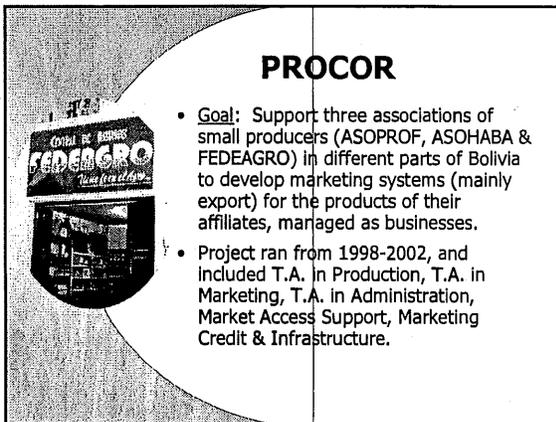


## ProArte - Results

- ProArte operated for 6 years, and reached annual sales of \$440,000, (clients included Pier One Imports).
- Worked with @ 30 shops per year, with 10-15 workers each
- ProArte closed in 2002 as it was not profitable, but two of the ex-managers have started their own craft marketing businesses based on the ProArte model.

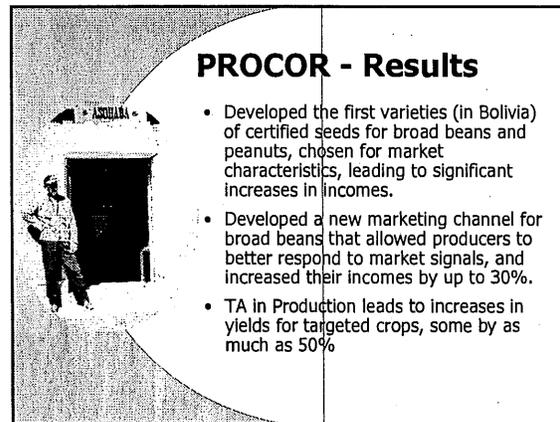


## PROCOR



## PROCOR

- Goal: Support three associations of small producers (ASOPROF, ASOHABA & FEDEAGRO) in different parts of Bolivia to develop marketing systems (mainly export) for the products of their affiliates, managed as businesses.
- Project ran from 1998-2002, and included T.A. in Production, T.A. in Marketing, T.A. in Administration, Market Access Support, Marketing Credit & Infrastructure.



## PROCOR - Results

- Developed the first varieties (in Bolivia) of certified seeds for broad beans and peanuts, chosen for market characteristics, leading to significant increases in incomes.
- Developed a new marketing channel for broad beans that allowed producers to better respond to market signals, and increased their incomes by up to 30%.
- TA in Production leads to increases in yields for targeted crops, some by as much as 50%



### PROCOR Results (cont'd.)

- 5 new clients for broad beans, 3 for beans and 1 (export) for peanuts.
- Since 2001, last full year of project, two of the three associations have consistently turned profits, as high as US\$50,000.
- In 2001 Association sales were as follows:
  - ASOPROF 2,300 tons of beans
  - ASOHABA 185 tons of broad beans
  - FEDEAGRO 44 tons of peanuts



### Peruvian Snow Peas



### Peruvian Snow Peas

- Project pilot started in 2003, seeks to help small producers in Peru to produce high value crops for export by linking them with produce marketing companies.
- Project provides TA in production, credit and links to marketing company.
- Originally sought to work with just one marketing company, but is now broadening to incorporate a wider range of companies and foster competition



### Peruvian Snow Peas - Results

- Pilot finished one cycle of working with 15 producers, saw increase in incomes of around 200% (some closer to 350%).
- Work with these 15 producers created 380 jobs, 240 of which were for women.
- Exporters see value in decreasing their production costs and risks by working with small producers (seen as a win-win)
- Administrative methodologies for working with small farmers being systematized
- New exporters being identified for project expansion



### Agromonitor



### Agromonitor

- MEDA Peru and some private sector partners are developing a new software package to help monitor and develop productivity chains.
- The actors along the productivity chain (seed/input suppliers, credit suppliers and marketing agents) are identified, and formal commitments assumed
- The software, "Agromonitor" is a database that helps to share information on the progress of individual producers to the different actors for better decision making



### Agromonitor

- Data from visits are downloaded to the database along with digital pictures, and shared with the different actors

The software allows for more efficient information sharing, reduces risks, and permits a more efficient use of collateral

Cost of the system currently being absorbed by the credit institution, but methods are being sought to share the cost more evenly, in accordance with benefits.

- Premature to discuss results, but indicators are positive.

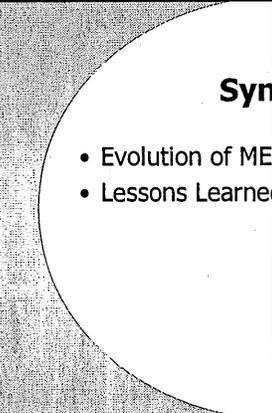


### Pakistan Garments



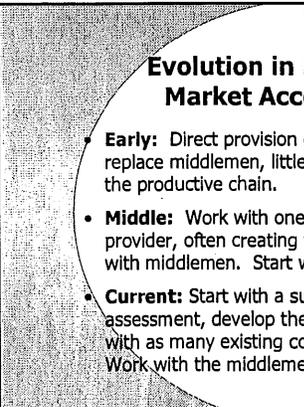
### Pakistan Garments

- Project design based on a thorough Market Assessment/Sub-sector analysis.
- Seeks to work with poor, home bound, Muslim women that work in embroidery and garment production by improving the services offered to them by mobile sales agents, and improving "the market of services" offered to the mobile sales agents, in order to improve their access to markets.
- Project has been approved and will begin in 2004.



### Synopsis

- Evolution of MEDA Programming
- Lessons Learned



### Evolution in MEDA's PML/ Market Access Projects

- **Early:** Direct provision of services, sought to replace middlemen, little initial formal analysis of the productive chain.
- **Middle:** Work with one institution as a service provider, often creating the business, competing with middlemen. Start with Market Research
- **Current:** Start with a subsector analysis/ market assessment, develop the "market for services" with as many existing competitors as possible. Work with the middlemen.



### Lessons Learned



**Some Practical Lessons Learned**

1. Start with a Subsector analysis- know what is happening all along the productive chain, where the weaknesses are
2. Markets MUST guide the process. Respond to demand. Produce for markets, don't sell what you produce. Identify niches and target them according to your strengths.



**Some Practical Lessons Learned**

3. Address all critical weak links on the chain. (PROCOR example)
4. Focus on what you CAN control, not price. Don't look for "Magic Buyers" that pay above market price for a common commodity.



**Some Practical Lessons Learned**

5. Develop the Market for Services. Work with groups of competing businesses that provide needed services to SME's. Remember, intermediaries are NOT the enemy. **FOCUS ON THE FINAL MARKET**
6. Human Resources are a fundamental element of success.



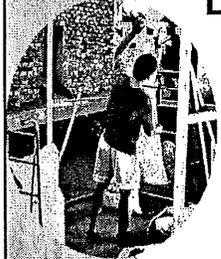
**Some Practical Lessons Learned**

7. Don't put marketing and credit decisions in the same hands, if credit is part of the marketing project
8. Know what competitors in other countries are doing. It will show your weaknesses and strengths in a global market.



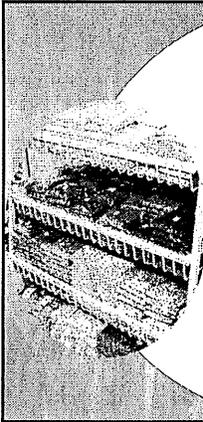
**Some Practical Lessons Learned**

9. Diversify. Particularly in the case of agricultural products, it is important that producers have access to markets for several crops to help "hedge bets"
10. Don't put too much faith in Producer's Associations and Coops.



**Some Practical Lessons Learned**

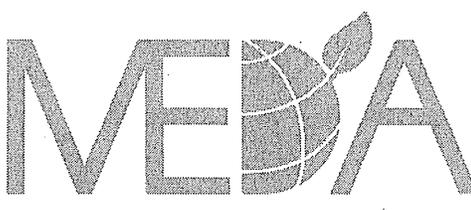
11. Alliances of competing businesses can help overcome common problems.
12. Have a clear exit strategy from the start. The systems must function after your gone.



**Some Practical Lessons Learned**

13. Use subsidies cautiously and strategically. They are hard to undue and often do not lead to sustainable systems.
14. Stay flexible. Be ready to respond if the market changes or new opportunities arise. Serendipity.

**Small Group Work**



## **Session Two – Group Exercise**

### **“Applying MEDA Lessons Learned”**

Review the slides in the binder that outline the fourteen lessons learned by MEDA regarding PML / BDS programming. With special reference to the business that your group has planned, which three lessons do you think would be most relevant to your success? Which three lessons do you think would be most problematic? This will vary widely depending upon the type of business that you have selected.

For example, I am a hairdresser in a poor urban area, and I can borrow \$100 to start my own business. An NGO, like MEDA, will be available to help me with my business planning and growth. I believe I can be successful because, although my clients are poor, I can price competitively: my labour costs will be low, and I plan to operate from my home which is on a busy market street. The following lessons learned and promoted by the NGO will help me: 1) diversification – I can add a manicurist and some hair care products to increase revenue; 2) responding to demand – the NGO will help me understand the needs of my customers so I don't offer products and services that won't sell; 3) stay flexible – the city is changing rapidly so if I can learn how to be flexible in my business offerings, I will have a better chance of staying current and profitable. I am concerned about these lessons: 1) alliances with competing businesses – my market is highly competitive and I don't want to share my strategies for my business or marketing; 2) start with a subsector analysis – I am concerned that if the NGO does a subsector analysis that I will not receive the support I need to grow my business since other businesses may seem more viable. Besides, how do I know that their analysis will be fair and that the right stakeholders will be interviewed; 3) have a clear exit strategy – the NGO subsidizes my marketing and I won't be able to afford marketing once the NGO stops its programs. This could result in a reduced number of clients and a lower income.

Be prepared to make a short presentation to the whole group about the lessons learned and how they apply to your group's business.





## SESSION THREE

### BDS Supply and Demand

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### What are Business Development Services (BDS)?

- Services: non-financial
- Target: micro, small, medium enterprises (SEs)
- Goal: to help SEs overcome limitations
  - Efficient operation of business
  - Growth of business

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### Cross-Sector versus Subsector

- Cross-sector
  - General services
  - Applicable in clusters or localities
- Subsector
  - Geared to specific businesses, e.g.,
    - Furniture manufacturing
    - Fruit and vegetable processing
    - Sesame seed products

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### Types of Services

- Input Supplies
- Training and TA
- Market Access
- Policy / Advocacy
- Infrastructure
- Technology and Product Development
- Alternative Financing Mechanisms on loans



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### Input Supplies

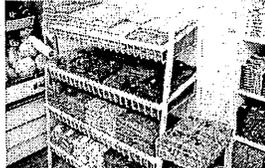
- Depends upon Sub-Sector
- Agriculture
  - Seeds, fertilizer, tools, chemicals, equipment
- Handicrafts
  - Fabric, thread, tools, equipment
- Furniture Manufacturing
  - Wood, tools, finishes

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### Market Access

- Trade Fairs and Expos
- Market Linkages
- Market Information
- Packaging
- Quality Control
- Test Marketing
- Showrooms
- Export Readiness
- Promotional Programs



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## Training and TA

- Business Management
- Accounting
- Entrepreneurship
- Sales & Marketing
- Technical Training
- Legal Services
- Tax Advice
- Franchising



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## Technology & Product Development

- Technology Transfer
- Technology Procurement
- Quality Assurance
- New Product Design
- Equipment Leasing and Rentals
- Equipment Maintenance




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## Policy / Advocacy

- Training
- Policy Studies
- Direct Advocacy
- Conferences and Workshops
- Analysis and Communication



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## Services - Infrastructure

- Storage and Warehousing
- Transportation
- Telecommunications
- Courier
- Secretarial services
- Computer services




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## Alternative Financing

- 3<sup>rd</sup>-Party Payment
- Equity Financing
- Supplier Credit
- Syndicated Credit



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## BDS Demand Constraints

- Awareness of service
- Awareness of benefits of service
- Affordability
- Time




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**Exercise:  
Stimulating Demand**



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**Payment Mechanisms and  
Affordability**

- Fee for service
- Installment plans
- Leasing
- Supplier Credit
- Commission
- Third-party
- Training "sachets"
- Loans
- Piggyback services
- Embedded services
- Cross-subsidies
- Group purchasing
- Short-term consulting



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**Exercise:  
Matching Payment to Clients  
and Service**



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**BDS Supply Constraints**



- Limited number of suppliers
- Low capacity
- Inappropriate products
- Ineffective client targeting



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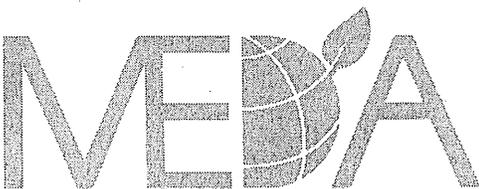


**Exercise:  
BDS Market Problems and  
Potential Solutions**



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**Small Group Work**



## EXERCISE:<sup>1</sup> DEMAND-DRIVEN SERVICES

### What to do when “demand” is low

In the following situation, what can be done to develop demand? How can services be paid for? (Consider the situation corresponding to your group number.)

- 1) Rural, women-owned trading businesses: complain of the high cost of goods, the competition, low customer demand. There may be opportunities to buy goods in bulk to reduce costs, and to sell products that people typically go to the city to buy, but women aren't aware of these opportunities. Group organizing and market research and marketing training might help them identify these problems. But, they don't see training as a priority.
- 2) Farmers know they could make more money if they had access to irrigation—they could plant in the off-season and they could plant higher value crops, but they think irrigation is too expensive. They do not know that there is a low-cost, manual pump that could solve their problems
- 3) Urban informal sector businesses want to grow their businesses, become more formal, earn more money, but they operate at very low profitability and have no land or other assets to fall back on. They have attended training that was a waste of time—not relevant to their business and targeted at too high an education level, but it was free. They doubt that any training would be worth paying for.
- 4) Your organization has helped rural artisans identify a buyer interested in their type of traditional weaving, but the buyer needs products that suit the latest trends. You know a product designer who can do the work, but the artisans cannot pay the fees for this type of product design service.

---

<sup>1</sup> This exercise is adapted from the State of the Art workshop binder with permission of the SEEP Network (Mary McVay)

### EXERCISE: PAYMENT MECHANISMS<sup>1</sup>

Match the SE customer with the supplier and payment mechanism that would work for a sustainable program (see the list following the table for the choices of supplier and payment mechanisms).

SE Customer	Type of Supplier	Payment Mechanism
SE Customer 1: Rural, low-income artisans		
SE Customer 2 : Urban, small-scale producers in same subsector.		
SE Customer 4: Urban microenterprises in all sectors—predominantly trade and service		
SE Customer 3: Urban, small businesses across subsectors.		
SE Customer 5: Wholesale exporters—have to attend trade shows; need market information and advocacy		
SE Customer 6: Small-medium size manufacturers with collateral		

---

<sup>1</sup> This exercise is copied from the State of the Art workshop binder with permission of the SEEP Network (Mary McVay)

**Choices of Type of Supplier:**

1. Large-scale equipment suppliers
2. National business association
3. Small-scale, private sector BDS supplier (of equipment for example)
4. Microfinance institution
5. Private sector information supplier (radio, newspaper, referral services to other providers)
6. Wholesaler providing information about type of product styles the final customer wants and needs

**Choices of Payment Mechanism:**

1. Larger businesses advertise to pay for information provided to SEs
2. Hire-purchase with collateral agreements
3. Service is built into the business deal.
4. Fee-for-service
5. Fee for direct services that cross subsidize broad, sector-related services
6. Finance BDS through loans

## EXERCISE:<sup>1</sup> MATCHING BDS MARKET PROBLEMS WITH SOLUTIONS

### DEMAND SIDE

<i>Market Problem</i>		<i>Possible Interventions</i>
<p><b>1</b> Consumers lack information about services</p>		<p><b>1</b> <b>Help</b> suppliers test, demonstrate and gather information about the quality of services <b>Assist</b> suppliers in improving advertising <b>Assist</b> suppliers in developing customer referral programs <b>Conduct</b> general advertising for the service</p>
<p><b>2</b> Consumers are unable to effectively identify their business problems.</p>		<p><b>2</b> <b>Assist</b> suppliers in developing payment options <b>Promote</b> embedded services <b>Promote</b> services financed by large firms <b>Help</b> consumers form clusters to purchase services in groups</p>
<p><b>3</b> Consumers do not have the capacity to pay for services up front</p>		<p><b>3</b> <b>Develop</b> a BDS yellow pages <b>Open</b> a BDS consumers' bureau or information center <b>Help</b> suppliers improve their marketing <b>Implement</b> a voucher scheme</p>
<p><b>4</b> Consumers are risk averse to trying services.</p>		<p><b>4</b> <b>Provide</b> suppliers with technical assistance to improve trial inducing strategies <b>Implement</b> a voucher scheme <b>Promote</b> business linkages for embedded services</p>
<p><b>5</b> Consumers do not see the value of services</p>		<p><b>5</b> <b>Broker</b> agreements between suppliers to develop service packages <b>Provide</b> venture capital and technical assistance for suppliers to diversify</p>
<p><b>6</b> Consumers want services packaged together</p>		<p><b>6</b> <b>Develop</b> an awareness raising campaign about typical business problems and BDS that can help <b>Help</b> suppliers create marketing campaigns that help SEs identify business problems</p>

<sup>1</sup> This exercise is copied from the State of the Art workshop binder with permission of the SEEP Network (Mary McVay)

## SUPPLY SIDE

<b>1</b> <b>Service products lack the benefits and features that consumers want</b>		<b>1</b> <b>Develop</b> or improve marketing research services/suppliers <b>Provide</b> suppliers with market information <b>Teach</b> suppliers how to gather market information
<b>2</b> <b>Suppliers are risk averse to targeting new consumer segments—women or micro enterprises</b>		<b>2</b> <b>Provide</b> suppliers with information on the viability of selling to SEs <b>Subsidize</b> costs of targeting new consumer segments—market testing <b>Use</b> market research to identify promising opportunities to serve new consumer groups
<b>3</b> <b>Suppliers lack market information</b>		<b>3</b> <b>Provide</b> quality assurance services <b>Help</b> suppliers improve consistency in service provision <b>Help</b> suppliers form associations with certification processes
<b>4</b> <b>Suppliers lack business or technical skills</b>		<b>4</b> <b>Provide</b> venture capital to suppliers to expand <b>Design</b> a program to assist start-up suppliers
<b>5</b> <b>There is insufficient supply in the market.</b>		<b>5</b> <b>Provide</b> training and technical assistance to suppliers <b>Assist</b> suppliers in developing and selling appropriate products to other BDS suppliers
<b>6</b> <b>Variable quality of services is harming suppliers' reputations</b>		<b>6</b> <b>Help</b> suppliers develop and commercialize new products <b>Bring</b> in suppliers from other countries to adapt and franchise appropriate products
<b>7</b> <b>Supplier cannot manage supplier credit or other purchasing mechanisms.</b>		<b>7</b> <b>Build</b> capacity of suppliers to manage supplier credit <b>Link</b> target SE with microfinance institutions.

