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**SUBSECTOR / BUSINESS SERVICE  
APPROACH TO PROGRAM DESIGN**

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**Abbreviations**

AFE	Action for Enterprise
SE	Small enterprises (including micro, small, and medium-scale enterprises)
SBS	Subsector / Business Service
UAI	Usage, Attitude, Image

## Executive Summary

Thinking to date on the "market development" of business services has tended to focus on the business service markets themselves, with limited analysis of the product markets from which small enterprises (SEs)<sup>1</sup> earn income. Yet, there is increasing recognition that the demand for business services, and the potential for SEs to benefit from those services, is linked to the income earning potential of the product market or subsector in which firms operate. Identifying and developing business services that have a direct effect on strengthening the market for final SE-produced products is therefore critical (for example, if a business service results in increased sales of wood furniture for SEs in that subsector, those SEs will be willing consumers of the service).

The subsector/business service (SBS) approach presented in this paper is an attempt to combine the strengths of subsector<sup>2</sup> analysis and business service market development. While subsector analysis can identify constraints, which limit SE growth and income potential, a business service orientation can promote commercial opportunities to address those constraints. In this way sustainable solutions are developed to address key constraints holding back SE growth and development.

Targeted at donors and practitioners involved in SE development, the SBS approach consists of eight steps. Although elements of the SBS approach have been used by practitioners in the past, systematic application of all of these steps in a comprehensive manner is relatively new.

**Step 1: Subsector Selection** – choose a subsector with the greatest potential for growth in SE income and employment.

**Step 2: Subsector Analysis** – gain a greater understanding of the operating context for SEs and intelligence on the market players, their roles, and interrelationships.

**Step 3: Identification of Constraints and Opportunities** – determine key issues hindering SE growth and competitiveness in the subsector.

**Step 4: Identification of Business Services** – determine which business services can best address the constraints identified in Step 3.

**Step 5: Selection of Business Services** – target specific business service(s) for more in-depth analysis.

**Step 6: Assessment of Business Services** – understand constraints to the sustainable supply/demand of the targeted business service(s).

**Step 7: Identification of Facilitation Activities** – determine facilitation activities which address the constraints of the business service(s).

**Step 8: Selection of Facilitation Activities** – choose the most appropriate facilitation activities to implement.

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<sup>1</sup> This includes micro, small- and medium-scale enterprises.

<sup>2</sup> 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.

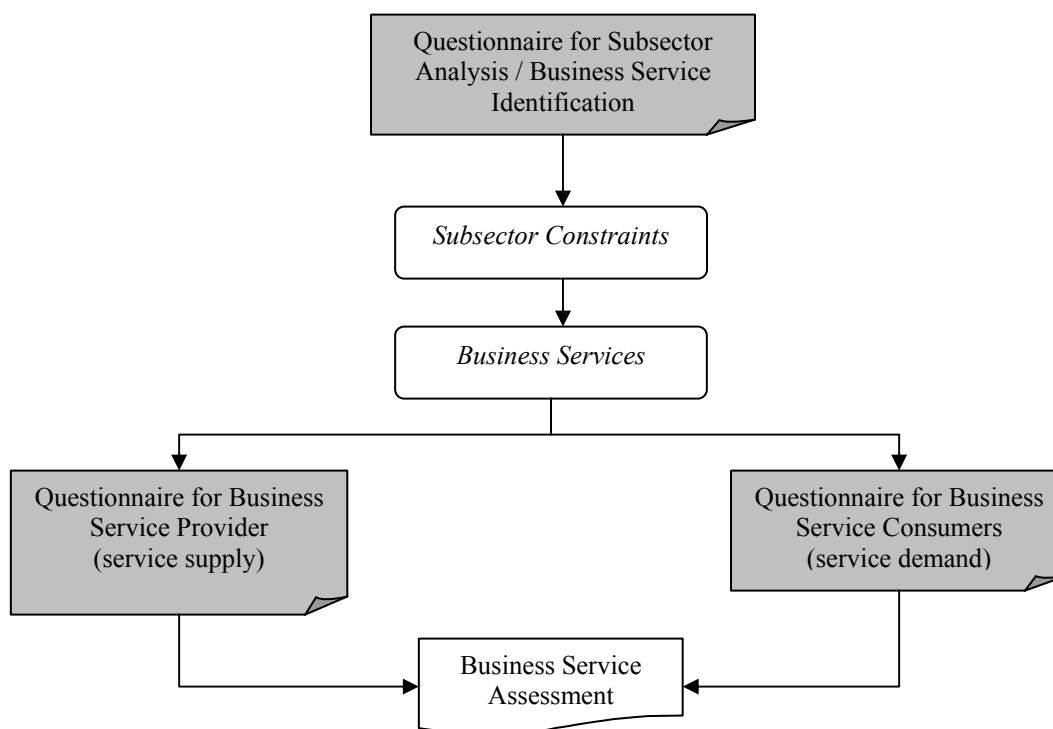
Some of the strengths of the SBS approach include its ability to:

- address the needs of SEs operating in different industries, which tend to vary greatly
- reach smaller enterprises (especially in rural areas) due to its focus on forward and backward linkages
- identify and promote embedded services, often found in the relationships between actors in specific supply chains
- focus on services in growth subsectors that will result in increased SE income

One of the risks of the SBS approach is its dependence on the continued viability of the targeted subsector market. If that market fails for some reason, program interventions will not have their desired impact. This risk can be mitigated, however, by focusing on multiple subsectors and/or markets within subsectors. Another challenge is finding or developing the requisite expertise to implement the approach - which generally requires a multidisciplinary person or team skilled in economic analysis, business needs assessment, participatory workshop facilitation, and enterprise development.

A number of methods for subsector analysis can be used in the SBS approach. These include the traditional form of subsector studies, more participatory methods such as workshops and focus groups, as well as "incremental" approaches that limit initial analysis in favor of continuing it once actual program implementation begins. A combination of all three methods is perhaps the most appropriate.

The SBS approach uses a series of questionnaires to elicit information on the roles and interrelationships of subsector participants, identify subsector constraints, and identify business services within the subsector that address those constraints. Once specific business services are targeted, additional questionnaires are used to gather information from business service consumers and providers. The end result is a business service assessment report that serves as the basis for identifying needed interventions. The figure below illustrates the flow of information from the questionnaires.



The table below presents an extract from the subsector analysis of the "Green Bean for Export" subsector (illustrative case presented in the paper) and shows how the identification of subsector constraints leads the identification of needed business services.

<b>Constraints</b>	<b>Business Service</b>	<b>Existing Service Providers</b>
High cost of inputs (seeds, pesticides and fertilizers) for small-scale growers. Low germination rates of seeds.	Provision of, and access to, affordable fertilizers, chemicals and quality seeds to small-scale growers.	Stockists Exporters Producer Organizations
Lack of knowledge and skills in crop husbandry by small-scale growers.	Training and extension services to small-scale growers.	Exporters Input Supply Companies Government NGOs
Expensive irrigation equipment	Provision of affordable irrigation equipment to small-scale growers.	Irrigation equipment suppliers.
Seasonal demands for fresh vegetables by the EU export market.	Access to new export markets for exporters and growers	Exporters Exporters Association
Lack of respect for contracts between growers and exporters.	Access to mediation for breach of contract between growers and exporters	Government agency

The commercial viability of business services is critical to the successful private sector adoption or expansion of business services. If a full business plan for the service is not possible during the assessment stage, a rough calculation of the economic feasibility should still be conducted. A growing market and an appropriate return on investment will be the primary incentives for commercial providers to develop business services for SEs.

The SBS approach looks at whether business services are provided on a "fee for service" basis, or whether they are "embedded" (and offered for free) as part of a commercial relationship

between the service provider and the SE. One of the strengths of the SBS approach is its ability to identify both kinds of services (existing and potential) within a subsector and to identify appropriate means of promoting them.

Donor coordination is critical to ensuring that the implementation of this approach (as well as any other business service market development approach) is not undermined. Problems will arise, for example, if one donor is promoting the development of private sector providers who sustain themselves through transactions with SEs, while other donors are offering direct subsidies to those same providers. It is therefore important that local donors adopt a common set of definitions and agreed-upon principles for business service programs.