## TRANSACTIONS

<p><b>1</b></p> <p><b>Consumers are geographically and/or socially isolated from service markets</b></p>		<p><b>1</b></p> <p><b>Help link</b> SEs with higher value market channels</p>
<p><b>2</b></p> <p><b>Consumers cannot afford to purchase services</b></p>		<p><b>2</b></p> <p><b>Help</b> SEs form clusters, associations, or cooperatives that act as intermediaries to reach distant services providers</p> <p><b>Form</b> a social enterprise to provide services</p>
<p><b>3</b></p> <p><b>There is no mechanism for exchanging payment or collecting payment due to distance, lack of technology or banking system</b></p>		<p><b>3</b></p> <p><b>Help</b> SEs and others in the supply chain form either an intermediary sophisticated enough to access the formal banking system or a functioning international banking system</p>
<p><b>4</b></p> <p><b>Consumers are not engaged in high-value market relationships, so embedded services are not profitable within existing market transactions</b></p>		<p><b>4</b></p> <p><b>Develop</b> a business model with either third party payment, such as advertising, or with embedded services</p>
<p><b>5</b></p> <p><b>There is a lack of trust between suppliers and consumers—suppliers insist on up-front payment and consumers insist on delivery before payment</b></p>		<p><b>5</b></p> <p><b>Support</b> entrepreneurs or social enterprises to establish a guarantee or whole system; establish a temporary guarantee system until there is stronger trust in the market</p>

**Session Three – Group Exercise**

**Delivery of Services**

Think about the business services that have been described in this Session (see also the list of services available in the Resource Materials section of the binder), and how they potentially apply to the business your group has selected. Of the many service options, decide upon the five that are most likely to help your business succeed (they do not need to be interrelated). List the five selected services with key business benefits in the table below.

Now put yourself in the position of a commercial BDS provider that would like to sell services to SEs such as yours. Think about the problems you might encounter in developing a viable business for each of the identified services: e.g., your ability to source supplies, client ability or willingness to pay for service, competition from subsidized sources. Outline the problems in the last column of the table.

<b>SERVICE</b>	<b>BENEFITS</b>	<b>PROBLEMS</b>

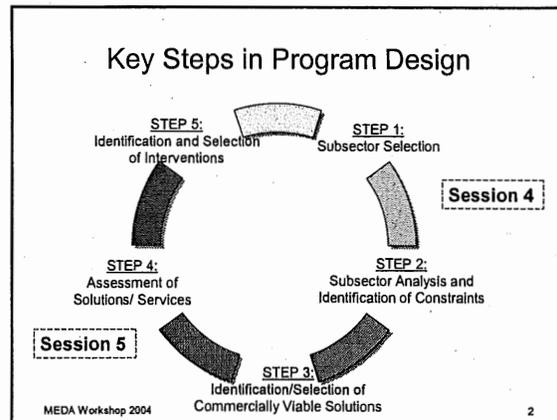


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**An Approach to  
Subsector/Business Service  
Program Design and  
Implementation**

Session 4  
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**Key Steps in Program Design**

STEP 1:  
Subsector Selection

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**What is a subsector?**

> Definition: all the firms that buy or sell from each other in order to supply a particular set of products or services to final consumers.

- (examples include wood furniture, dried tomatoes, etc.)

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**Step 1: Subsector Selection**

> Subsector Selection Process

- determine selection criteria
- short-list subsectors
- rank subsectors using selection criteria
- final selection

Tools Used:

- ranking matrix and/or ranking grid

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**How can you gather subsector information?**

> interviews

> surveys

> focus group discussions with key informants

> conduct or review studies

> information from multi-lateral agencies or other donor agencies

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What are examples of criteria that organizations can use for subsector selection?

Examples of Selection Criteria:

- > Market Demand and Growth Potential
- > Potential Increase in Income
- > Opportunities for Linkages
- > Potential for Employment Generation
- > Number of Small Enterprises
- > Value-Added Potential
- > Government or Donor Interest

Short-Listing Matrix

Potential to Increase Income

High			
Medium			
Low			
	Low	Medium	High

*Attractive*

*Not Attractive*

Potential No. of MSE beneficiaries

Illustrative Example:

Subsector Short-Listing Matrix

Potential to Increase Rural Incomes

High		- handicrafts	- green beans - dairy (milk)
Medium	- avocados - beef		- tourism
Low		- poultry - building construction - wood furniture	
	Low	Medium	High

Unmet Market Demand

Kenya Case:  
Subsector Ranking Grid

CRITERIA	PROPOSED SUBSECTORS		
	Green Beans	Dairy (milk)	Crafts
Unmet Market Demand [3x]	4 (12)	3 (9)	2 (6)
Potential Increase in Rural Incomes [2x]	4 (8)	4 (8)	3 (6)
Potential for Employment Generation [1x]	3 (3)	3 (3)	3 (3)
Government or Donor Interest [1x]	3 (3)	4 (4)	2 (2)
<b>Total Weighted Score</b>	<b>26</b>	<b>24</b>	<b>17</b>

Score of 1-5: [5 = highest, 1 = lowest]

Subsector Selection Process

1. Develop selection criteria
2. Develop initial list of candidates
3. Develop short-list of candidates (matrix)
4. Final Selection (ranking grid)

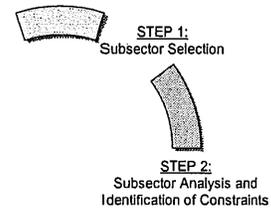
## Illustrative Scope of Work/ Tender Document

\*\* Example of Information Gathering and Analysis  
for Subsector Selection

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## Key Steps in Program Design



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*What are different techniques for  
analyzing a subsector?*

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## Step 2: Subsector Analysis

### > Analysis Methodologies

- interviews/studies,
- workshops with subsector representatives,
- incremental applications in the field, or
- various combinations of all three.

### Tools Used:

- interview guides
- subsector map with overlays
- value chain analysis

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## Subsector: Group Exercise

### > Instructions:

- find other members of your subsector and gather together
- align yourselves with those who have businesses that are directly linked to you (through buying or selling activities)
- be prepared to explain your role and your relationship to the others before and after you

\*\* *What have we learned from this exercise?*

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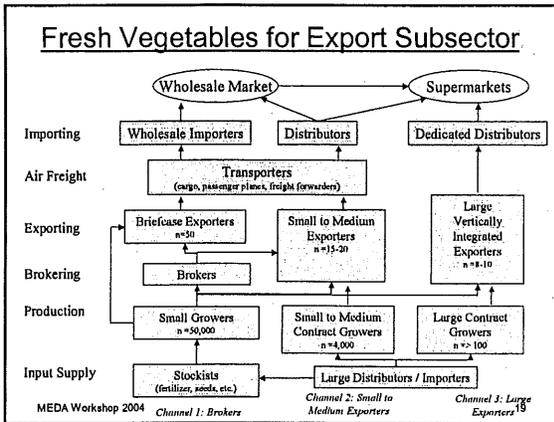
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*Thinking about a fresh vegetable for  
export market in a given country:*

*Who are the players in the subsector?*

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### Kenya Case: Subsector Analysis

- > Literature review of secondary data sources
  - Donor studies
  - Government of Kenya documents, etc.
- > Development of Subsector Map
- > Interviews with 19 subsector actors and key informants

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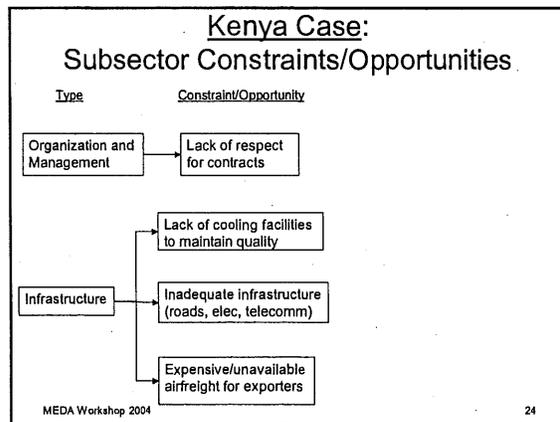
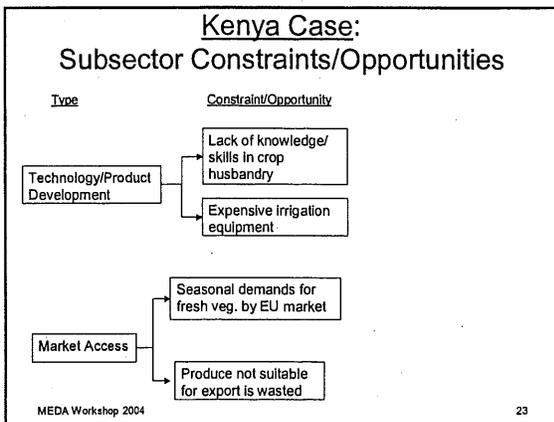
*What are examples of constraints facing enterprises in a subsector?*

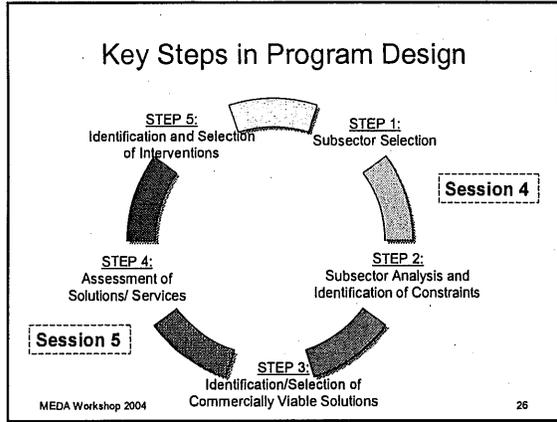
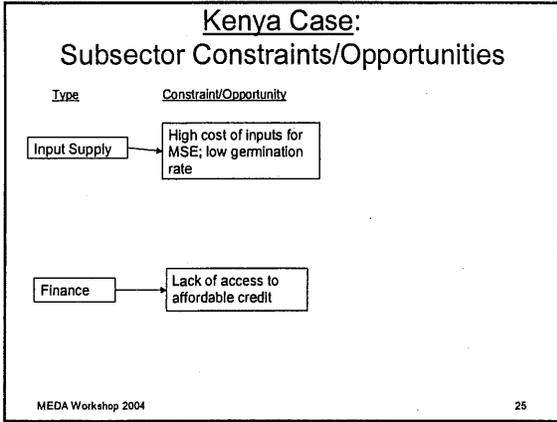
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### Types of Constraints and Opportunities

- > technology/product development,
- > market access,
- > input supply,
- > management and organization,
- > policy,
- > finance, and
- > infrastructure

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## **Illustrative Scope of Work/Tender Document**

### **Information Gathering and Analysis to Facilitate Selection of Subsectors**

**AFE Training in Subsector/Business Service Approach  
January 2003**

## **I. Background**

One of the objectives of this project is to develop sustainable business services within specific subsectors. A subsector can be defined as follows:

### **Subsector**

A **subsector** can be defined as all the firms that buy and sell from each other in order to supply a particular set of products or services to final consumers. A subsector includes producers, processors, input suppliers, wholesalers, and retailers. A subsector is defined by a particular finished product or service (wood furniture, dried tomatoes, clothing production, etc.).

The project will be selecting subsectors to target for its development efforts. The objective of this consultancy is to gather the information necessary to do this.

## **II. Subsector Selection Criteria and Evaluation Format**

The project has selected the following criteria upon which to base the selection of subsectors:

### **1. Outreach**

- Number or significance of Micro, Small, and Medium Enterprises (MSMEs) in the subsector (these include producers who receive raw materials, finance, and other inputs from buyers and who are paid on piece-rate basis).

### **2. Market demand and Growth Potential**

- Evidence of strong effective demand for products being produced
- Demand for products exceeds supply (buyers have ready market for products but are unable to meet demand)
- Unmet demand from municipal authorities or large public works projects
- Potential competitiveness of the subsector in relation to the world market

### **3. Significant Presence of MSMEs in rural areas**

- Number of MSMEs (at all levels of the subsector) that exist outside of the urban areas

### **4. Significance of Forward and Backward Linkages among Domestic Market Actors**

- The number and volume of transactions that take place among domestic market actors in the subsector

### **5. Participation of Women**

- Number of women who are self employed, own businesses or work as employees of other firms in the subsector

## **III. Short List of Subsectors for Consideration [TO BE COMPLETED]**

The consultants will evaluate the following ten subsectors: tomatoes, maize, wood furniture...  
[to be completed]

#### IV. Tasks

Tasks under the consultancy will include the following:

1. Review the list of proposed subsectors and suggest any others that might meet the project criteria.
2. Conduct an assessment of each specific subsector identified in step 1. The objective of these assessments will be to:
  - a) collect information on each subsector in relation to the selection criteria mentioned in Section II above. This information will be both quantitative and qualitative in nature. While secondary studies can be consulted, this information should be based primarily on direct research with key informants from the subsector (key informants can be defined as any person with a broad understanding and knowledge of all aspects of the targeted subsector. They can include representatives from lead firms, consultants with specialization in the subsector, association officials, etc.) *[the consulting firm should demonstrate clearly in the proposal how they will present this information. Examples of the type of information that should be provided are listed in the table below]*

<b>Selection Criteria</b>	<b>Example of types of information that should be provided</b>
Outreach	<ul style="list-style-type: none"><li>- Estimates on the number of enterprises for each type of firm in the subsector (input suppliers, producers, wholesalers, etc.)</li><li>- Average firm size for the different types of subsector firms</li><li>- Average salary for employees in different types of subsector firms</li></ul>
Market Demand	<ul style="list-style-type: none"><li>- Opinions and data from key informants on market trends and subsector competitiveness</li><li>- Information from existing statistics/studies (taking validity of this information into account)</li><li>- Examples of businesses that have problems meeting demand</li><li>- Comparisons within the region (based on opinions from key informants of market information)</li></ul>
Significant Presence of MSMEs in the rural areas	<ul style="list-style-type: none"><li>- Estimate (in a few geographic zones) of the number of MSMEs (at all levels of the subsector) that exist outside of urban areas</li><li>- Description of the type of enterprises in the subsector that operate outside of Dhaka city area</li></ul>
Significance of Forward and Backward Linkages Among Domestic Market Actors	<ul style="list-style-type: none"><li>- Description of the different kind of transactions that place among domestic market actors in the subsector</li><li>- General description of the volume and number of these transactions between a given number of firms</li></ul>
Participation of Women	<ul style="list-style-type: none"><li>- Estimate of the number of women who are self employed, own businesses or work as employees in the subsector (should include participation at all levels of the subsector)</li></ul>

- b) describe the primary actors operating in the subsector (producers, manufacturers, input suppliers, wholesalers, retailers, etc.) including their roles and interrelationships (see appendix 1 of TOR for example description).
- c) create a "blue-print subsector map" of each targeted subsector. This map should present, in graphical form, all the major actors in a targeted subsector. It should present the different supply channels that transform raw materials into finished products and then distribute those products to final consumers as well as the different markets or market segments to which products are sold (see appendix 1 of TOR for an example subsector map). The map should include an estimate of the number of firms (for each type of firm) on a national level. This will be a "draft" subsector map that will be further refined at a later point.

3. Present a draft report with the findings from task 2 above.

4. Organize a one-day workshop. The objective of this workshop will be to:

- rank subsectors according to each defined criteria
- choose five high priority subsectors

Participants in this workshop will include the contractor's consulting team as well as representatives from the project.

To facilitate the workshop, the consultants will make a brief PowerPoint presentation of each of the targeted subsectors. This presentation will present information gathered relative to each of the selection criteria, following which the participants will give a score of 1-3 (high, medium, or low) for each criteria. The results will be presented in the format below:

Criteria	Percentage	Ranking (1-3)*	Score (% x ranking)
Outreach	25		
Market demand	30		
Presence of MSMEs in Non-Dhaka Areas	15		
Significance of Forward and Backward Linkages Among Domestic Market Actors	15		
Participation of Women	15		
<b>Total</b>	100%		

Once this process is complete the results will be tabulated and five high priority subsectors will be selected.

4. Present a final report that incorporates all activities and results of the consultancy.

## V. Deliverables

Deliverables under this consultancy will include the following:

- interim report (described in point 3 under section IV of TOR)
- workshop (described in point 4 under section IV of TOR)

- final report - the final report should contain information on all of the points in the terms of reference including the results of the workshop. It will also include the scope of work and a list of all key informants interviewed.

Reports will be submitted in both electronic and hard copy.

#### **VI. Time Frame and Proposed Level of Effort**

This work will take place during a four week period between December 2002 and mid-January 2003. The consultants will propose a staffing scenario consistent with the requirements of the terms of reference.

#### **VII. Proposal Contents and Evaluation Criteria**

All interested candidates will submit the following documents as part of their proposal:

1. Technical proposal (not to exceed 10 pages) - the technical proposal should reflect how the consulting firm will undertake all of the tasks in the TOR, and demonstrate clearly how information on the different selection criteria will be presented.
2. Financial budget (with explanation of line items)
3. Appendices
  - one page cv of up to five key personnel proposed for the consultancy
  - one page general profile of consultants who will be conducting the field-work
  - 2-3 page capability statement

Proposals will be evaluated according to the following criteria:

1. Proposed personnel (50%) (ability to address different areas)
2. Technical proposal (25%)
3. Corporate capability (25%)

Proposals should be submitted in both electronic and hard copy no later than 5pm on December 5<sup>th</sup>, 2002 to the following:

[address]

### **APPENDICES**

**Appendix 1: Illustrative Description of Primary Subsector Actors + Blueprint Subsector Map**



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## An Approach to Subsector/Business Service Program Design and Implementation

Session 5  
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### Key Steps in Program Design

STEP 1: Subsector Selection

STEP 2: Subsector Analysis and Identification of Constraints

STEP 3: Identification/Selection of Commercially Viable Solutions

Session 5

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### Step 3: Identification of Commercially Viable Solutions

- > Commercially viable solutions address business constraints in a sustainable manner
- > They should:
  - respond to subsector constraints (as expressed by subsector participants)
  - be commercially viable via private sector providers

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### What do we mean by a Commercially Viable Solution?

**Definition:**  
A commercially viable solution addresses business constraints in a sustainable manner.

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### The Shift to a New Paradigm

From this... To this...