The SBS approach is still evolving and not meant to be prescriptive. There are many different and valid approaches to the design and implementation of enterprise development programs - this is just one of them. As a work-in-progress, more testing and field implementation will be necessary to further refine and improve it.

The authors would like to invite all readers to share their views on this paper, with the objective of refining and improving the approach. They would like to thank USAID for funding the development of this paper, and the many individuals who contributed their time to reviewing initial drafts and providing useful comments.

## I. INTRODUCTION

This paper presents an approach to enterprise development that combines subsector<sup>3</sup> analysis with the market development of business services. The ensuing “subsector/business service” (SBS) approach identifies growth-potential subsectors where improved access to business services can result in increased profitability and stability of small enterprises (SEs)<sup>4</sup>.

The paper is targeted at both donors and practitioners from enterprise development organizations, and is organized into three main sections. This first section explains the rationale of the approach, in the context of current thinking on business service development programs. The second section describes the SBS approach and provides guidelines for implementation. The third section describes the importance of donor coordination and presents suggestions to improve it. Included in the appendices are model questionnaires and a list of resources.

While parts of the SBS approach have been used by practitioners in the past, its application in a systematic and comprehensive manner is relatively new. The approach is still evolving and not meant to be prescriptive. There are many different and valid approaches to the design and implementation of enterprise development programs - this is just one of them. As a work-in-progress, more testing and field implementation will be necessary to further refine and improve it.

Throughout the paper, a detailed case study is used to illustrate specific steps involved in the SBS program design process. The case is presented and sequentially developed via nine text boxes. Although the case example is based on actual program analysis and design work conducted by Action for Enterprise (AFE), it is meant to be strictly illustrative.

## II. APPROACH / RATIONALE

Thinking to date on the “market development” of business services has tended to focus on the business service markets themselves, with limited analysis of the product markets from which SEs earn income. Yet, there is increasing recognition that the demand for business services, and the potential for SEs to benefit from those services, is linked to the income earning potential of the product market or subsector in which firms operate. Identifying and developing business services that have a direct effect on strengthening the market for final SE-produced products is therefore critical (for example, if a business service results in increased sales of wood furniture for SEs in that subsector, those SEs will be willing consumers of the service).

Subsector analysis can help identify constraints to SE growth and competitiveness in a given subsector. Business service market development, on the other hand, provides a framework on how to promote and support commercial services that address those constraints. When pursued jointly, they can result in programs that have significant impact on SE income and stability. The SBS approach attempts to combine the strengths of subsector analysis, which identifies constraints that are blocking sales and investment, with business service market development,

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<sup>3</sup> 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 (e.g. producers, processors, input suppliers, wholesalers, and retailers). Subsectors are generally defined by a particular finished product or service (i.e., wood furniture, dried tomatoes, clothing production, legal consulting, etc.).

<sup>4</sup> This includes micro, small- and medium-scale enterprises.



which offers strategies for increasing access of large numbers of SEs to sustainable services that will help them overcome those constraints.

Many donors, practitioners, and projects are already using a subsector approach for their enterprise development (non-financial) programs. These include programs targeting subsector specific agricultural products, manufacturing activities, and professional associations. The approach presented in this paper is an incremental improvement to these programs. It adds an emphasis on promoting *sustainable business services* that address subsector constraints. It gives the subsector approach more focus on ensuring that services for SEs will continue once the program is over and that impact will be sustained. It also shows how clear links can be established between program interventions and SE impact.

There are both advantages and risks in the SBS approach. One of the main advantages is that it addresses the specific needs of SEs operating in different industries, which tend to vary greatly. Surveys and experience suggest that by focusing on the specific needs of businesses that are involved in the same activity, programs can achieve better results.

The SBS approach is also conducive to reaching smaller enterprises, especially in rural areas. This is due to its focus on forward and backward linkages between enterprises at all levels of the supply chain and the commercial relationships between them. Rural SEs are often linked to input suppliers and larger buyers through a variety of commercial relationships and frequently benefit from services that are “embedded” in the transactions they have with those actors. The SBS approach is designed to identify these relationships and services and then to identify specific interventions that will strengthen them.

The SBS approach also:

- provides a means for identifying business services to target (thinking to date has not fully addressed this issue)
- focuses on services in growth subsectors that will result in increased SE income
- is conducive to the identification and promotion of embedded services, often found in the relationships between actors in specific supply chains

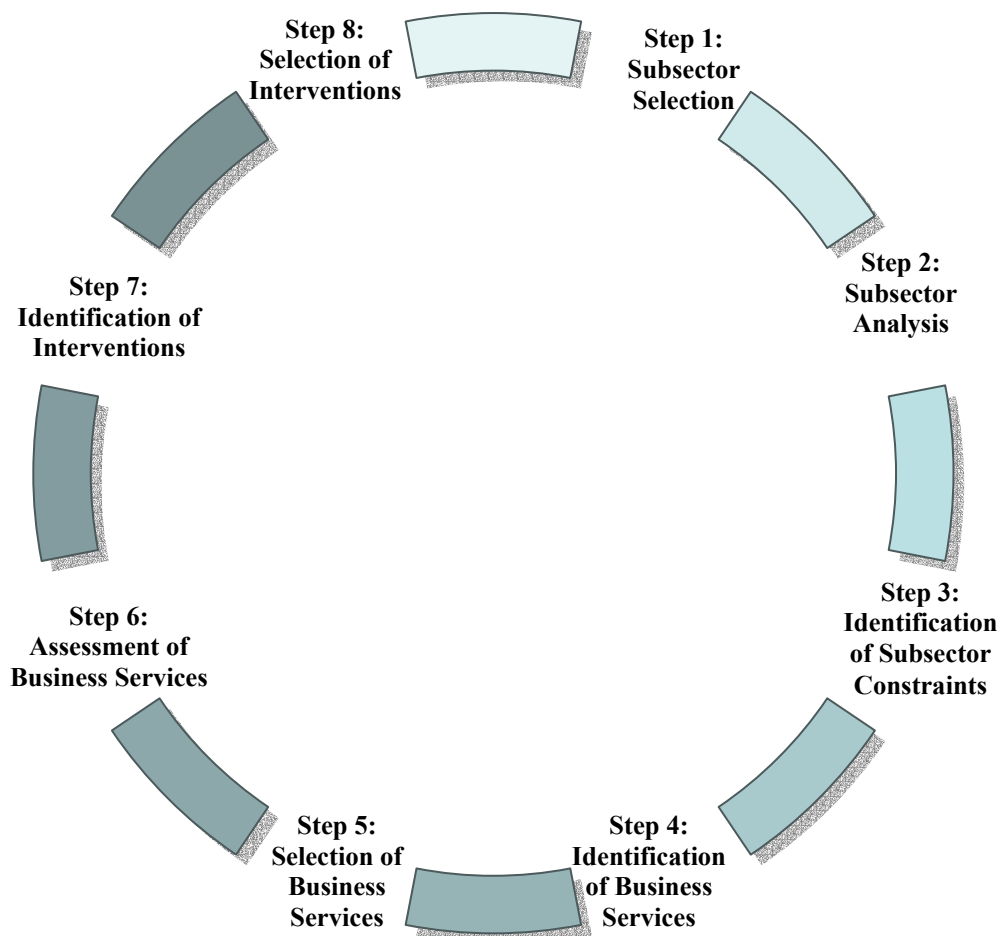
One of the risks of the SBS approach is its dependence on the continued viability of the targeted subsector market. If that market fails for some reason, program interventions will not have their desired impact. This risk can be mitigated, however, by focusing on several subsectors at the same time. It can also be mitigated by targeting multiple markets within a given subsector, for example both domestic and export markets. Another challenge is finding or developing the requisite expertise to implement the approach—which generally requires a multidisciplinary person or team skilled in economic analysis, business needs assessment, participatory workshop facilitation, and enterprise development.

### III. DESCRIPTION OF APPROACH

The SBS approach to program design is comprised of eight steps (see Figure 1 below). The first step involves selecting a subsector (or subsectors). Step two begins the subsector analysis phase and consists of gaining a greater understanding of the market players, their roles, and interrelationships. Step three looks at the constraints and opportunities facing these players that hinder subsector growth and competitiveness. Step four identifies new or existing business services in the subsector that address these constraints. Step five begins the business service

assessment stage, and involves selecting services identified in step four for more in-depth assessment. Step six assesses these services, looking at both demand and supply side constraints. In step seven, interventions are identified that will address the service constraints identified in step six and result in sustainable services to SEs. Finally, in step eight, the business service facilitator<sup>5</sup> selects specific interventions (among those identified in step seven) for implementation.