Public funding Private funding

Donor funding Government agency Donor Project, NGO Private-Sector Providers? MSE MSE MSE MSE

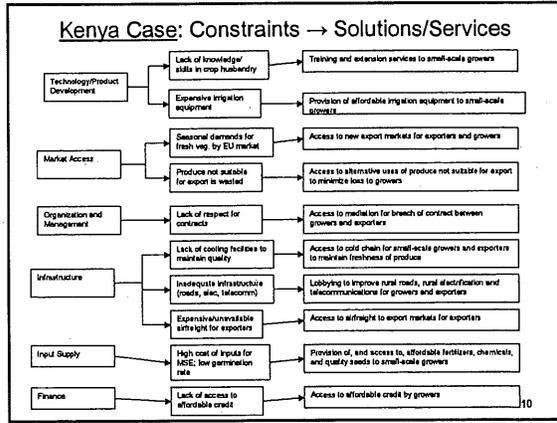
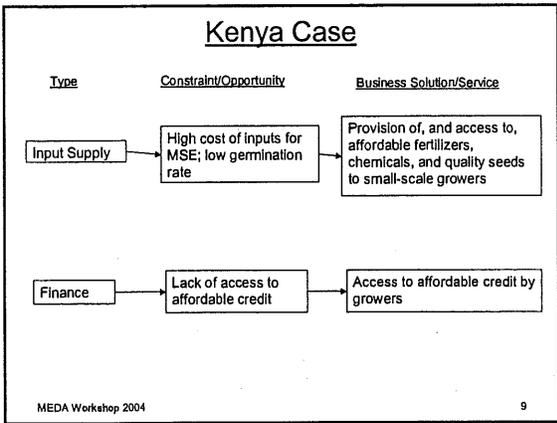
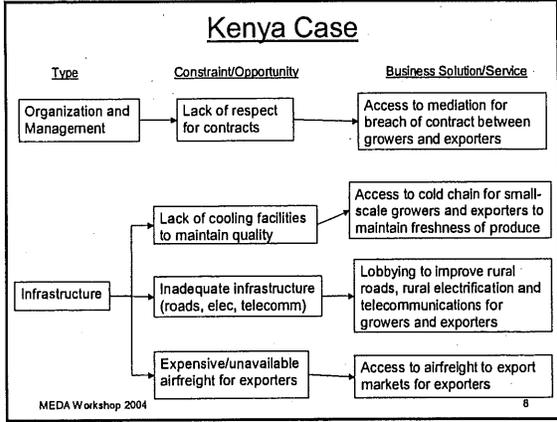
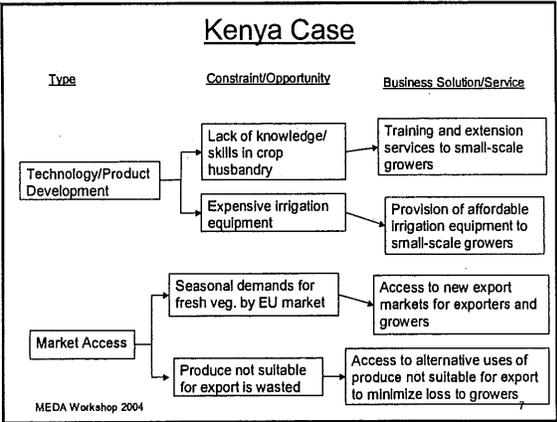
Donor /Govt. Facilitator Commercial Provider Commercial Provider Commercial Provider MSE MSE MSE

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### From Analysis to Interventions

Subsector Analysis Commercially Viable Solutions Facilitation Activities

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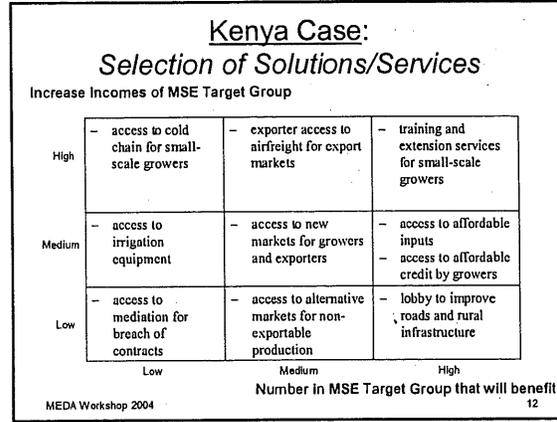


➤ Prioritize solutions/services based on most important criteria

Tools Used:

- short-listing matrix

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## Kenya Case: *Short-list of Solutions/Services*

1. Access to affordable and recommended fertilizers, chemicals and seeds for small growers
2. Training and extension services in crop husbandry for small growers
3. Access to airfreight for exporters

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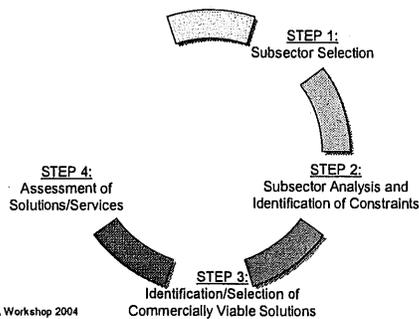
## Selection Process

- Need to gather information (in advance) on each solution/service relative to the matrix criteria
- Could use additional criteria, if desired
- Matrix provides a systematic (although subjective) process for evaluation

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## Key Steps in Program Design



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## Step 4: Assessment of Solutions/Services

- Goal is to identify constraints to supply and demand of the targeted solution or service
- Includes interviews with both providers (supply-side) and users (demand-side)
- Identifies providers and assesses whether solution/service can be commercially viable

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## Assessment of Business Solution/Service

1. Existing providers
2. Market size and penetration
3. Frequency of use
4. Demand and supply side constraints
5. Satisfaction of users
6. Awareness of the solution/service
7. Proposed provider (s) to target for interventions
8. Commercial feasibility  
(how costs for the solution/service are covered)

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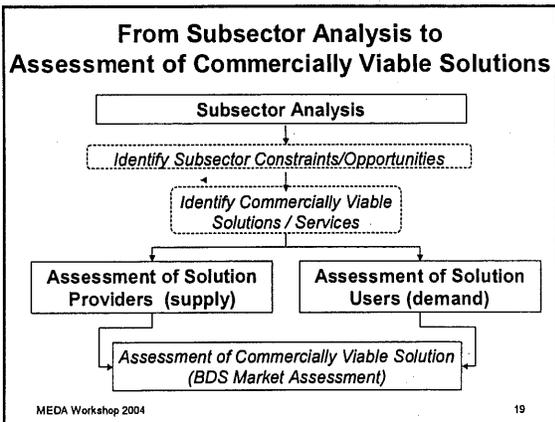
17

## *How do you collect information?*

- Focus groups
- Surveys and questionnaires
- Business plan
- Pilot testing
- etc.

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### Kenya Case: Assessment of Commercially Viable Solutions

*SOLUTION: Training and Extension Services in Crop Husbandry*

Existing Providers:

- exporters, brokers, government, input suppliers, NGOs, farmers, individual consultants and firms

Market Size:

- 50,000 total; 15,000 un-served
- grower awareness and demand for services is high
- satisfaction with current services is mixed

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### *SOLUTION: Training and Extension Services in Crop Husbandry (continued)*

Key Constraints to Supply/Demand of Business Solution

- mixed messages to growers
- poor infrastructure for reaching growers
- providers lack resources and skilled technical staff
- NGO and government outreach is low

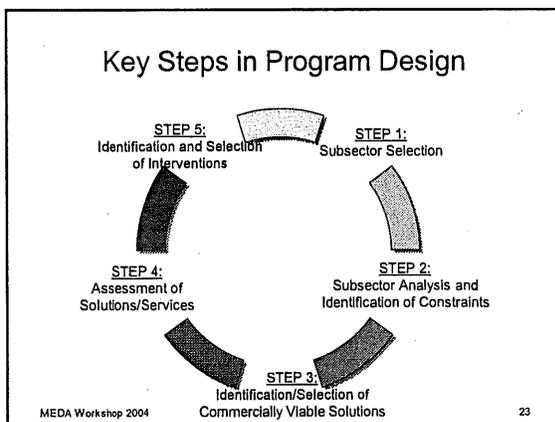
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### *SOLUTION: Training and Extension Services in Crop Husbandry (continued)*

Proposed Provider of the Solution

- exporters, input supply companies, and individual consultants

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### *How can you identify interventions to support targeted solutions/services?*

- > Stakeholder workshops
- > Interviews
- > Focus Groups

Objectives of Stakeholder Workshop:

- validate subsector constraints (related to proposed solution or service)
- validate constraints to the provision and use of targeted solution
- discuss and review interventions needed to develop the targeted solution/ service.

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## Step 5: Identify Interventions

- Emphasis on **participatory process** to identify interventions that will address constraints to the provision and use of the targeted solution or service

\*\* **Hand-out:** Illustrative Session Plans for a business service assessment focus group discussion

## What criteria would you use to select among facilitation activities?

- extent of its impact on MSEs (leveraged effect);
- number of MSEs that will benefit;
- cost effectiveness of the intervention (relationship between cost and impact);
- chances of the intervention resulting in sustainable solutions/services;
- capacity of project facilitators to implement or manage the interventions;
- time frame for completing the intervention;

### Kenya Case:

*Commercially Viable Solution: Training and Extension Services to Small-Scale Growers in Crop Husbandry*

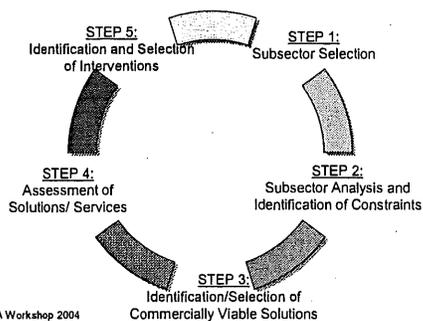
#### **Proposed Facilitation Activities**

- Assist exporters to improve service delivery
- Develop standardized training materials
- Training of trainers for exporters' staff, brokers, lead farmers
- Build capacity of input suppliers to expand training/demos through input distributors
- Develop database of people/firms who can provide training and extension to growers
- Develop an inventory of training sites

## Principles for Design & Implementation

1. Facilitate business service development rather than provide services
2. Identify interventions that address constraints from business service assessment
3. Interventions should primarily target pre- and post- service delivery phases
4. Work toward a clear vision of sustainable business services/have an exit strategy
5. Separate the roles of provider and facilitator
6. Promote competition and efficiency in the provision of business services
7. Develop a commercial orientation with business service providers
8. Make programs flexible and responsive to opportunities
9. Coordinate donor efforts

## Key Steps in Program Design



### **For more information contact:**

Henry Panlibuton / Action for Enterprise  
email: [henry@actionforenterprise.org](mailto:henry@actionforenterprise.org)  
website: [www.actionforenterprise.org](http://www.actionforenterprise.org)

**BUSINESS SERVICE ASSESSMENT**

**FOCUS GROUP DISCUSSION**

**SESSION PLAN**

## BUSINESS SERVICE ASSESSMENT FOCUS GROUP DISCUSSION

**Time: 3 hours 15 minutes**

Steps	Time	Materials
<p><b><u>Step 1:</u></b> Ice-Break</p> <p>After having greeted the participants, the facilitator asks them to: a) interview the person next to them (someone they don't know) in order to find out their name, profession, professional activities, and something unique about their experiences, and: 2) present the participant they interviewed to the rest of the group.</p>	15mn	Put the key points of the interview on flip chart.
<p><b><u>Step 2</u></b> Program</p> <p>The facilitator presents the program to participants indicating the major points in the day</p>	5mn	Flip chart on the wall.
<p><b><u>Step 3.</u></b> Context of the workshop</p> <p>A representative of the team makes a short presentation to situate the workshop within the Program strategy.</p>	5 mn	PP presentation that outlines the activity
<p><b><u>Step 4:</u></b> Presentation of goals</p> <p>The facilitator describes the work done by the field team up to present (number of interviews, type of people interviewed, etc.) He/she then presents the goals of the FGD:</p> <ol style="list-style-type: none"> <li>1. Participants will validate information collected related to the supply and demand of [name of service] in the [name of subsector] subsector</li> <li>2. Participants will propose initiatives that will address constraints to supply and demand and help develop the market for [name of service].</li> </ol>	5 mn	PP or flipchart
<p><b>Step 5:</b> Discussions of targeted business service:</p> <ol style="list-style-type: none"> <li>1) <b><u>Validation of business service and related subsector constraint</u></b> The facilitator presents a description of the [name of service] and the subsector constraints that the service addresses. He/she asks participants to validate.</li> <li>2) <b><u>Validation of constraints to provision of the business service</u></b> The facilitator presents the first service constraint and asks participants to validate.</li> <li>3) <b><u>Parameters for the formulation of interventions</u></b> After validating this information of the first constraint the facilitator explains the goal now is to identify interventions (that</li> </ol>	2h30	PP (or flip chart) presentations of: <ul style="list-style-type: none"> <li>- subsector constraint</li> <li>- related business service</li> <li>- constraints to business service</li> </ul>

<p>might be promoted by Program) that can address the constraints to the supply and demand of [name of service].</p> <p>He/she explains that any intervention that is proposed must conform with the following parameters (he/she reads from flip chart prepared in advance). <u>Parameters:</u></p> <ul style="list-style-type: none"> <li>• proposed initiatives must be realistic and feasible</li> <li>• there must be partnership with the private sector actors in carrying out the intervention</li> <li>• example (cost share visit of equipment supplier to trade fair in Germany / development of practical training modules for technical training institution / cost share of technical expert to train staff of equipment suppliers / development of business plan and linkage to financial institutions to facilitate import of new machinery)</li> </ul> <p><b><u>4) Formulation of program interventions (what they and the Program could do to contribute to the solution of the constraint).</u></b></p> <p>The facilitator leads a discussion to:</p> <ol style="list-style-type: none"> <li>1) identify an appropriate solution;</li> <li>2) identify appropriate interventions (many of which can be facilitated by Program) that will contribute to this solution.</li> </ol> <p>While the facilitator is managing the discussion, the co-facilitators try to formulate the wording of interventions taking into account what they hear from the participants. Once the intervention is formulated, they present it to the participants for validation and then note it on flip chart.</p> <p>The facilitator continues this way, one constraint at a time.</p>		<p>Flip chart</p>
<p><b><u>Step 6:</u></b></p> <p>The facilitator reviews the proposed interventions, and explains that after the FGD the Program will review the proposed interventions and determine the best manner that it can intervene to promote the supply of [name of service]. We will count on your continued support and will do everything possible to help make some of these suggestions a reality.</p> <p>He/she reviews the goals of the workshop and then thanks everyone for their participation.</p>	<p>15 mn</p>	<p>Present on powerpoint</p>





## SESSION SIX

### Utilizing Tools and Techniques

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### Qualitative Tools for BDS MA

- Qualitative
  - Focus Group Discussions (FGDs)
  - Key Informant Interviews
  - Action Learning
  - Workshops

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### Analysis of Qualitative Market Assessment Data

- Does not necessarily represent whole market
- Supply and demand side issues
- Indicators of weaknesses / constraints
- "Get a feel" for the market
- Basis for design of quantitative research or follow up to same

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### Quantitative Tools for BDS MA

- Surveys
- Statistical Analysis
- Secondary Research

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### THE UAI Survey

- Usage, Attitude, Image



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### Analysis of Quantitative Market Assessment Data

- Overall market size
- Market penetration
  - Awareness
  - Reach
  - Retention
- Rates of adoption
- Service features
- Competitors

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**Handout #1:  
Sample UAI Questionnaire**

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**Philippines  
Telecommunications**

- Based on:
  - Random sampling of SE users
  - Focus Group Discussions
  - Supplier interviews

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**Exercise: Analyzing the Data**

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**Applying Tools in Weak  
Markets**

- Undeveloped BDS market
  - Demand and/or supply limitations
- Characteristics of SEs
  - Marginalized populations
  - Poverty
  - Remoteness
  - Products <=> Final Markets

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**Weak Markets in Pakistan**

- Marginalized women producers
  - Rural, isolated
  - Extremely poor
  - Uneducated
  - Limited or no mobility
- No effective BDS market
  - Production often controlled by male family members and male intermediaries
  - No direct contact between women and service providers
  - Unaware of market demand

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**Stages of BDS Program in  
Pakistan**

- Understanding current institutional knowledge
- Establishing local partner
- Market assessment
- Market development program design



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## Market Assessment

- Goals of Preliminary MA Research
  - To understand supply side of BDS to women microentrepreneurs
  - To determine extent to which providers understand and utilize information about markets for SE products
- Funded under SEEP PLP



THE SEEP  
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## MA Method

- Selected three subsectors – garments, handicrafts, IT
- Supply side focus
- Three phases involving SE & provider interviews, provider FGDs, and SE & provider workshops

THE SEEP  
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## Phase One – Identify and Interview Suppliers

- Conventional sources – NGO and government lists, directories, membership rolls
- Interviews with SEs to uncover embedded, informal and other hidden service providers
- Interviews with providers to elicit information about services, clientele, product gaps, supply issues

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## Interviews of SEs

- 56 entrepreneurs interviewed
  - 10 IT, 20 handicraft, 26 garment
  - 15 small businesses (>10 employees) and 41 micro businesses (5-10 employees)
  - Handicraft businesses started in early 20's, garment businesses started in early 30's
  - 2/3 sole proprietors
- 125 BDS providers catalogued

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## BDS Providers Interviewed

- 13 cross-sector BDS providers
- 44 garment BDS providers
- 66 handicraft BDS providers
- 12 IT BDS providers



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## Gaps Identified in BDS Products

- Product Development (e.g., design)
- Technology / Technical Skills (e.g., inputs)
- Market Access
- Entrepreneurship Development Training



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### Phase Two – In-depth Assessment of Providers

- 58 participated in FGDs
  - Discussion on input supply, product design, market access, training
- Across regions
  - Karachi / Interior Sindh
  - Lahore / Multan, Punjab
  - Quetta, Balochistan
  - Islamabad

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### Phase Three – Workshops

- New subsector emerged – embroidered garments
- Intent of workshop - train providers in market access issues and get feedback



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### Phase Three – Workshops cont.