**FIGURE 1. STEPS IN SUBSECTOR / BUSINESS SERVICE APPROACH TO PROGRAM DESIGN**



### 3.1 Subsector Selection

Subsector selection begins with a list of subsectors for consideration. If a pre-determined list does not already exist, primary and secondary sources of information can be used to create one. Information on subsectors to consider can be collected from interviews, surveys, and/or workshops with key informants (who have good general knowledge of the local economy). This primary data can be supplemented with secondary data from sources including government agencies, donors, financial institutions, and other development organizations. Multi-lateral agencies are also a good source for country-specific data on various industries and sectors<sup>6</sup>. SE surveys, if they exist, can also provide a wealth of information about different subsectors and assist in ranking their relative attractiveness for business service development programs.

<sup>5</sup> A business service facilitator refers to an international or local institution which has as its primary aim to promote the development of private business services that can be sustainable in the market. Currently, most business service facilitators are public institutions, NGOs, or development projects and are usually funded by governments or donors.

<sup>6</sup> The websites of the International Trade Centre of the UNCTAD/WTO ([www.intracen.org/menus/countries](http://www.intracen.org/menus/countries)) and the World Bank ([www.worldbank.org/html/extdr/regions](http://www.worldbank.org/html/extdr/regions)) are two examples.

### 3.1.1 Determine and Prioritize Criteria

Determining criteria for subsector selection is a critical step in program design. It is a task that requires strategic thinking about overall program objectives and how to maximize impact. For example, some development organizations may select subsectors primarily on the basis of market potential - choosing those that show the most promise for increased growth in the economy. Others may have institutional priorities that mandate a particular focus, such as women or environmental conservation. Still others may be more interested in targeting subsectors with the largest number of SEs. Most likely, donors and implementing organizations will have some combination of priorities and will have to balance the tradeoffs involved in making selections (e.g. one subsector might have the greatest number of SEs but low prospects for growth, while another might have a high rate of growth but low participation of women). Moreover, a donor with various sectoral priorities could target different subsectors to achieve different objectives.

In all cases, subsector selection criteria should reflect the goals of the donor/implementing agency as well as the capacity, experience, and expertise of the facilitating organization(s). Examples of selection criteria are described in Table 1 below:

**TABLE 1. ILLUSTRATIVE CRITERIA FOR SUBSECTOR SELECTION**

Criteria	Description
Market Demand and Growth Potential	<ul style="list-style-type: none"> <li>• Evidence of strong effective demand for products being produced</li> <li>• Buyers have ready market for products but are unable to meet demand</li> <li>• Unmet demand from municipal authorities or large public works projects</li> </ul>
Potential Increase in Income and Wealth	<ul style="list-style-type: none"> <li>• Potential for increased revenues at all levels of subsector.</li> <li>• Projected increases in sales, profits, or returns to labor</li> </ul>
Opportunities For Linkages	<ul style="list-style-type: none"> <li>• Potential forward/backward linkages between large and small enterprise.</li> <li>• Large buyers are overlooking SEs as a source of supply or unable to organize them to meet their demands.</li> </ul>
Potential For Employment Generation	<ul style="list-style-type: none"> <li>• Potential for enterprises (large and small) to create new employment opportunities as the subsector develops or expands.</li> </ul>
Number of SEs	<ul style="list-style-type: none"> <li>• Number of SE operating in the subsector</li> </ul>
Value Added Potential	<ul style="list-style-type: none"> <li>• Potential for SEs to add value to raw materials and gain higher earnings.</li> </ul>
Potential For Increases in Productivity	<ul style="list-style-type: none"> <li>• Potential for technologies or management systems to increase the productivity and earnings of enterprises in the subsector.</li> </ul>
Government or Donor Interest / Existing Support Programs	<ul style="list-style-type: none"> <li>• Government interest in a subsector (can translate into positive linkages with government services, and favorable policies)</li> <li>• Existing programs that can provide synergy and complementary activities.</li> </ul>
Competitiveness	<ul style="list-style-type: none"> <li>• Competitiveness of the subsector on the world market and/or of SEs in the subsector.</li> </ul>
Agency Mandates	<ul style="list-style-type: none"> <li>• Mandates such as participation of women, rural focus, environmental impact, etc. can be considered and weighted in accordance with the importance the agency puts on them</li> </ul>

**ILLUSTRATIVE CASE:**

The following case will be used throughout the paper to illustrate specific steps involved in the SBS approach to program design. It is based on actual AFE field work but has been modified in some instances, and is meant to be strictly illustrative.