- Actual: providers and SEs both attended
  - Round table discussion
  - Networking
  - Sharing of issues
  - Discussion of potential program
  - Training on costing, pricing, market issues, value chains
  - Additional information gathered

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### Phase Three Cont. – Visit SE and Provider Sites

- Visited rural and perirural SEs in Sindh, Punjab and Balochistan
- Met with homebound embroiderers and reviewed products
- Met with women sales agents and discussed their issues

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### Handout #2: Program Description

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### Designing a “Classic” BDS Program

- Targeting USAID’s IGP funding (annual)
- Up to \$750,000 per three-year project
- Attended bidders conference
- Utilized a BDS consultant (Mary McVay) and SEEP’s program design tool
- Went “by the book”

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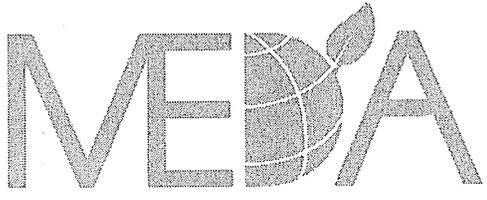


**Handout #3:  
Complete 'Table One'**



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**Small Group Work**





swisscontact

SWISS FOUNDATION FOR TECHNICAL COOPERATION



**SME Promotion**

PROMOTION OF SMALL AND MEDIUM ENTERPRISES

VCA



German technical cooperation

# QUESTIONNAIRE

## MARKET RESEARCH ON BUSINESS DEVELOPMENT SERVICES IN VIETNAM

CONDUCTED BY: **INVESTCONSULT GROUP**

Address: 370 Tran Khat Chan - Hanoi

Telephone: (04) 9717103 - (04) 9717310

Fax: (04) 9717066



**B/ USAGE OF SERVICES**

USE TABLE B FOR QUESTION 5 TO QUESTION 11

ASK QUESTIONS IN THIS PART FOR EACH SERVICE EVER USED (OPTION 1 - QUESTION 3)

- Q5. When was the first time your company used (name service)?  
MONTH AND YEAR. ACCEPT AN ESTIMATE
- Q6. When was the most recent time your company used (name service)?  
MONTH AND YEAR. ACCEPT AN ESTIMATE
- Q7. IF FIRST TIME USED AND LAST TIME USED ARE *NOT* THE SAME, ASK  
How often does your company use (name service)?
1. Every month or more
  2. Not every month but at least every quarter
  3. Not every quarter but at least twice a year
  4. Not twice a year but at least once a year
  5. Less than once a year but at least every two years
  6. Less than every two years
- Q8. When you used (name service) the first time, did you pay for it or got it free of charge?
1. Pay for it. GO TO QUESTION 9
  2. Get it free of charge. GO TO QUESTION 10
- Q9. Why did you decide to purchase (name service) the first time you used it?  
(USE **SHOWCARD 2** - MAXIMUM 3 ANSWERS)
1. It was more expensive to get it done in-house than to purchase
  2. I had no in-house experience to undertake that function
  3. My business became larger and more complicated, so I needed this help
  4. I needed it to improve internal management functions of my firm
  5. I wanted to increase my client base, and increase my market
  6. My competitors had started to purchase this service
  7. I needed this service certification as a legal requirement
  8. I was strongly advised by friend/colleague to try this service
  9. Others (specify)
- Q10. When you used (name service) the most recent time, did you pay for it or got it free of charge?
1. Pay for it. GO TO QUESTION 11
  2. Get it free of charge. GO TO QUESTION 12
- Q11. How much did you pay the most recent time you received the service?  
AMOUNT. ACCEPT AN ESTIMATE

**C/ SUPPLIERS**

USE TABLE C FOR QUESTION 12 TO QUESTION 15

ASK QUESTIONS IN THIS SECTION FOR EACH SERVICE RESPONDENT HAS EVER USED (OPTION 1 - QUESTION 3)

Q12. The last time you used (name service) who was the service provider? Please give us NAME of that service provider

- |                                       |                             |
|---------------------------------------|-----------------------------|
| 1. An individual                      | 2. A State owned enterprise |
| 3. A private enterprise               | 3. A government authority   |
| 4. A social, professional association | 5. Donor/Project            |
| 6. Other (specify)                    |                             |

Q13. How did you learn about this supplier?  
(USE SHOWCARD 3 - MAXIMUM 3 ANSWERS)

1. From a colleague or friend
2. Through website/email
3. Through a business association/chamber
4. Through mass media
5. From a government office
6. In a leaflet or newsletter
7. From business directory/telephone directory
8. Other (Specify)

Q14. Why was this particular service provider (against each service) chosen?  
(USE SHOWCARD 4 - MAXIMUM 3 ANSWERS)

1. It was the cheapest
2. It was a service provided for free
3. They were recommended by colleagues/friends
4. The service provider is a close friend/relation
5. This service provider has a good name in the market
6. I have used before and am comfortable with their service
7. They tailored the service to the exact needs of my business
8. They are the only ones I know of who give this service
9. This was close to my place of work
10. Others (specify)

Q15. Compared to your expectations, how satisfied were you the last time you received the service?

1. Extremely satisfied
2. Somewhat satisfied
3. Somewhat dissatisfied
4. Extremely dissatisfied

**D/ EXPENDITURE ON SERVICES**

USE TABLE D FOR QUESTION 16 TO QUESTION 20

ASK QUESTIONS IN THIS SECTION FOR EACH SERVICE RESPONDENT HAS EVER PURCHASED  
(OPTION 1 OR OPTION 2 - QUESTION 4)

- Q16. How much did your company spend on (name service) purchased externally in the last year?  
AMOUNT. ACCEPT AN ESTIMATE
- Q17. Please tell me which services you spent more on, which the same and which less. For (name service), compared to the year before the last year, did your company's expenditure in the last year.....
1. Increase a lot more (increase by over 25%)
  2. Increase somewhat more (increase by between 1% and 25%)
  3. Stay about the same
  4. Decrease somewhat less (decrease by between 1% and 25%)
  5. Decrease a lot less (decrease by over 25%)
- Q18. Please tell me which services you expect to spend more on, which the same and which less. For (name service), compared to the last year, do you expect your company's expenditure in the next year to .....
1. Increase a lot more (increase by over 25%)
  2. Increase somewhat more (increase by between 1% and 25%)
  3. Stay about the same
  4. Decrease somewhat less (decrease by between 1% and 25%)
  5. Decrease a lot less (decrease by over 25%)

**QUESTION 19 AND QUESTION 20 DO NOT APPLY TO EACH INDIVIDUAL SERVICE, BUT TO ALL SERVICES**

- Q19. Compared to the year before the last year, did your company's overall expenditure on all business development services in the last year .....
1. Increase a lot more (increase by over 25%)
  2. Increase somewhat more (increase by between 1% and 25%)
  3. Stay about the same
  4. Decrease somewhat less (decrease by between 1% and 25%)
  5. Decrease a lot less (decrease by over 25%)
- Q20. Compared to the last year do you expect your company's overall expenditure on all business development services in the next year to .....
1. Increase a lot more (increase by over 25%)
  2. Increase somewhat more (increase by between 1% and 25%)
  3. Stay about the same
  4. Decrease somewhat less (decrease by between 1% and 25%)
  5. Decrease a lot less (decrease by over 25%)

**E/ REASONS FOR NON-USE OF SERVICES**

**USE TABLE E FOR QUESTION 21**

**FOR EACH SERVICE THAT RESPONDENT UNDERSTANDS BUT HAS NEVER USED (OPTION 2 – QUESTION 3), ASK QUESTION 21**

**Q21. Why has your company never purchased (name service)?  
(USE SHOWCARD 5 – MAXIMUM 3 ANSWERS)**

1. That service function is not required in my business.
2. I have yet to face any problems with that function in my business.
3. I get it done in-house.
4. I do need it but have yet to find a suitable supplier
5. It's too expensive to purchase
6. Other (specify)

**F/ PERCEIVED VALUE OF SERVICES**

**USE TABLE F FOR QUESTION 22 AND QUESTION 23**

**ASK QUESTIONS IN THIS SECTION FOR ALL SERVICES WHICH RESPONDENT UNDERSTANDS (OPTION 1 – QUESTION 2)**

**Q22. Please rank the importance of (name service) for the day to day running of your business.**

- |                        |                                |
|------------------------|--------------------------------|
| 0 = Don't Know         | 1 = not important/not required |
| 2 = Somewhat important | 3 = Extremely important        |

**Q23. Please rank the importance of (name service) in making your business more competitive in the future.**

- |                        |                                |
|------------------------|--------------------------------|
| 0 = Don't Know         | 1 = not important/not required |
| 2 = Somewhat important | 3 = Extremely important        |

**Q24. Are there any other services that you think are or might be important for your business? OPEN ENDED**

**G/ INFORMATION ON RESPONDENT**

Q25. What is your main business sector? ONE ANSWER ONLY

1. Manufacturing                      2. Service                              3. Trading

What are your main business activities?

DETAILS OF ACTIVITIES OF THE ONE MAIN BUSINESS SECTOR ONLY

Q26. How many employees does your company have? (either family members or non-family members including yourself)

	1. Male	2. Female
1. Full time		
2. Part time		

Q27. What is the form of your business registration?

1. Limited              2. Private              3. Joint Stock              4. Others: \_\_\_\_\_

Q28. How much is your registered capital?

1. Under VND 1 billion                              2. VND 1 billion to under 3 billion  
3. VND 3 billion to under 5 billion              4. VND 5 billion and above

Q29. When did you start business operations? Year: \_\_\_\_\_

Q30. When was your business registered as a private company? Year: \_\_\_\_\_

Q31. Age of the respondent?

1. Under 25              2. 26 – 35              3. 36 - 50              5. 50 and over

Q32. How much was the company's turnover in the last 12 months?

(USE SHOWCARD 6 – ONE ANSWER ONLY)

1. Under VND 1 billion                              2. VND 1 to under 3 billion  
3. VND 3 to under 5 billion                              4. VND 5 to under 10 billion  
5. VND 10 billion and above

Q33. What proportion of your turnover was from exports?

1. 0%                      2. 1% - 30%              3. 31% to 70%              4. Over 70%

Q34. Education level?

1. Below Secondary  
2. Secondary  
3. Graduation (subject?)  
4. Post Graduate and above (subject?)

Q35. Would you be available for attending a Focus Group Discussion, which will be held in December?

1. Yes, I would be available                      2. Sorry, I would not be available

## DEFINITIONS OF BDS

There are 14 BDS to be covered in this research, which are categorized and defined as follows:

### Management

1. **Accounting/ Auditing:** Outsourced services related to financial matters, book keeping, auditing and making financial reports for the enterprise owner. For example, engaging a company to review accounting books, develop a accounting system, or engaging an auditing company such as VACO, AFC... prepare auditing reports...
2. **Business Management Training:** All types of training activities, generally offered in a classroom setting, related to various aspects of business establishment and operation such as entrepreneurship, general management, marketing – including exports, production and financial. For example, training courses are organized by VCCI, International organizations...
3. **Business Management Advisory:** All types of advisory services, generally one-to-one consultancy/advisory to entrepreneurs, related to various aspects of business establishment and operation such as entrepreneurship, general management, marketing – including exports, production and financial advice.
4. **Legal Consultancy:** Advice and services related to laws, rules and regulations related to business establishment, operations, taxation and exports, litigation.

### Marketing

5. **Advertising/Promotion:** The service in which professional(s) conduct activities to publicize the image of a certain enterprise as well as advantages of its products/services - in various media - to ensure that more products/services are bought by the customers/clients or advise entrepreneurs how to conduct such advertisement / promotion campaigns.
6. **Market Research:** The service in which outsourced professional(s) study factors such as demand, supply, customer behavior, the legal and administrative framework in the market to facilitate the presence of a new enterprise in the market and/or to promote product sales of a certain enterprise in the market.
7. **Product Design:** The service in which outsourced professional(s) assume the task of preparing outlines, designs and technical specifications of a conceived product for the reference of and in order that a product/service can be produced.
8. **Trade Fair Participation Arrangement and Advisory Services:** Logistic and advisory services delivered by outsourced professional(s) to arrange the presence of a certain enterprise at a trade fair to promote its product's image, to seek partners or to sell products. For example, exhibitions, trade fairs organized by VINEXAD...

### Quality & Environment

9. **Quality Management and Environment Management Training and Advisory:** Training activities and advice delivered by professional(s) in order to improve the quality of the products and processes and to minimise harmful effects on the environment of

### **Information, Communication**

10. **Management Information System Software:** The service in which outsourced professional(s) design software and adapt applications that can efficiently manage information on administrative matters and other business activities of a certain enterprise. For example, purchasing accounting software, management software...
11. **Internet access to seek information for business:** Accessing Internet to seek information to for business purposes. This excludes the access to Internet to send/receive emails, browsing Internet for relaxation. The access must be to retrieve information to be used for their business such as market information, legal documents, information on sellers, partners...
12. **Computer related services:** This includes physical maintenance and repairs of computers, software adaptation, customization and development; as well as training and advisory services.

### **Technical /Vocational**

13. **Technical & Vocational Skills Training:** Any training activities delivered in classroom and also in the company by outsourced professional(s) to (1) provide information on how to use and take full advantage of a machine (2) to improve the expertise of workers in a certain skill or trade.
14. **Technology Advisory Services:** The service, generally one-to-one advice, refers to the selection of the best technology for the enterprise, transferring technology procedure. It also includes instructing the enterprise how to use the new technology.

## **EXERCISE:<sup>1</sup> “ANALYZING BDS MARKET ASSESSMENT DATA”**

1. **Read the following report** containing data from a BDS market assessment of telecommunications services in Philippines. It is the results of a random sample survey of SEs in a particular town where there are private sector telecommunications centers offering the listed service, a focus group discussion and interview with suppliers.
  
2. **Analyze the data:**
  - What is the data telling you about the market for each service?
  - Which market is strongest, why?
  - Which market has highest unmet demand, and why?
  - What are the supply constraints in that market?
  - What are the demand constraints in that market?
  - If you were to improve one aspect of the communication services, which would it be?
  
3. **Answer the following questions:**
  - Strongest market, in general and why.
  - Market with more potential unmet demand, and how you know this.
  - Supply constraints, and demand constraint in that market.
  - What aspect of the telecommunication center would you would improve?

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<sup>1</sup> This exercise is adapted from the BDS State of the Art workshop binder with permission of the SEEP Network (Mary McVay)

## BDS MARKET ASSESSMENT DATA COMMUNICATIONS SERVICES IN THE PHILIPPINES

*(Adapted from Guide to BDS Market Assessment. Fictional data included.)*

*A statistical UAI survey provided the following data:*

<b>SERVICE</b>	<b>AWARENESS % aware of service</b>	<b>REACH Of those aware, what % have tried</b>	<b>PENETRATION Of all SEs surveyed, % that have tried</b>	<b>RETENTION Of those who tried, % who used it in the last month</b>
Phone	100%	77%	77%	94%
Fax	76%	37%	28%	100%
Email	28%	7%	2%	0

*Of those who have heard of the service, but did not purchase, REASONS for non-purchase:*

<b>SERVICE</b>	<b>Don't need the service</b>	<b>Too expensive</b>	<b>Got it somewhere else for free</b>	<b>Don't know where to get it</b>	<b>Heard the quality was poor</b>
Phone	50%	25%	5%	0%	20%
Fax	75%	5%	5%	0%	15%
Email	25%	50%	0%	20%	5%

In focus group discussions, participants discussed the following questions about a telecommunication center they patronize:

- What do you like about the telecommunications center?
- What needs improvement, or what do you dislike?
- Of each of these things, which are more important, and which are less important?

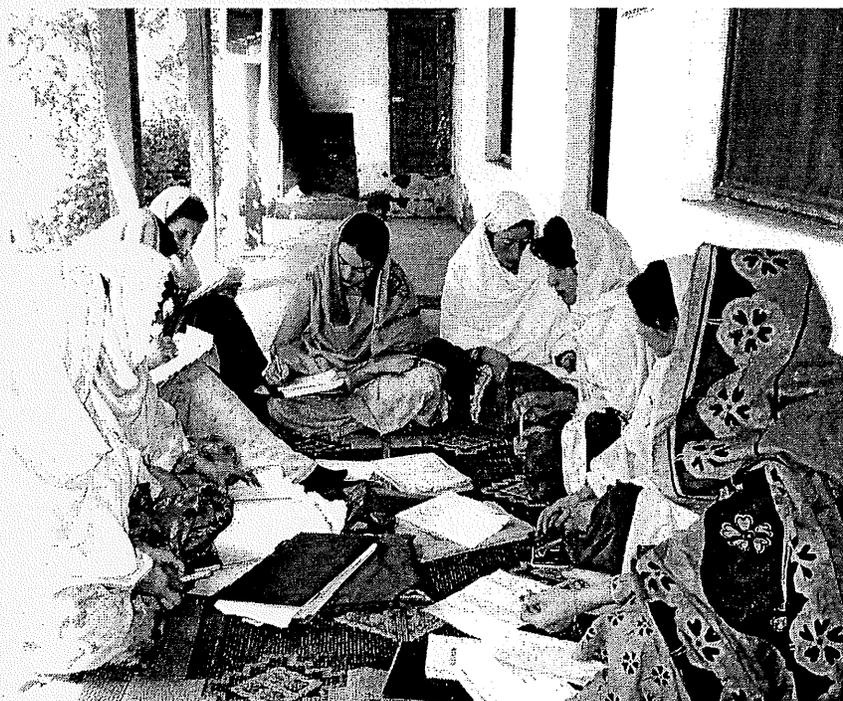
The information was used to compile this table about customer satisfaction regarding specific features of the communication service and their relative importance.

	<b>High Satisfaction</b>	<b>Low Satisfaction</b>
<b>High Importance</b>	Cleanliness Clarity of connection Comfortable Waiting area Friendly attendants	Accuracy Privacy Confidentiality Comfort
<b>Low importance</b>	Variety of service	Clear layout Waiting time Convenience to business

*Key informant interviews with suppliers revealed that:*

1. They think very few people are ready for e-mail.
2. E-mail connection is very expensive for them, as long as there are few customers, because they have fixed monthly payments.
3. People should use fax more because it is cheaper and more reliable, but customers don't take the time to write things down. Maybe they don't read and write very well.
4. There is no need to market the services because the lines are long—the services are in demand.

## FROM BEHIND THE VEIL: Access to Contemporary Markets for Homebound Women Embroiderers in Pakistan



The majority of women in rural Pakistan are marginalized by poverty, home confinement and geographic isolation. MEDA's program will reduce the poverty of poor homebound women embroiderers in three conservative areas of rural Pakistan by helping them access higher value markets in the embroidered garment subsector. The quality of the embroidery of rural women is excellent, but products are generally sold into low value traditional markets through monopolistic buying channels. Since buyers are usually men and transactions must therefore take place through a male family member, confined women do not have the knowledge or opportunity to develop products for alternative markets. At the same time, there is a growing middle class of Pakistani women in urban centers who seek out quality hand-embroidered garments in contemporary styles, and are willing to pay a premium for them.

The MEDA program will expand and replicate a fledgling business model of mobile women sales agents who deal directly with rural embroiderers. Through face-to-face, woman-to-woman business transactions, gender relations will be adjusted in a culturally sensitive manner so that poor homebound women will earn more for their labor and be more economically empowered within the household. Women sales agents will create linkages to both raw materials – quality hand-embroidered fabrics – and to more profitable consumers – via retailers, exporters and exhibitions.

Program targets over three years are to: directly reach 6000 poor rural homebound women embroiderers raising revenues two to three times; recruit and develop 60 women sales agent entrepreneurs; facilitate market access of 180 urban micro garment makers; and involve 9 commercial designers in the subsector.

MEDA's program will concentrate on three rural areas in Pakistan: Multan District in Punjab; Thatta, Badin and Hyderabad (Hala) Districts of interior Sindh; and three killies – Ismail, Siriki Kalan and Qambrani – adjacent to Quetta in Balochistan. Home confinement ranges from 50% to 95% in these areas, with Multan being the most and Quetta the least liberal. Poverty is extreme; the majority of women are illiterate (e.g., 67% in Multan). Further, Pakistan has the lowest sex ratio in the world with 937 women per 1000 men, and maternal, infant and child mortality rates are among the highest in the world.