**Part 1 - Setting Subsector Selection Criteria**

An international development organization is designing an enterprise development program in country X. Having reviewed existing data and reports from government agencies and interviewed several development organizations in-country, nine subsectors were identified for consideration:

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

Based on the organization’s strategic focus on economic development and issues of rural poverty, the following selection criteria were identified:

1. Unmet Market Demand
2. Potential Increase in Rural Incomes
3. Potential for Employment Generation
4. Government or Donor Interest / Existing SE Support Programs

**3.1.2 Narrow-Down Subsectors**

Once selection criteria have been established, it is important to narrow down possible subsectors into a short-list for further consideration. One method of doing this is to chart the relative “attractiveness” of each subsector under consideration. During this exercise, a matrix is completed which shows the relative rating of each subsector (i.e., high, medium, low) against the two selection criteria considered most important to the implementing organization.

For example, in Figure 2 below, two illustrative selection criteria, "unmet market demand" and "potential to increase rural incomes" are presented - one on each axis of the matrix. Any subsector that falls within the shaded area (i.e., low/medium market demand and low/medium income potential) is considered less attractive than the other more higher-rated subsectors and would be given lower priority for further analysis.

**FIGURE 2. ATTRACTIVENESS MATRIX**

**Potential to Increase Rural Incomes**

High			<i>Attractive</i>
Medium			
Low	<i>Not Attractive</i>		
	Low	Medium	High
	<b>Potential Market Demand</b>		

The attractiveness rating process should be as objective as possible and based on actual quantitative data, where available. The relative importance of one criterion versus the other should also be factored into the selection process to choose between equally attractive subsectors (see the example in the illustrative case below).

***ILLUSTRATIVE CASE: Part 2 - Rating Subsector Attractiveness***

Building on Part 1 of the illustrative case, data was compiled for each of the potential subsectors and ranked against the organization’s two most important selection criteria—potential market demand and potential for increased rural incomes. The chart below shows the relative attractiveness score of each subsector.

**Potential to Increase Rural Incomes**

	– handicrafts	– green beans – dairy (milk)
– avocados – beef		– tourism
	– poultry – building construction – wood furniture	

**Potential Market Demand**

As a result of this exercise, subsectors in the shaded area (i.e., avocado, beef, poultry, construction, and furniture) were rated as less attractive and dropped from further consideration. However, the choice between tourism and handicrafts was less clear cut. Since the potential for increases in rural income was deemed relatively more important than potential market demand to the organization, the handicrafts subsector was rated higher than tourism. Thus, a short-list of three subsectors was identified: green beans for export, dairy (milk), and handicrafts.

**3.1.3 Rank Subsector Short-List**

Having narrowed down the choice of subsectors, it is important to rank and prioritize the final short-list. A ranking system to evaluate prospective subsectors can be used to conduct this exercise. Each subsector selection criteria is given a score on a scale of 1 to 5 (with 1 being the lowest and 5 being the highest score).

The scoring can be done with key informants during a participant workshop, or internally based on available primary and secondary data of the subsectors. Other tools and theories can be incorporated into the subsector selection step as well. These include Michael Porter's work on competitive advantage, value chain, and cost analysis<sup>7</sup> and Jorg Meyer-Stamer's application of these theories to support local economic development initiatives in the developing world<sup>8</sup>, among others.

The score for the more important criterion should be weighted higher than the others. A multiple of three (3), for example, could be assigned to criteria deemed relatively more critical. The score of that criterion would then be multiplied by three to reflect its higher weighting. Using a subsector ranking table, the total weighted scores for each subsector can then be compared to determine their relative ranking. An example of the ranking and scoring process is shown using the illustrative case below.