**MEDA PERFORMANCE TARGETS AND TABLE 1**

	a. Package of Services from Women Sale Agents to Rural Homebound Embroiderers in Selected Areas	1500	3000	6000
	b. Market Access Services from Women Sales Agents to Micro Urban Garment Makers in Selected Areas	45	90	180
	c. Product Design Services from Commercial Independent Designers to Microentrepreneurs	30	60	90
	9. Woman-owned microenterprises as percent of total microenterprises (line 8/line 6) ( <i>A few men will be included in the retailers and exporters who purchase product design services</i> )	99+%	99+%	99+%

**ASSESSING THE BDS PROVIDER**

		Year 1	Year 2	Year 3
All applicants (as is feasible)	10. Total earned revenues from participating providers (do not include any grants or donor contracts)			
	<b>Product Designers</b>	4,800	9,600	19,200
	<b>Sales Agents</b>	.58 m	1.75 m	2.92 m
	11. BDS Providers' profitability <i>Based on gross margins over revenues.</i>			
	<b>Product Designers</b>	100%	100%	100%
	<b>Sales Agents</b>	15.4%	15.4%	15.4%

**ASSESSING THE IMPACT ON THE MICROENTERPRISE CLIENT (Program Level)**

		Year 1	Year 2	Year 3
All applicants	12. Annual value of sales by microenterprises participating in program (in US\$) <sup>8</sup>			
	<b>Rural Embroiderers</b>	90,000	270,000	450,000
	<b>Garment Makers</b>	67,500	202,500	337,500
	<b>Sales Agents</b>	90,000	270,000	450,000
	<b>TOTAL</b>	247,500	742,500	1.24 m
	13. Microenterprise client satisfaction <sup>9</sup> - <i>Targets</i>			
	a. Package of Services from Women Sale Agents to Rural Homebound Embroiderers in Selected Areas	<b>Repeat Clients</b>	Close to 95%	
	b. Market Access Services from Women Sales Agents to Micro Urban Garment Makers in Selected Areas	<b>Repeat</b>	Close to 85%	
	c. Product Design Services from Commercial Independent Designers to Microentrepreneurs:	<b>Repeat</b>	Close to 75%	

**ASSESSING THE FACILITATOR'S COST-EFFECTIVENESS (PROGRAM-LEVEL INDICATORS)**

		Year 1	Year 2	Year 3
All applicants	14. Total program costs (USAID and other)		172,557	172,351
	15. Total program costs per microenterprise served (line 14/line 6)		54.78	27.49

**OTHER INDICATORS**

		Year 1	Year 2	Year 3
All applicants	16. Exchange rate used to calculate US\$ figures	60	60	60
	17. Estimated percentage of microenterprises on line 6 who have poverty loans from any source		0	0

### TABLE ONE – NARRATIVE EXPLANATION

**Line 1.** This figure is estimated as follows: According to the World Bank, approximately 5% of Pakistan's 140+ million people are middle class. Approximately half of these are adults under the age of 65, and approximately half of those are women. This means that there are about 1.75 million middle class women in Pakistan. Each of these women buys approximately 10-12 outfits (salwar kameez) per year, and clothes with embellishments such as embroidery, trims, beadwork are very popular. Currently, Pakistani hand-embroidered outfits in contemporary designs and high quality are not readily available, however we can safely assume that one of their 10 outfits has some kind of embroidery (local hand-done, machine, imported cloth). Each outfit retails for 1800 to 2000 rupees (\$30-\$33). We have selected the lower price \$30 as part of our aim to be cautious in all of our targets and estimates.

**Line 2.** Rural women can easily embroider the fabric for 6 – 8 outfits per month. Of the targeted rural microentrepreneurs, we estimate that 3 of these outfits will be suitable for contemporary urban markets within six months of intervention. This means that 4500 outfits per month starting at 6 mos., 9000 at 18 mos. and 18,000 at 30 months – each sold at \$30. (Therefore 27,000 outfits in year one, 81,000 in year two, and 135,000 in year three).

**Line 3.** Figures are based on our SEEP PLP market assessment in rural regions of Sindh, Balochistan and Punjab as well as the urban centers – Karachi, Quetta and Multan. We found that, although there are models, it is extremely rare for there to be commercial women sales agents. Also, despite the existence of independent product designers, they do not serve microentrepreneurs in the hand-embroidered garment subsector. As a result, our market figures are only slightly higher than our program figures. We do expect non-program figures to rise slowly during the course of the program and to keep rising when the program is complete.

**Line 4 a. and b.** The target numbers for women sales agents are modest, since recruitment, training, commercial launching, and mentoring will not be a trivial matter. **Line 4 c.** Since commercial designers are new in the subsector, it will take time to establish them, and we will begin with only one per urban center to start, enabling us to test service delivery and payment mechanisms, and to provide models for other designers.

**Line 5 a.** These targets are based on each women sales agent establishing a relationship with 100 rural hand embroiderers. The totals seem ambitious, but in our SEEP PLP research, we heard of local buying monopolies where a single middleman bought all the products of 100's of women and/or tens of villages. Once relationships are established and families/women hear of new market opportunities, sales agents will be connected to networks of extended families. **Line 5 b.** Our estimates in terms of micro urban garment makers are as follows: if each woman sales agent works with 100 rural embroiderers, and purchases 3 outfits from each one, then each sales agent will handle 300 hand embroidered outfits per month. If the average garment maker in the program stitches 100 outfits per month for a sales agent (may be one to several employees), then the sales agent will need to have relationships with 3 garment makers.

**Line 5 c.** Same as 4 c. Starting with 5 clients per designer and rising to 10 by the end of Year 3.

**Line 6 – 7.** All targeted firms will be microenterprises.

**Line 8 – 9.** All targeted microentrepreneurs will be women except for a few retailers and exporters who may purchase design services from commercial designers.

**Line 10.** This will not be the only source of income for independent commercial designers who will continue with current clients at the same time. The figure is based on 1 day per week per designer at a rate of 2000 rupees per day. The revenues for sales agents is the amount realized for hand-embroidered suits sold to retailers and exporters before any costs have been deducted (e.g., Year one – 27,000 outfits x 1300 rupees per outfit – or \$21.67 each).

**Line 11.** Profitability for sales agents is based on gross margins – that is profit after all direct costs are deducted from revenues (inputs, embroiderers fee, garment makers fee). It does not include deductions for other costs such as transportation, marketing, design work. The gross margin for each suit is 200 Rs (approx \$3.33). Profitability for product designers, based on gross margins, is 100% since cost is chiefly labor/design time.

**Line 12.** The sales for the each member of the hand-embroidered garment value chain are as follows: embroiderer receives 200 Rs (\$3.33) per outfit, the garment maker earns 150 Rs (\$2.50) for each one sewn, and the sales agents markup to the buyer is 200 Rs per suit. These are all based on the more modest retail price of 1800 Rs., although the average is 1800 – 2000 for day wear, and some of these outfits may sell for much more.

**Line 13.** We anticipate that the rate of repeat clients working with sales agents will be very high since the sales agents will establish the relationship before working with the embroiderers, and since there are not a lot of alternatives. The repeat rates are lower for garment makers and product design purchasers, as other options do exist, and some clients may try out the service but with less commitment.

## **Session Six – Group Exercise**

### **Selecting Tools for Data Gathering and Analysis**

Think about the business your group designed and the business development services that you decided you needed most. Now, consider that you are an NGO interested in collecting data on which you will base program design for the development of the demand and supply side of this BDS market.

1. What are the primary goals of your market assessment?
2. Which tools would be most appropriate for data collection? Why?
3. Who will your targets be for data collection? You may target more than one group and use different tools to collect data.
4. What are some of the key areas about which you will be asking questions? Provide some sample questions.
5. What will your method for data collection be? (Who will conduct the data collection? How will they be trained? How many interviews/ groups / surveys will be conducted /distributed? How long will it take? etc.)
6. How will you analyze the data to realize the goals stated in response to the first question? (E.g., You will do statistical analysis to determine rates of awareness versus retention to understand if the issue is more demand side or supply side.)

Be prepared to report back to the large group about your plans for data collection and analysis. If time permits, the large group will respond to your plans and question your rationale.



## SESSION SEVEN – PROGRAM DESIGN

1. Read case study.
2. Identify the main market opportunities in terms of the goods and services market for beef and poultry products.
3. Complete Worksheet One.
4. Based on the information that you have so far, which three areas of intervention would you select for a program (remembering the mandate of your organization and the need to create a cohesive program design). Complete Table One.
5. What additional information would have been useful to complete the worksheet and the table.
6. Meet in large group to discuss.

## **CASE STUDY #3 AZERBAIJAN – BEEF & POULTRY – PART I**

### **Socio-economic Setting**

Azerbaijan is a mountainous country on the Caspian Sea bordering Russia and Iran. Its population is a diverse mix with the largest percentage being Muslim related to Turkish and Iranian ethnic groups. Historically Azerbaijan was a major trade route between Russia and Persia and it was part of the Soviet Union.

Azerbaijan specializes in oil production, but since independence it has attempted to diversify its economy into light industry such as toys, food processing, etc. Large portions of the country are agriculturally rich and particularly appropriate for cattle, dairy, and other animal husbandry, but there has been little support of the sector to date. The farmers are primarily small-scale.

### **Organizational Background:**

Salvation International<sup>1</sup> (SI) is a non-profit, private voluntary organization founded in 1979 to alleviate suffering, poverty, and oppression by helping build secure, productive, and just communities. The agency operates in over 25 countries and reaches 5 million people. A leader in innovative economic development programming, Salvation International implements demand-driven BDS programs in 12 countries as an integral part of its economic opportunities portfolio. The organization uses three approaches in its BDS programs—client clusters, the MFI-led approach, and the sub-sector approach. SI activities focus on underserved microentrepreneurs, specifically women and the rural poor.

Under the Azerbaijan Humanitarian Assistance Umbrella Grant Program, SI has successfully introduced the market approach into three BDS-focused programs that work with over 9,000 internally displaced persons in rural Azerbaijan. The programs incorporated demand-led, fee-based services using client cluster, MFI-led, and provider network approaches in early 2001. SI plans to begin handing over the direct service provision role to local private providers while continuing to act as a facilitator.

### **Sector analysis & Target SE assessment**

The USAID Country Strategy has identified Lenkoran and Massali as having economic potential, especially in the agricultural sector. The World Bank Poverty Assessment tool identifies agriculture as the most important sector of the economy in terms of both output and employment. In the target area, industrial production is the lowest in the country thus placing greater emphasis on agricultural activities. Government statistics show that the market for animal products has increased over the last three years and promises to continue growing. The government has abolished eight taxes since 1994 in an effort to stimulate the agricultural sector.

Over 68% of SI's project target population lives below the national poverty line.<sup>2</sup> While the per capita GNP in Azerbaijan is \$630<sup>3</sup> (\$52 a month), the average income in the region is just \$34<sup>4</sup> a

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<sup>1</sup> This case is based substantially, but not entirely, on Mercy Corps experience. Portions have been fictionalized to improve the learning experience.

<sup>2</sup> World Bank, "Azerbaijan at a Glance," 2000.

month, or 54% of the national average. The remote mountainous villages in this area also suffer from the second highest child mortality and morbidity rates in the country. Of the estimated 10,025<sup>5</sup> commercial livestock and poultry producers, 45% are women involved primarily in poultry production (regional statistics department figures.)

The meat and poultry market is expanding rapidly as Azerbaijan's markets are now open to Europe. Exporters, in particular, are demanding more meat and the local market is also growing as incomes increase with economic expansion. Table 1 illustrates recent growth in the sector.

**Table 1: Annual Meat Production & Sales Volumes in Target Areas**

Livestock and poultry producers use traditional animal husbandry techniques and	Year	Meat production (in slaughtered weight), tons	Meat sales in US\$	Sales trends in % (1998 as a base year)
		1998	3,302	6,982,165
	1999	3,453.4	7,272,966	104%
	2000	4,001.3	8,158,157	117%
	2001 <sup>6</sup> (by 11/30/01)	4,217	8,436,427	121%

few have access to veterinary services, improved breeds, high protein feeds, etc. They face significant income loss not only through a high percentage of animal deaths from disease, but because an astonishingly amount of the meat they produce is rejected as unhealthy by the State Animal Disease Control Department.

Some farmers (20%) take live animals directly to retail bazaars (markets) and sell to consumers who slaughter them at home. In addition, restaurants and canteens purchase animals live and then pay individuals to slaughter the animals on their behalf (25%). The rest of the animals (55%) go to some 125 meat wholesalers and distributors in the region. Some take animals to live animal markets in urban areas and others sell to the 36 processing plants in Baku. In general, processing plants are medium sized businesses and quality ranges widely. Formerly owned and operated by government, they now have diverse ownership structures with some owned by individuals and others, as cooperatives, owned by worker-members. The individually owned processing plants have a higher quality while the cooperatives function in a manner similar to the way they did under Soviet control. They are not modern, business-like cooperatives that try to meet market needs and workers tend to have a high degree of technical know-how, but poor business management skills that result in a lack of resources and poor quality products.

From the processing plants, butchers purchase stock for their retail stores, and wholesalers purchase meat and poultry for distribution to butchers and grocery stores. Market women also purchase small quantities to take to the market and sell the same day. They pay low prices and the cooperatives take a loss on those sales.

Rural consumers are used to purchasing live animals, and many urban consumers purchase freshly butchered, but not refrigerated meat. Urban consumers would prefer to purchase processed, refrigerated meat and poultry, but the price of refrigerated products is very high.

<sup>3</sup> Ibid.

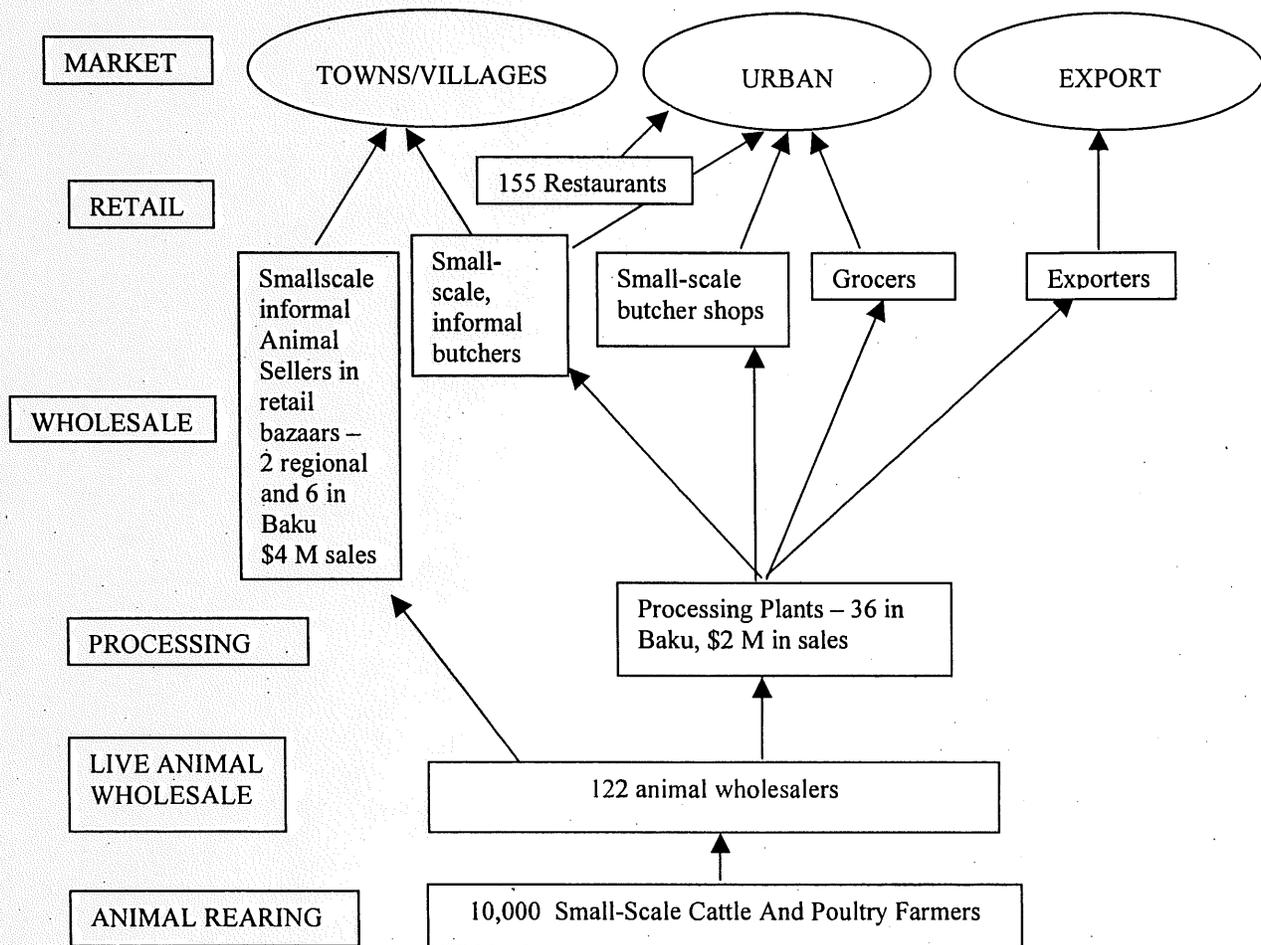
<sup>4</sup> This number extrapolated from government annual sales figures for 2000.

<sup>5</sup> Farmers engaged in animal husbandry identified through Salvation International surveys – 2000 and 2001.

<sup>6</sup> These figures reflect actual data for first six months and the remaining five months were extrapolated.

Consumers in the export market, especially in Europe and, to some extent, Russia, require high quality meat. In addition, there is demand for processed poultry items such as frozen chicken finger strips and baked chicken items, but there is no such processing activity in Azerbaijan. When asked why, export-oriented processors said they were aware of the opportunity, but it was all they could do to meet the demand for fresh meat and poultry because the supply of quality meat and poultry is so weak.

### AZERBAIJAN – BEEF & POULTRY SUB-SECTOR MAP



## WORKSHEET 1

Based on the goods and services market opportunities that you have identified, determine the **BDS market** constraints and opportunities that exist in each of the following areas.

<b>Potential Areas for BDS Interventions</b>	<b>Supply Constraints and Opportunities</b>	<b>Demand Constraints and Opportunities</b>
<b>Market Access</b>		
<b>Technological / Product Development</b>		
<b>Organization and Management</b>		
<b>Regulatory (Policy)</b>		
<b>Finance</b>		
<b>Input and Supply (Procurement)</b>		
<b>Infrastructure</b>		

**Table 1  
Preliminary Program Design Summary**

<b>Program Mission: What impact will the program have?</b>		
<b>Target SE Population: Who will it impact?</b>		
<b>Program Strategy: What is the program helping SEs to achieve?</b>		
<b>Services to be offered: Which business development services will contribute to the program strategy? Who will be the target clients for the service?</b>		
<b>BDS 1:</b>	<b>BDS 2:</b>	<b>BDS 3:</b>
<b>Target Clients:</b>	<b>Target Clients:</b>	<b>Target Clients:</b>



## SESSION EIGHT – PROGRAM DESIGN CONTINUED

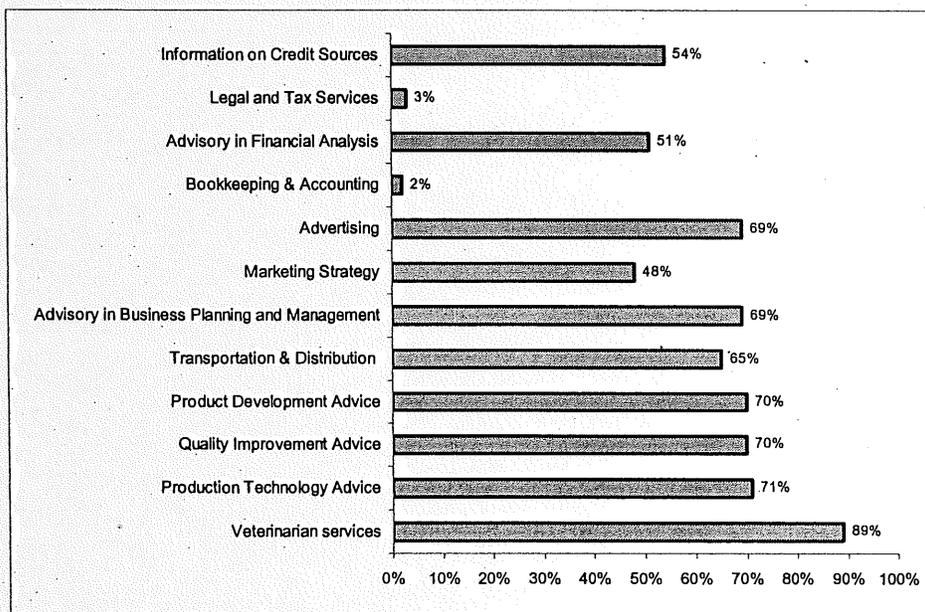
1. Read case study – Part II.
2. Based on this information, how would you revise worksheet one and table one?  
Make notes on original sheets.
3. Finalize your choice of the three BDS services that will form the basis of your program design. Complete Worksheet Two with as much detail as is available for your selected service areas.
4. Complete Table Two for each of the services selected. There is some repetition from the previous worksheets – summarize the information here. Then, focus on sustainability and facilitation activities.
5. If you have time, complete Table Three.
6. Meet in large group to discuss.
7. Wrap-Up

## AJERBAIJAN BEEF & POULTRY – PART II BDS MARKET ASSESSMENT VETERINARY SERVICES

### **Background:**

In addition to 120 businesses involved in agriculture, animal production, and wholesale and retail sales, SI surveyed 37 providers of 12 business services. The research team identified SE attitudes toward, and understanding of, the benefits of each service and whether they had ever accessed the service. The service markets with expansion potential were those that the SEs considered useful, but had not yet acquired. Figure 1 shows the results of this analysis, and indicates that veterinary services are in high demand compared to the existing supply. Based on the sub-sector analysis, which indicated that meat quality was a problem throughout the supply chain, program designers focused on veterinary services as the primary services the program would provide.

**Figure 1: Services Survey Results**



**Service Description and Provider Profile:** Veterinarian services comprise animal disease prevention, treatment, and production advice services, including information on breeding and feeding techniques. At present, there are 119 veterinarians in Lenkoran and Massali, 101 of whom work “*in the field*,” traveling to farms and treating animals. After the collapse of the Soviet Union, they began providing services independently to private animal husbandry and poultry businesses on a fee basis. These fees have become their primary source of income, although they serve non-commercial clients as well. Another 18 veterinarians operate their own veterinarian drug stores, providing production and disease-prevention advice bundled with the sale of veterinarian medicines. These service providers consider their drug stores to be a core business and do not provide any treatment services. Consumers located in the remote areas are not always attractive for service providers, who note that they are generally not interested in making long journeys to serve single clients, or groups of less than three.

Both veterinarians and vet suppliers admit to long-entrenched behaviors arising out of the former centralized system in which marketing services or customer satisfaction simply were not business concerns. Historically, their services were targeted for large businesses, and veterinarians do not advertise the fact that they offer payment options when it comes to smaller clients. Moreover, the veterinarians rely almost entirely on word of mouth to market their services—a “*clients will find me*” attitude. Some clients reported dissatisfaction with particular features of veterinary services, describing vets who would make the long trek out to remote villages without any medical supplies. They could diagnose conditions, but could not offer the appropriate medical treatments.

**Demand:** Table 2 demonstrates the potential for veterinarian services and production advice. The drop in percentage between farmers who are aware of the veterinarian services and those who have tried them makes obvious the opportunity for promoting demand.

**Table 2: Awareness, Reach, and Retention for Vet and Production Advice Services**

Service	Awareness <sup>7</sup>	Reach <sup>8</sup>	Retention <sup>9</sup>
Vet services	68.5	32.5	93.6
Production advice	44.1	27.5	95.5

The table shows that not all SEs are familiar with veterinarian and production advice services and of those who are, only about 30% have tried them. More positively, the retention ratio demonstrates that the services are useful because almost all of the SEs who tried them became regular users. Focus group discussions with farmers who have not yet tried veterinarian services and production advice shed light on the reasons for the limited reach of these services. The farmers said that the:

- Services are not likely to be helpful;
- Services are too expensive and they think they need to pay upfront (not true); and
- Local culture limits women from directly contacting the service providers, who are all men.

**Current Market Penetration for Vet and Production Advice Services:** Based on the Awareness, Reach, and Retention information in Table 2, SI calculated that 21% and 12% (penetration) of 10,025 commercial clients used these services. Data shows that the 2,105 current service users pay an average of \$5.30 / month for them for an estimated market size of \$133,894 per year. Since production advice services are embedded, SI estimated the market size in terms of scale of outreach, concluding that an estimated 1,203 SEs access production advice services.<sup>10</sup>

#### **Analyzing Service Benefits and Features**

The supplier diagnostic analysis provides a better understanding of the level of customer satisfaction, key reasons for purchase, and key factors in competition. It also provides a clear idea of problems on the supply side of the market and identifies opportunities for service providers to increase the sale of services.

<sup>7</sup> Fully understand benefits of the services.

<sup>8</sup> Of those who are aware, % who have tried services.

<sup>9</sup> Of those who have tried services, % who used it in the last quarter.

<sup>10</sup> See Table 3 for graphic representation of this information.

Focus group discussions with regular service users identified the key reasons for purchase of the services as well as the service features that provide the most benefits for the businesses and the consumers' level of satisfaction with these features. Discussion results showed that farmers wanted two benefits from the veterinarian and production advice services:

- Improved productivity of the business (animal breeding and poultry farms); and
- Assured maintenance of quality production output (animals and poultry).

**Table 3: Importance of, and Satisfaction with, Vet and Production Advice Service Features**

<b>Service Features</b>	<b>Importance<sup>11</sup></b>	<b>Satisfaction<sup>12</sup></b>
Payment options	100%	94%
Service package	98%	59%
Consistency	98%	51%
Distance from business	63%	45%
Friendly attendance	49%	45%
Privacy	43%	15%

Farmers recognize that the veterinarian and production advice services currently provided meet their requirements and offer an advantage in an increasingly competitive market. This bit of qualitative information combined with the retention ratios from the User Attitude Image (UAI) survey demonstrates that the existing service providers have sufficient technical capacity to help farmers solve their problems. The focus group discussions also provided two types of information that help analyze service features. Table 3 shows how important various features are for SEs, as well as their satisfaction rating with these features.

<b>Payment options</b>	Different payment mechanisms (besides up-front cash) for services offered by local providers. These include credit and in-kind payment
<b>Service package</b>	Availability of a wide range of drugs and other necessities with providers at the time of delivery
<b>Consistency</b>	Accuracy in delivering the service in a timely manner
<b>Distance from business</b>	Close proximity to the business
<b>Friendly Attendance</b>	Nice welcome
<b>Privacy</b>	Confidentiality of the information gained as a result of the professional activity

<sup>11</sup> % of users who said that the features are very important.

<sup>12</sup> % of users who claimed to be satisfied with these features.

**Table 4: Analysis of Vet & Production Advice Service Ability to Meet Demand**

	<b>High Satisfaction</b>	<b>Low Satisfaction</b>
<b>High Importance</b>	Payment options	Service package Consistency
<b>Low Importance</b>	Distance from business Friendly attendance	Privacy

Table 4 represents how well service providers satisfy customer demand for features and demonstrates that the providers do a good job in offering a wide range of payment options, a feature valued by entrepreneurs. At the same time, the farmers are not satisfied with the service package and consistency—features very much in demand. The distance from business, friendly attendance, and privacy are of less importance and do not merit development investment. With information from this table, a single service provider can improve the appeal of his service relative to the competition.

As a final stage of this research, a focus group discussion with service providers introduced them to the survey findings and invited them to respond. They agreed with the constraints identified, pointing out that although they are technically strong and experienced in vet and production technology, they lack business management skills and knowledge.

**WORKSHEET 2**  
**BDS MARKET INTERVENTION SELECTION**

**Service One:**

<b>Specific Opportunities</b>	<b>Specific Constraint</b>	<b>Intervention that addresses the constraint or opportunity</b>
<b>Demand</b>	<b>Demand</b>	<b>Demand</b>
<b>Supply</b>	<b>Supply</b>	<b>Supply</b>
<b>Transactions</b>	<b>Transactions</b>	<b>Transactions</b>

**Service Two:**

<b>Specific Opportunities</b>	<b>Specific Constraint</b>	<b>Intervention that addresses the constraint or opportunity</b>
<b>Demand</b>	<b>Demand</b>	<b>Demand</b>
<b>Supply</b>	<b>Supply</b>	<b>Supply</b>
<b>Transactions</b>	<b>Transactions</b>	<b>Transactions</b>

**Service Three:**

<b>Specific Opportunities</b>	<b>Specific Constraint</b>	<b>Intervention that addresses the constraint or opportunity</b>
<b>Demand</b>	<b>Demand</b>	<b>Demand</b>
<b>Supply</b>	<b>Supply</b>	<b>Supply</b>
<b>Transactions</b>	<b>Transactions</b>	<b>Transactions</b>

**Additional Notes:**

**Table 2**  
**BDS Market Development Plan – Service One**

<b>Business Development Service &amp; Target Client Group:</b> <i>(From revised Table One)</i>
<b>Key Opportunities in the BDS Market:</b> <i>(From Worksheet Two – summarize main points.)</i>
<b>Key Constraints in the BDS Market:</b> <i>(From Worksheet Two – summarize main points.)</i>
<b>Service Supplier/Provider:</b> <i>(Who will provide the service as described.)</i>
<b>Financial Sustainability Strategy:</b> <i>(What will the payment mechanism be and how will the service be sustained over time – this can be a phased approach.)</i>
<b>Intervention/Facilitation Activities:</b> <i>(What will your main activities be to facilitate the development of the service, leverage the opportunities and overcome the constraints? Include any temporary subsidization that the program offers.)</i>
<b>Exit or Sustainable Facilitation Strategy:</b> <i>(How will you ensure sustainability of each activity after the program ends?)</i>

**Table 2**  
**BDS Market Development Plan – Service Two**

<b>Business Development Service &amp; Target Client Group:</b> <i>(From revised Table One)</i>
<b>Key Opportunities in the BDS Market:</b> <i>(From Worksheet Two – summarize main points.)</i>
<b>Key Constraints in the BDS Market:</b> <i>(From Worksheet Two – summarize main points.)</i>
<b>Service Supplier/Provider:</b> <i>(Who will provide the service as described.)</i>
<b>Financial Sustainability Strategy:</b> <i>(What will the payment mechanism be and how will the service be sustained over time – this can be a phased approach.)</i>
<b>Intervention/Facilitation Activities:</b> <i>(What will your main activities be to facilitate the development of the service, leverage the opportunities and overcome the constraints? Include any temporary subsidization that the program offers.)</i>
<b>Exit or Sustainable Facilitation Strategy:</b> <i>(How will you ensure sustainability of each activity after the program ends?)</i>

**Table 2**  
**BDS Market Development Plan – Service Three**

<b>Business Development Service &amp; Target Client Group:</b> <i>(From revised Table One)</i>
<b>Key Opportunities in the BDS Market:</b> <i>(From Worksheet Two – summarize main points.)</i>
<b>Key Constraints in the BDS Market:</b> <i>(From Worksheet Two – summarize main points.)</i>
<b>Service Supplier/Provider:</b> <i>(Who will provide the service as described.)</i>
<b>Financial Sustainability Strategy:</b> <i>(What will the payment mechanism be and how will the service be sustained over time – this can be a phased approach.)</i>
<b>Intervention/Facilitation Activities:</b> <i>(What will your main activities be to facilitate the development of the service, leverage the opportunities and overcome the constraints? Include any temporary subsidization that the program offers.)</i>
<b>Exit or Sustainable Facilitation Strategy:</b> <i>(How will you ensure sustainability of each activity after the program ends?)</i>

**TABLE 3  
SHORT LOGICAL FRAMEWORK**

*(Note: A complete logframe would also contain more activities and "Inputs")*

<b>GOAL/OBJECTIVE</b>	<b>DESCRIPTION</b>	<b>INDICATOR</b>
<b>Mission: Impact on the community</b>		
<b>Goal: Impact on the SEs</b>		
<b>Sub-goal: Helping SEs access, apply, and benefit from services</b>		
<b>Strategy: Develop the BDS market</b>		
<b>Demand Objective: strengthen demand</b>		
<b>Supply Objective: Strengthen sustainable supply</b>		
<b>Activity Objective: Cost-effective program operations</b>		



## BDS Resources

### PUBLICATONS:

**SEMINAR READER - Developing Commercial Markets for BUSINESS DEVELOPMENT SERVICES: "Are 'how-to-do-it' recipes possible?"** by Alexandra Overy Miehlsbradt and Mary McVay for the Third Annual Seminar, Turin, Italy, 9-13. Geneva: International Labour Organization, Small Enterprise Development Program (2002). (*Annual updates.*)

[http://training.itcilo.it/bdsseminar/Turin\\_Seminar/BDS%20Reader%20Text%202002.pdf](http://training.itcilo.it/bdsseminar/Turin_Seminar/BDS%20Reader%20Text%202002.pdf)

**Guide to Market Assessment for BDS Program Design**, by Alexandra Overy Miehlsbradt. Geneva: International Labour Organization (2001).

[http://oracle02.ilo.org/dyn/empent/docs/F111PUB1694\\_01/PUB1694\\_01.pdf](http://oracle02.ilo.org/dyn/empent/docs/F111PUB1694_01/PUB1694_01.pdf)

**Subsector / Business Service Approach to Program Design**, by Frank Lusby and Henry Panlibuton. Washington, DC: U.S. Agency for International Development, Office for Microenterprise Development (2002).

<http://www.actionforenterprise.org/paper.pdf>

**Performance Measurement Framework for Business Development Services** by Mary McVay, Alexandra Overy Miehlsbradt and Tim Canedo. Washington, DC, The SEEP Network (2001).

<http://www.seepnetwork.org/bdsguide.html>

**Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention**, Prepared by the Committee of Donor Agencies for Small Enterprise Development, Washington, DC: World Bank Group (2001).

<http://oracle02.ilo.org/images/empent/static/seed/donor/bds-donCom-gui-eng.pdf>

**BDS Market Development Program Design Tool** by Mary McVay. Washington, DC, The SEEP Network (2003).

<https://www.seepnetwork.org>

### WEBSITES:

**SEEP Guide to Business Development Services and Resources**

<http://www.seepnetwork.org/bds.htm>

SEEP's practitioner-developed, web-based guide to the wide range of services and frequently asked questions about BDS. This site also contains links to other BDS sites.

**Committee of Donor Agencies on Small Enterprise Development**

[http://oracle02.ilo.org/dyn/empent/empent.portal?p\\_docid=DONORHEAD&p\\_prog=S&p\\_subprog=BD](http://oracle02.ilo.org/dyn/empent/empent.portal?p_docid=DONORHEAD&p_prog=S&p_subprog=BD)

This site hosts over 50 case studies, published between 1998 and 2000, of BDS programs around the world. Also includes the donor guidelines and analytical papers.

**ILO SEED Programme: Boosting employment through small enterprise development:**

[http://oracle02.ilo.org/dyn/empent/empent.portal?p\\_lang=EN](http://oracle02.ilo.org/dyn/empent/empent.portal?p_lang=EN)

SEED seeks to unlock the potential for creating more and better jobs in the small enterprise sector. The website describes the SEED approach and links to relevant publications.

**USAID's Microenterprise Best Practices Project:**

<http://www.mip.org/> [click "Best Practices" then "Publications" then "BDS"]

**The World Bank: Small- and Medium-Scale Enterprise Development**

<http://www.worldbank.org/html/fpd/privatesector/sme.htm>

Describes the World Bank's private sector strategies and contains some publications.

**Table 1: Types of Business Development Services**

<p>The SEEP Guide to Business Development Services identifies seven BDS categories: market access, input supply, technology and product development, training and technical assistance, infrastructure, policy/advocacy, and alternative financing mechanisms. Examples of services under each category are provided below.</p>		
<b>Market Access:</b>	<ul style="list-style-type: none"> <li>■ Marketing business</li> <li>■ Market linkages</li> <li>■ Trade fairs and product exhibitions</li> <li>■ Development of samples for buyers</li> <li>■ Market information</li> <li>■ Subcontracting and outsourcing</li> </ul>	<ul style="list-style-type: none"> <li>■ Marketing trips and meetings</li> <li>■ Market research</li> <li>■ Market space development</li> <li>■ Showrooms</li> <li>■ Packaging</li> <li>■ Advertising</li> </ul>
<b>Infrastructure:</b>	<ul style="list-style-type: none"> <li>■ Storage and warehousing</li> <li>■ Transport and delivery</li> <li>■ Business incubators</li> <li>■ Telecommunications</li> <li>■ Courier</li> </ul>	<ul style="list-style-type: none"> <li>■ Money transfer</li> <li>■ Information through print, radio, TV</li> <li>■ Internet access</li> <li>■ Computer services</li> <li>■ Secretarial services</li> </ul>
<b>Policy/ Advocacy:</b>	<ul style="list-style-type: none"> <li>■ Training in policy advocacy</li> <li>■ Analysis and communication of policy constraints and opportunities</li> </ul>	<ul style="list-style-type: none"> <li>■ Direct advocacy on behalf of SEs</li> <li>■ Sponsorship of conferences</li> <li>■ Policy studies</li> </ul>
<b>Input Supply:</b>	<ul style="list-style-type: none"> <li>■ Linking SEs to input suppliers</li> <li>■ Improving suppliers' capacity to provide regular supply of quality inputs</li> </ul>	<ul style="list-style-type: none"> <li>■ Facilitating the establishment of bulk buying groups</li> <li>■ Information on input supply sources</li> </ul>
<b>Training and Technical Assistance:</b>	<ul style="list-style-type: none"> <li>■ Mentoring</li> <li>■ Feasibility studies and business plans</li> <li>■ Exchange visits and business tours</li> <li>■ Franchising</li> <li>■ Management training</li> </ul>	<ul style="list-style-type: none"> <li>■ Technical training</li> <li>■ Counseling/advisory services</li> <li>■ Legal services</li> <li>■ Financial and taxation advice</li> <li>■ Accountancy and bookkeeping</li> </ul>
<b>Technology and Product Development:</b>	<ul style="list-style-type: none"> <li>■ Technology transfer/ commercialization</li> <li>■ Linking SEs and technology suppliers</li> <li>■ Facilitating technology procurement</li> </ul>	<ul style="list-style-type: none"> <li>■ Quality assurance programs</li> <li>■ Equipment leasing and rental</li> <li>■ Design services</li> </ul>
<b>Alternative Financing Mechanisms:</b>	<ul style="list-style-type: none"> <li>■ Factoring companies that provide working capital for confirmed orders</li> <li>■ Equity financing</li> <li>■ Facilitating supplier credit</li> </ul>	

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

Mielhbradt, Alexandra, "Guide to BDS Market Assessment for Program Design." A FIT Manual, International Labour Organization, Geneva, 2001. Website: [www.ilo.org/seed](http://www.ilo.org/seed)

**Business Development Services  
for Small Enterprises:  
Guiding Principles for Donor Intervention  
2001 Edition**

Prepared by the

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

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Donor agencies have long recognized the important contribution that small enterprises (SEs) can make to poverty reduction, employment and private sector development. SEs, especially microenterprises, offer both a safety valve for the survival of surplus workers unable to find steady wage employment and an opportunity for the entrepreneurial poor to raise their incomes. SEs, especially SMEs, also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage-earning opportunities for the poor while raising national income. For these reasons, donors as well as national governments have attempted to promote the SE sector through support for financial and non-financial services appropriate for SEs.

After several years of efforts to build a consensus on principles for selecting and supporting intermediaries in micro and small enterprise finance, the Committee of Donor Agencies for Small Enterprise Development (see Annex III for membership) turned its attention to Business Development Services (BDS)—the wide array of non-financial services critical to the entry, survival, productivity, competitiveness, and growth of SEs. The Guiding Principles presented here grew out of efforts of the donor community to assess the generally unsatisfactory performance of past interventions in BDS, review current innovations and good practices, and develop a more effective strategy for BDS as one instrument of private sector development.

While now enjoying widespread support among many of those representing member agencies of the Committee, these Guiding Principles (as with other Committee publications) have not been officially endorsed by each member agency. Rather, the Committee is issuing this document in hopes of further stimulating dialogue among donors, practitioners and governments on the objectives and effective methodologies for supporting services aimed at developing small enterprises. This dialogue is expected to lead toward more effective interventions to support a dynamic, indigenous private sector in developing countries.

William F. Steel and Leila M. Webster (World Bank Group), Co-Chairs

Committee of Donor Agencies for Small Enterprise Development

## **Preface**

At its 1995 Annual Meeting in Budapest, the Committee of Donor Agencies for Small Enterprise Development decided to focus on BDS for small enterprises, with the objective of identifying and documenting best practices in this area. A BDS Working Group was formed, and Preliminary Guidelines were drafted and published in January 1998. Many agencies played an active part in this process, including GTZ, ILO, SDC, and DFID.

Building on this work, a series of international and regional conferences were organised under the auspices of the Donor Committee. Again, many member agencies played leading roles in some or all of these conferences, including the DFID, Ford Foundation, GTZ, IADB, IFC/Mekong Project Development Facility, ILO, USAID and the World Bank, while others contributed financially or supported papers and participants. The regional conferences focused on Africa (Harare, Zimbabwe, September 1998), Latin America and the Caribbean (Rio de Janeiro, Brazil, March 1999), and Asia (Hanoi, Vietnam, April 2000); the international conference accompanied the Rio conference in March 1999. In addition, a Virtual Conference on the Performance Measurement Framework for BDS was held in May-June 1999.

The BDS Working Group prepared a draft document giving guiding principles (entitled Guidelines at that time) using the papers and discussion from these conferences. The draft served as a basis for discussion and a focal point for the emerging consensus on principles for donor intervention in BDS. The draft document was discussed and revised during consultations at the September 1999 meeting of the Donor Committee in Rome; the March 2000 conference in Hanoi; the July-August 2000 BDS Training Programme in Glasgow (led by the Springfield Centre); the September 2000 ILO seminar in Turin, Italy (Emerging Good Practices in Business Development Services: First Annual Seminar); and the October 2000 Donor Committee Annual Meeting in Vienna. The Small Enterprise Education and Promotion (SEEP) Network of North America also provided a substantive input through its BDS Working Group. Indeed, the collaborative process by which this document was prepared was an exciting experience in which much was learned and shared.

Motivating the search for a "new paradigm" for BDS was the shared recognition that traditional interventions have failed to provide quality, affordable BDS to a large proportion of the target population of small enterprises. There was a general feeling that publicly-provided and publicly-funded services have not achieved their objectives: enterprise productivity and competitiveness, job creation, poverty alleviation, and social mobility. Moreover, good performance measurement was lacking to be able to evaluate and compare programs.

The "BDS market development framework" grew out of the conviction, shared within the donor community, that achieving economic and social goals was possible only by relying on private-sector actors to provide a diverse array of services. Relying on the private sector to achieve greater outreach demanded better understanding of how BDS providers could be financially self-sustainable, or even profitable. With agreement on the basic

goals of BDS interventions—impact, outreach, sustainability, and cost effectiveness—the process described above was launched.

Different agencies and BDS programs collect different data for evaluation purposes, effectively preventing them from making meaningful comparisons of project performance. The Performance Measurement Framework (PMF) and other initiatives represent major ongoing work by Donor Committee members to agree on some common performance framework and measurement methodologies. Yet there remain unanswered questions regarding the degree to which standardized performance indicators can be applied across BDS programs with different objectives and instruments. As with BDS intervention instruments, current practice in performance measurement is not yet well adapted to the BDS market development paradigm.

Despite substantial work to date, the field covers a wide range of possible interventions, and definitive "best practice" has yet to be formulated and agreed. Current practice in many cases is still far away from the principles set forth in this document, and agencies will need to think about how to transition from current practice to best practice. These Guiding Principles are not intended to give final answers, but rather to serve as a starting point for improved practices and discussion on unresolved issues.

Jim Tanburn (ILO), Gabriele Trah (GTZ), and Kris Hallberg (World Bank)

Principal authors, on behalf of the BDS Working Group

## **Business Development Services for Small Enterprises:**

### **Guiding principles For Donor Intervention**

#### **1. UNDERLYING ASSUMPTIONS AND PRINCIPLES**

##### **1.1 Vision**

The ultimate objective of donor intervention in Business Development Services (BDS) is to improve small enterprise (SE) performance in developing countries, as a means to achieve higher economic growth and employment, reduce poverty, and meet social objectives. Better BDS is only one means to these ends. Improving SE performance requires many ingredients, such as a policy environment conducive to enterprise competitiveness, access to financial and non-financial services, and expanding markets for

SE products and services. These Guiding Principles are not intended to cover all of these elements, but rather the specific contributions which BDS can make to small enterprise development.

The ultimate vision for BDS, on which these Guiding Principles are based, is of a well-functioning market with a diverse array of high-quality services that meet the needs of a large proportion of SEs affordably. Thus, these Guiding Principles are based on a private sector-led, market economy framework which reflects:

- a fundamental belief in the principles of a market economy, where the State has a role in providing an enabling environment, in correcting or compensating for market failures, and in the provision of public goods, but not in the direct provision of private goods that can be more efficiently provided by the market;
- the assumption that the majority of BDS are private goods and are thus similar in nature to any other service, so market rules apply; and
- the expectation that with appropriate product design, delivery and payment mechanisms, BDS can be provided on a commercial basis even for the lowest-income segment of the entrepreneurial SE sector.

## **1.2 Scope of BDS**

Business Development Services include training, consultancy and advisory services, marketing assistance, information, technology development and transfer, and business linkage promotion. A distinction is sometimes made between "operational" and "strategic" business services. Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labor laws and other regulations. Strategic services, on the other hand, are used by the enterprise to address medium- and long-term issues in order to improve the performance of the enterprise, its access to markets, and its ability to compete. For example, strategic services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing. The market for operational services may already exist, since there is often articulated demand and willingness to pay for these services. In contrast, markets for strategic services for SEs have largely failed to develop, and they are the focus of most donor interventions in BDS.

However, what constitutes a "strategic" service may vary according to time and circumstances. For example, communication services may simply facilitate normal business operations for larger enterprises, but for micro enterprises they may be a crucial vehicle for strategic reorientation. Responding to the immediate SE demand for lower-end services may also lead to greater demand for higher-end services, so they are a legitimate focus of donor interventions to build SE competitiveness. For this reason "business development services" are defined broadly here to include a wide array of business services, both strategic and operational. This implies a variety of markets through which such services may be provided, with different structures (competitive or concentrated), patterns of evolution, and implications for how to intervene.

Some types of BDS are supplied on a "stand-alone" basis by specialized service providers. Sometimes, providers bundle BDS together with other services or products—for example, when assistance in adopting new technologies is combined with design and training services. The delivery of BDS as part of business-to-business relationships—including supplier/buyer, subcontracting, franchise and licensing relationships—is particularly common for smaller firms. In these cases, BDS are delivered as part of another transaction—for example, design assistance received by SEs who sell their products to larger firms, or training received as part of the purchase of equipment. Business associations and informal business networks are another vehicle for delivering services to SEs. Designing interventions to promote BDS market development within these "business systems" is a challenge for donors.

In addition to different types of services and types of delivery mechanisms, there are different types of payment mechanisms for BDS. The price of the service may be charged as a direct fee, as a component of the price of a bundled service (e.g., when SEs accept a lower price for their products in exchange for technology assistance from buyers), or on a commission basis (e.g., when marketing service providers are paid upon successful sale of SE products). There is some evidence that SEs are more willing to use services offered on a commission basis than on a fee basis, since this type of payment mechanism reduces risks and cash-flow requirements.

Finally, many kinds of BDS in developing countries may not be easily visible, particularly to donors and other outsiders. Recent research indicates that BDS are already being provided sustainably to very small enterprises on a for-profit basis. This local, grassroots BDS provision is often ignored by the development community due to the significant cultural and financial divide between for-profit providers and donors. Thus, statements which have often been made in the past, indicating that the provision of BDS by the private sector is negligible, should be revisited, and treated with some caution.

### 1.3 Actors and their roles

The actors involved in BDS markets include:

- **Small enterprises (SEs)**, the demand side of the market, are microenterprises and SMEs that are mostly profit-oriented and are the actual or potential clients of BDS providers.
- **BDS providers** provide services directly to SEs. They may be individuals, private for-profit firms, NGOs, parastatals, national or sub-national government agencies, industry associations, etc. They may be small enterprises themselves. They may also be firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship.
- **BDS facilitators** support BDS providers, for example by developing new service products, promoting good practice, and building provider capacity. BDS facilitators can also work on the demand side, for example by educating SEs about the potential benefits of services or providing incentives to try them. Other

BDS market facilitation functions include the external evaluation of the impact of BDS providers, quality assurance, and advocacy for a better policy environment for the local BDS market. BDS facilitation is a function normally carried out by development-oriented institutions having the objective of BDS market development, which may include NGOs, industry and employers' associations, government agencies and others.

- **Donors** who provide funding for BDS projects and programs. In some cases, the facilitator is the project office of a donor.
- **Governments** who, like donors, may provide funding for BDS projects and programs. Beyond BDS interventions, the principal role of governments is to provide an enabling policy, legal and regulatory environment for SEs and BDS providers, as well as public goods such as basic infrastructure, education and information services. There are also many facilitating functions which governments can play in the future, to promote more vibrant service markets.

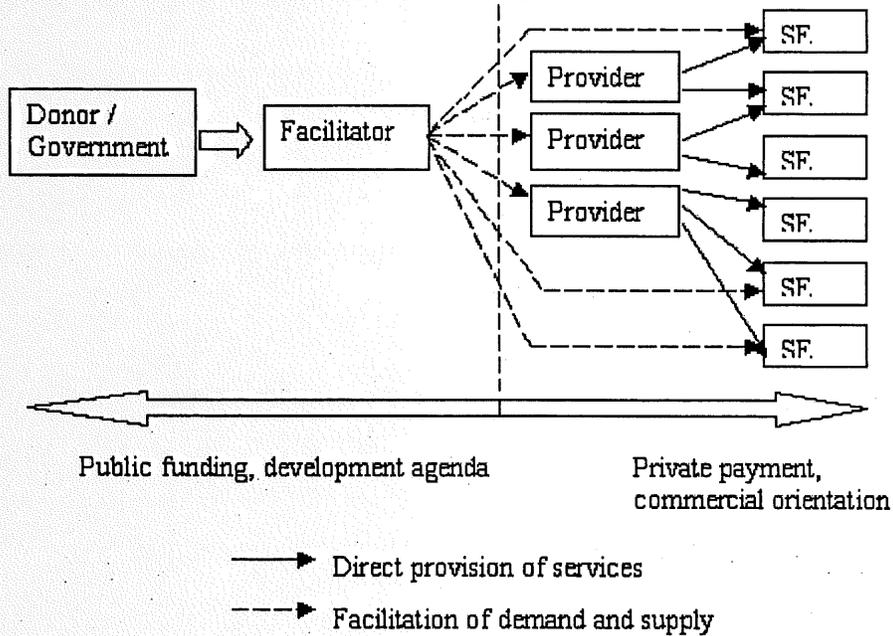
Figure 1A illustrates the functions of the various market actors, which have different interests depending upon their commercial versus development orientation. A BDS facilitator is likely to be interested in BDS market development as part of a broader economic and social agenda. For a commercially-oriented BDS provider, the BDS market development objective may be irrelevant or even in conflict with its commercial interests—for example, if market development implies a greater number of competing BDS providers. In the BDS market development paradigm, the main function of donors and governments is facilitation of the demand and supply sides of the BDS market, represented by the dashed lines in Figure 1A.

#### **1.4 Achieving outreach and sustainability**

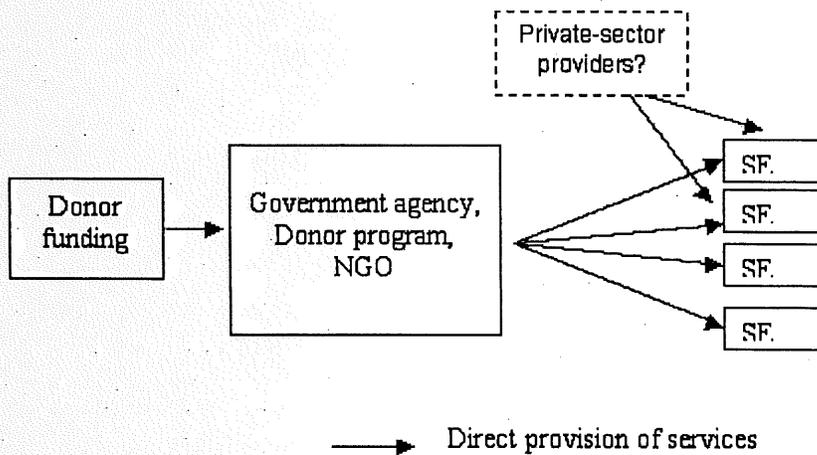
Traditionally, donors and governments have intervened in BDS markets at the level of the BDS transaction: directly providing services to SEs via public BDS providers (Figure 1B), or permanently subsidizing services delivered by other BDS providers. In the old approach, donors and governments have tended to substitute for underdeveloped BDS markets, possibly crowding out existing or potential commercial providers of services. Traditional approaches have failed to achieve high outreach (access to services by a large proportion of the target population of SEs), since the numbers of SEs served is limited by the amount of subsidies available. In addition, institutional sustainability has been low, since programs often cease when public funds are exhausted; this effect has often been masked in industrialized countries by the much greater level of funding available.

**Figure 1: Actors and Their Roles**

**A. New Approach: Facilitate Market Development**



**B. Old Approach: Substitute for the Market**



The BDS market development paradigm is driven by the belief that the objectives of outreach and sustainability can only be achieved in well-developed markets for BDS, and not by direct provision by donors and governments. This shifts the focus of public and donor intervention away from direct provision and subsidies at the level of the BDS transaction, toward the facilitation of a sustained increase in the demand and supply of services. In the market development paradigm, subsidization of transactions (Figure 1B)

should be replaced by private payment for services, as in Figure 1A. Similarly, donor and government support should be shifted away from direct support to particular BDS providers toward facilitation functions that develop the market in a sustainable way. The objective of BDS market development challenges donors to push the commercial orientation of the BDS market as far as possible through strategic investment with a development orientation.

## **2. PROGRAM PLANNING, DESIGN, AND EVALUATION**

### **2.1 BDS market assessment**

Before designing interventions to develop BDS markets, it is critical to understand existing markets—in order to identify weaknesses and opportunities, the reasons behind the lack of demand for or supply of services, and the extent of market distortions. This understanding can help to identify local mechanisms of service delivery and payment, choose the intervention strategy and instrument, identify local institutions and networks to build upon, and provide a baseline for measuring progress in market development.

BDS market assessments need not be large studies: the scope should fit the objectives of the institution doing it, and in many cases a rapid assessment may suffice. Donors and BDS facilitators doing initial market assessments may choose a broad scope that will allow them to benchmark the stage of development of BDS markets, identify existing or potential BDS providers to work with, and measure progress in expanding the demand and supply of services and the range of products available. For individual BDS providers, the market analysis is likely to be very narrow in scope, focusing on the specific service to be supplied, the characteristics of the target market, and existing or potential competitors. For both BDS facilitators and BDS providers, the relevant "BDS market" will need to be defined according to the specific type of service, target clientele, and geographical coverage.

When doing a BDS market assessment, it is important to consider:

- what those in small enterprises are aware of, currently want and are willing to pay for, and what might be successfully marketed to them in the future. While recognising the difference between "perceived needs" and "real needs", appropriate weight should be given to perceived needs, relative to the more traditional expert assessment of real needs. Note also that it is difficult to determine willingness-to-pay in underdeveloped and/or distorted markets, and for services which are totally unknown locally, and that test-marketing may be more reliable than a survey;
- differences in consumer segments, for example: which types of SEs are acquiring services, and which aren't; gender differences; differences in desired features of the services;
- informal and indigenous sources of supply;
- services bundled with other goods and services or delivered as part of business-to-business relationships;

- the potential crowding out (displacement) effect of direct or subsidized provision of services by donors and governments; and
- the evolution of BDS markets over time.

## 2.2 Demand-side versus supply-side interventions

The choice of demand-side and supply-side interventions to develop BDS markets should correspond to the market development constraints and opportunities identified in the market assessment. Examples of demand-side interventions are information to raise SE awareness of the potential benefits of BDS and incentives to try them such as vouchers and matching grants. Supply-side intervention options include introducing new models of doing business and developing new products and services, as well as technical assistance, training and other capacity-building for BDS providers. Some interventions can work on both sides—for example, strengthening business-to-business linkages and quality assurance that builds client confidence in services being offered.

## 2.3 Delivery and payment mechanisms

Reducing the risks and costs of BDS requires attention to delivery and payment mechanisms as part of the design of BDS products. Particularly for the smallest microenterprises, flexible and innovative approaches to delivery and payment mechanisms are needed to boost demand for services. The use of indirect payment mechanisms for BDS—commissions and mark-ups rather than direct fees—can reduce the cash flow burden on SEs, allow them to share the risk that benefits from BDS will not occur, and reduce administrative costs for BDS providers. Donors should encourage BDS providers to design payment mechanisms that are appropriate to the local situation and the characteristics of their clients.

## 2.4 Subsidies

Long-term donor subsidies to the demand or supply of BDS are likely to distort BDS markets and crowd out the commercial provision of services, thus undermining the objectives of impact, outreach, cost effectiveness, and sustainability that are the pillars of the BDS market development paradigm. Subsidies may be justified in the short term as an investment in the development of BDS markets (e.g., through development of new products and models). However, even temporary subsidies can create distortions, and are justified only if their market development impacts outweigh their distortionary effects. Therefore, donors must exercise care in the application and duration of subsidies:

- **Specificity:** Subsidies in BDS markets should be designed to achieve specific market development objectives. The starting point is the BDS market assessment (Section 2.1 above), which can identify points of intervention to address specific market development constraints.
- **Duration:** It is not possible to state a specific duration for temporary subsidies for BDS market development, given the wide range of types of services and stages of

market development in different countries. What is important is that subsidies in BDS markets should be time-bound with specific criteria for their reduction and elimination as market development objectives are achieved—in other words, donors and facilitators must have a clear exit strategy for subsidized interventions.

- ***Point of application:*** Subsidies applied at the level of the BDS transaction (i.e., direct subsidies to reduce the cost or price of services) are likely to be more distortionary than developmental. As a general rule, transactional subsidies are more distortionary than pre- and post-transactional subsidies. Pre-transactional subsidies include, for example, those used for R&D and the development of service products, test marketing and product adaptation, capacity building, and raising awareness. Post-transactional subsidies could be used for monitoring and evaluation of the impact of interventions on BDS market development or social/economic development, which may be outside the scope of evaluations conducted by BDS providers as part of good management practice.

A particularly difficult issue is defining the extent to which BDS services have characteristics of public goods that might justify longer-term subsidies. Although most BDS are considered to be private goods, there may be times and situations when they have a strong public goods nature, in that benefits are broadly available without being fully appropriable by an individual supplier. Accelerating structural change in nascent markets may require support for services in areas such as information, dissemination of best practices and technologies, and human resource development. Research and development and quality assurance (e.g., through certification of trainers) are market-enhancing activities whose costs may be difficult to fully recover. Besides such cases of public goods, BDS providers may choose to cross-subsidize between clients with greater and lower ability to pay as a business strategy or in pursuit of social objectives to increase outreach to target groups. While such objectives should be distinguished from the SE and BDS market development objectives that underlie these Guiding Principles, the principles of subsidizing in the least distortionary and most cost-effective way and developing appropriate products and delivery mechanism still apply.

## **2.5 Exit strategy**

Consistent with the temporary nature of subsidies, BDS interventions should have a clear exit strategy defined from the beginning. The exit strategy should be linked to the achievement of the intervention's market development objectives—for example, the creation of sustainable BDS providers or the development of viable products tailored to the lower end of the market.

## **2.6 Focus on technical assistance and incentives**

Donor interventions should concentrate on support for facilitation, technical assistance and incentives to encourage competitive performance of new and existing BDS providers, innovations, and the development of appropriate service products. These types of interventions often require relatively less financial assistance, but a higher level of skill and market knowledge on the part of donors. The proportion of total project funds

allocated to technical assistance is likely to be higher compared to that in traditional interventions that subsidize service delivery.

## **2.7 Selecting partner institutions**

Successful BDS providers deliver services in a business-like manner. They are demand-led, entrepreneurial, and act as commercial market players. Often, successful BDS providers focus on a limited range of core businesses and do them well, rather than diversifying too broadly. BDS providers should develop transactional relationships with SE clients based on exchange rather than charity, and develop a sound understanding of the needs of their clients as part of their business strategy.

Private, for-profit providers or business partners providing the services as part of a business relationship tend to demonstrate these characteristics best. BDS providers should not have a charity orientation, but may have a social orientation combined with rigorous institutional performance targets. In reality, there are often many not-for-profit BDS providers already in the marketplace, and during the transition to a commercially-oriented model there is much work to be done to assist NGOs and other not-for-profit providers to become more sustainable and businesslike.

For BDS interventions to be both sustainable and locally owned, they must build on what is already there rather than supplanting it with imported visions or models. The choice of partner institutions should also be guided by the principle of subsidiarity: delegating responsibility to the lowest possible level and to those who are closest to SEs, both geographically and socially.

Finally, access to technical assistance and incentives through BDS facilitation programs should be open to all market players in a certain service market that fulfill established criteria. Selecting only one or a few of the market players present for exclusive assistance could lead to further market distortions.

## **2.8 Role of BDS facilitation**

BDS facilitators usually implement publicly subsidised short-term programs that should exit once the market for a certain business development service or services has developed or move on to new market development issues. Some facilitation services (e.g., franchising, training-of-trainers) may eventually be viable on a commercial basis, and there may be scope to spin these off or stimulate local providers of these services.

Because of their different objectives and interests, mixing the roles of facilitation and provision may lead to market distortions and inefficient use of resources. However, particularly in very underdeveloped markets, donors and facilitators may need to start by supporting a particular BDS provider or directly launching a new service or model, in order to demonstrate its potential. As the service becomes established, the donor can then withdraw from a market leader to a facilitating mode, using experience gained in the initial provision to support a range of providers for the new service. If a BDS provider

also performs facilitation functions, it should separate these activities insofar as possible for clarity of objectives and evaluation along commercial and development lines, as appropriate. Donor support for business associations in the roles of facilitating or providing BDS (as distinct from general support to such associations as market support institutions) should follow these principles.

## **2.9 Performance measurement and assessment**

Systematic performance measurement provides a good basis for institutions to improve the design of instruments in response to client demand, as well as facilitating decisions by donors on types of interventions to improve the extent and quality of the market. Three categories of performance measurement are relevant in BDS (see Annex II for a suggested set of indicators):

- **Client impact**, in terms of changes in SE performance (e.g., sales, value added, profitability), or broader social and economic impact (employment, poverty alleviation, etc.).
- **Institutional performance**, according to indicators of outreach, cost effectiveness, and sustainability.
- **Market development**, measured for example by the price and quality of services available, SE awareness, trial and repeat usage, the level of satisfaction of SEs, and the extent to which BDS providers are reaching previously underserved populations.

Different actors in BDS markets have different interests, which in turn determine the type and scope of performance measurement that are relevant to them. For BDS providers, performance measurement is a management tool that helps them design marketing strategies, monitor customer satisfaction, respond to changes in demand, develop new and better products, manage costs, and establish staff incentives. BDS facilitators may be interested in monitoring the institutional performance of the providers they work with as well as progress in the development of BDS markets. Donors need to ensure accountability in the use of their funds and are often focused on the broader social and economic objectives of employment, enterprise competitiveness, and poverty alleviation. It is unrealistic for donors to expect that BDS providers and facilitators will undertake evaluations that are not relevant to their operations. This often means that the cost of measuring the impact of BDS programs on market development or social/economic impact must be borne by donors.

It would be useful for donors to use performance measurement to draw comparisons across programs, in order to choose intervention strategies and establish best practice. Comprehensive comparison is difficult because what is measured depends upon the objectives of the institution or program. It is even more difficult to establish standards or benchmarks for individual indicators, since there are often trade-offs between indicators depending upon the program's objectives and target population (for example, between

minimizing the cost of providing services, and serving high-cost groups such as rural entrepreneurs).

There are also many practical problems in BDS performance measurement. For example, the problem of attribution: were changes in performance caused by the intervention or by other factors? Dealing with such measurement problems can be difficult and costly. One approach, consistent with current practice in micro-finance, is to use willingness to pay, or provider sustainability, as rough proxies for impact. In addition, it is probably necessary to field larger, donor-funded impact evaluations for certain types of interventions on a less frequent basis, to test the validity of proxy indicators.

Measurement problems also arise in the categories of market development and institutional performance. The current limited state of knowledge of the dynamics of BDS market development, particularly in underdeveloped and distorted markets (such as in transition countries), makes it difficult to map progress. At the institutional level, indicators of prices and cost recovery are complex when services are bundled or paid indirectly, and measuring sustainability is complicated by the legacy of substantial subsidies received in the past. The staff of BDS institutions often do not have the expertise required to collect high-quality data, nor is it necessarily desirable to impose the costs of extensive new data collection on commercially-oriented providers.

Convinced of the importance of improving performance measurement in BDS, various donors are supporting research and field-testing new approaches. The Donor Committee has supported work to develop a Performance Measurement Framework for BDS and test whether it is feasible and useful to measure a small number of core indicators across various types of BDS programs and institutions (see Annex for a current summary of this work). These efforts are intended to help develop best practice, not only in performance measurement but also in approaches to market development and the design of donor interventions in BDS.

### **3. OTHER IMPLICATIONS FOR DONORS**

#### **3.1 Donor control**

The development of BDS markets to provide greater outreach and sustainability shifts donor focus to the approach and impact, and may involve less control and predictability for the donor than an institutional development approach. There are fewer guarantees that the desired outcome will be achieved in the form originally anticipated. The funding agency must be willing to accommodate this, allowing the market to decide the balance between quality and price in BDS delivery.

#### **3.2 Donor visibility**

When players in BDS markets become aware of donor involvement, they may become oriented more towards the donor than to their own clients. While any intervention distorts

the market, some of the more adverse effects can be avoided if donors are willing to adopt a low profile when intervening in BDS markets.

### **3.3 Donor coordination**

BDS market development interventions will not work if there is a lack of donor consensus in the field. One donor agency or government working against these principles can quickly and substantially reduce the impact of others. These Guiding Principles are being published, therefore, as a basis for discussion, and to build consensus around the key elements of market assessment, program design and evaluation. It is vital that this consensus translates into close and effective coordination at the field level, if indeed a high proportion of low-income clients are to have access to quality BDS.

## **Annex I: Definitions**

*Business Development Services (BDS)* are services that improve the performance of the enterprise, its access to markets, and its ability to compete. The definition of "business development services" in these Guiding Principles includes a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community.

*BDS Facilitator:* an international or local institution which has as its primary aim to promote the development of local BDS markets. This may include a range of services to BDS providers (e.g. development of new service products, promoting good practice and building provider capacity) and to BDS consumers (e.g. information, education about the potential for BDS purchase). A BDS facilitator may also perform other important functions, including the external evaluation of the impact of BDS providers, and advocacy for a better policy environment for the local BDS market. Currently, most BDS facilitators are public institutions, NGOs or project offices of donors, and are usually funded by governments or donors.

*BDS Provider:* a firm, institution or individual that provides BDS directly to SEs. They may be private for-profit firms, private not-for-profit firms, NGOs, parastatals, national or sub-national government agencies, industry associations, etc. They may also be firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship.

*Cost effectiveness:* a service (of a given type and quality) is cost effective if it is provided at the lowest possible cost.

*Cost recovery* refers to the extent to which the costs of providing a good or service are covered by revenues from the consumers. The cost recovery of delivery may be separated from the up-front costs of initial development.

*Impact* (sometimes called "effectiveness"): the effect of the service on the performance of SE client (i.e., that which can be attributed to the service itself, not to outside factors), or the broader economic and/or social effect of the intervention.

*Outreach* (sometimes called "coverage" or "scale"): the proportion of the target population that uses the service. This definition is focused on enterprise clients, and is more restrictive than the broader sense of "coverage of underprivileged groups" such as the poor or women, as used by some authors. Where the target population is limited, and therefore smaller than the total population of SEs locally, then outreach should also be expressed in terms of actual numbers of SEs reached.

*Private good*: a good (or service) is said to be private if the benefits of consuming it are fully appropriable. For example, if the benefits of a business service accrue solely to the SE purchasing that service, that business service is a private good.

*Public good*: a good (or service) is said to be public if the amount consumed by one individual or firm does not reduce the amount available for consumption by others. In other words, it is impossible to exclude others from consuming the good (or service); the benefits are not fully appropriable. The benefits that accrue to others are an "externality".

*Small Enterprises (SEs)* include micro-enterprises as well as small- and medium-scale enterprises. These size categories are usually defined by the number of employees or by assets, but these definitions vary by country, institution and objective; no precise definition is adopted here. SEs operate in the manufacturing, agro-industrial, service and trade sectors (excluding farming, forestry, and mining).

*Sustainability (financial sustainability)*: a BDS is sustainable if commercially-motivated revenues are at least as great as the full costs of service provision (direct and indirect costs, fixed and variable costs). Revenues received from the public sector (donors or governments) are not included. Similarly, revenues received as a result of philanthropic or political motivations are not included. Generally, costs should include all those associated with the commercial operation of the provider; in addition to the running costs, these should ultimately include market research, product development, customer feedback etc. In the short term, however, funders may choose to help with some of these costs, for example where risks are particularly high, to demonstrate the merits of product innovation, or to strengthen a group of service providers. The only costs always excluded would be those associated with the additional requirements of funding agencies, such as the development costs for products shared with other providers and detailed impact evaluations. In this definition, financial sustainability differs from organizational viability in the sense of the ability of the BDS institution or service to continue in existence by drawing on grants and other non-commercial revenues.

**ANNEX II: BDS PERFORMANCE MEASUREMENT FRAMEWORK**

<b>GOAL 1: INCREASE OUTREACH</b>					
<b>ASSESSING BDS MARKETS</b>					
<b>Objective</b>	<b>Indicators</b>	<b>Market</b>		<b>Program</b>	
		<b>1</b>	<b>X</b>	<b>1</b>	<b>X</b>
	<b>YEAR:</b>	<b>1</b>	<b>X</b>	<b>1</b>	<b>X</b>
Expanding the Market for BDS	Market Size: Number of SEs acquiring the service through any transaction type.				
	Market Size: Number of SEs purchasing the service				
	Market Size, supply: Amount of annual sales				
	Market Penetration: % of potential SE market acquiring the service				
	Awareness: % of SEs aware of the service				
	Reach: % of those aware who have purchased services at least once				
Developing a high quality, diverse, competitive market	Number of BDS suppliers	n/a	n/a		
	Number of service products	n/a	n/a		
	Number and proportion of multiple-purchasers out of all purchasers (retention)				
	Satisfaction with last service purchase				
Deepening the market: reaching underserved groups	Number and % of SE customers purchasing BDS who represent targeted populations				
	% of potential SE target market acquiring the service				
<b>GOAL 2: SUSTAINABILITY AND COST-EFFECTIVENESS</b>					
<b>ASSESSING BDS SUPPLIERS AND FACILITATORS</b>					
<b>Objective</b>	<b>Indicators</b>	<b>Yr1</b>	<b>YrX</b>		
Achieve supplier sustainability	BDS supplier profitability. (Ratios to be determined.)				
	Profitability of particular BDS Service. (Ratios to be determined.)				

Improve program cost-effectiveness	Simplified cost-benefit assessment comparing total, cumulative program costs to aggregate program benefits (sum of impacts as defined below) for entrepreneurs.		
	Total program cost per customer served.		
	Total program cost per supplier assisted.		
<b>GOAL 3: IMPACT</b>			
<b>ASSESSING BDS CUSTOMERS, SMES</b>			
Objective	Indicators	Yr1	YrX
Increase customer acquisition of BDS (increase sales)	Percent of customers reporting high satisfaction with a business development service.		
	Repeat customers: % of all customers who purchase at least twice.		
Increase customer use of business development services	Percentage of customers who applied the business service to their business, as defined by the program. (E.g.: percent who accessed new markets, developed new products, improved management practices, started keeping formal accounts, reduced costs, etc.)		
Increase customer benefits from BDS	Change in estimated gross profit, from before and after receiving the service. (If gross profits prove too difficult to collect, the PMF Field research team is also considering using sales data alone.)		
Attribution of the change to the BDS	Of the businesses that improved their estimated gross profits, what percent attribute the change to the BDS?		

This table represents the current state of efforts to develop a set of common indicators that are valid, practical and useful for assessing performance of BDS programs according to key criteria. For further information on ongoing work to apply and develop these BDS indicators, go to the website: [www.mip.org/pubs/MBP/BDSFramework.htm](http://www.mip.org/pubs/MBP/BDSFramework.htm).

### **Annex III: Members of the Committee of Donor Agencies for Small Enterprise Development**

#### **BILATERAL AGENCIES**

**Austria:** Ministry of Foreign Affairs

**Australia:** Australian Agency for International Development

**Belgium:** Belgian Administration for Development Cooperation

**Canada:** Canadian International Development Agency (CIDA)

**Denmark:** Ministry of Foreign Affairs

**Finland:** Ministry for Foreign Affairs (FINNIDA)

**France:** Ministère des Affaires Étrangères

**Germany:**

- Federal Ministry for Economic Cooperation and Development (BMZ)
- German Agency for Technical Cooperation (GTZ)
- Kreditsanstalt für Wiederaufbau (KfW)

**Italy:** Ministry of Foreign Affairs

**Japan:**

- Export-Import Bank of Japan
- Japan Bank for International Cooperation (JBIC)
- Japan International Cooperation Agency (JICA)

**The Netherlands:** Ministry of Foreign Affairs

**Norway:** Norwegian Agency for Development Cooperation (NORAD)

**Sweden:** Swedish International Development Agency (SIDA)

**Switzerland:** Swiss Agency for Development Cooperation (SDC)

**United Kingdom:** Department for International Development (DfID)

**United States:** United States Agency for International Development (USAID)

## **MULTILATERAL AND OTHER DEVELOPMENT AGENCIES**

- African Development Bank
- Asian Development Bank
- European Bank for Reconstruction and Development (EBRD)
- The European Commission
- Food and Agriculture Organization (FAO)

- The Ford Foundation
- Inter-American Development Bank (IADB)
- International Development Research Centre (Canada)
- International Fund for Agricultural Development (IFAD)
- International Labour Office (ILO)
- International Trade Centre (ITC)
- Organisation for Economic Co-operation and Development (OECD)
- Organization of American States
- Soros Foundation
- United Nations Conference on Trade and Development (UNCTAD)
- United Nations Development Fund for Women (UNIFEM)
- United Nations Development Programme (UNDP)
- United Nations Industrial Development Organisation (UNIDO)
- United Nations Secretariat
- The World Bank Group

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## List of Acronyms

AFE	Action For Enterprise
BDS	Business Development Services
CED	Community Economic Development
CIDA	Canadian International Development Agency
ECDI	Entrepreneurship and Career Development Institute
FGD	Focus Group Discussion
GNP	Gross National Product
IGP	Implementation Grant Program
ILO	International Labour Organization
IOPs	International Operations
IT	Information Technology
MA	Market Assessment
MD	Market Development
MEDA	Mennonite Economic Development Associates
MF	Microfinance
NABWT	National Association of Business Women of Tajikistan
NGO	Non-Governmental Organization
PML	Production Marketing Linkages
PLP	Participatory Learning Program
SE	Micro Small Medium Enterprise
SEEP	Small Enterprise Education and Promotion (Network)
TA	Technical Assistance
UAI	Usage Attitude Image
USAID	United States Agency for International Development