<sup>7</sup> *Competitive Advantage: Creating and Sustaining Superior Performance*, Michael E. Porter, 1998.

<sup>8</sup> “Participatory Appraisal of Competitive Advantage (PACA): A Methodology to Support Local Economic Development Initiatives”. J. Meyer-Stamer. University of Duisburg. 2001. See [www.paca-online.de](http://www.paca-online.de)

***ILLUSTRATIVE CASE: Part 3 - Scoring and Ranking the Short-list of Subsectors***

In this step, each of the subsector selection criteria established in Part 1 of the case was assigned a relative weight. Given the institutional priorities of the sponsor organization, “unmet market demand” was given a weight of 3 times, while “potential to increase income” was given a weight of 2 times:

1. Unmet Market Demand (weighted 3x)
2. Potential Increase in Rural Incomes (weighted 2x)
3. Potential for Employment Generation (weighted 1x)
4. Government or Donor Interest / Existing SE Support Programs (weighted 1x)

Thus, the individual score (ranging from 1 to 5) for those first two criteria are multiplied by a factor of 3 and 2 respectively. The individual scores for the remaining criteria are multiplied by one.

In order to conduct the subsector scoring exercise, existing data was collected and supplemented with findings from selected key informants. An example of the information used to evaluate criteria for the "green beans for export" subsector is illustrated below:

*Unmet demand in the market*

- In the last two decades, the U.K. and France have provided strong markets for this commodity.
- Besides the EU, other new markets in the Middle East are emerging indicating unmet demand in traditional and the emerging markets.

*Potential increase in rural incomes*

- About 5000 small-scale bean growers are located in the rural areas and depend solely on their small farms as the major source of family income.
- Given appropriate support these growers can improve their productivity and increase incomes.

*Potential employment generation*

- Potential for employment is high given the manual nature of farming activities. Small-scale growers need additional labor for expanded production.

*Potential donor/government interest and synergy with existing SE programs*

- A positive partnership exists between the private sector and the government.
- The government has listed green beans as a “priority” export crop

Data for the other short-listed subsectors (see Part 2 of this case) was also compiled in a similar manner and used to complete the scoring exercise. The results are shown in the table below:

CRITERIA	PROPOSED SUBSECTOR		
	<i>Green Beans for Export</i>	<i>Dairy (milk)</i>	<i>Handicrafts</i>
Unmet Market Demand [weighted 3x]	4	3	2
Potential Increase in Rural Incomes [weighted 2x]	4	4	3
Potential for Employment Generation	3	3	3
Government or Donor Interest / Existing SE Support Programs	3	4	2
<b>Total Weighted Score</b>	<b>26</b>	<b>24</b>	<b>17</b>

Using the scoring results, green beans for export was rated as top priority, dairy (milk) was second, and the handicrafts subsector was ranked third.

**3.1.4 Make Final Subsector Selection**

Having ranked a short-list of subsectors, the final step is to decide which ones to select for further analysis. In determining how many subsectors to analyze it is important to consider the amount of time and resources available for subsector analysis as well as subsequent implementation activities.

***ILLUSTRATIVE CASE: Part 4 - Final Subsector Selection***

Based on the results of the weighted ranking against the selection criteria (Part 3 of illustrative case), as well as the availability of resources, both the green beans and milk subsectors were chosen for more in-depth analyses.

### 3.2 Subsector Analysis

Once subsectors have been chosen the next step in the SBS approach is subsector analysis. The basic objectives of this analysis are to:

- Identify final sales market(s) and market segments
- Identify market channels and trends within the subsector
- identify the primary actors in the subsector, their roles, and interrelationships (with emphasis on linkages with targeted SEs)
- create a subsector map that describes the above
- identify constraints and opportunities that are holding back growth and competitiveness
- identify business services that can address subsector constraints

Other information such as number of enterprises, sales volume, and return to labor can also be collected and mapped as "overlays" on the subsector map. See Section 3.2.2 for more information on subsector mapping.

#### 3.2.1 Approaches to Subsector Analysis

A number of variations on the traditional subsector analysis approach can be used to successfully complete this step. These include participatory methods such as workshops and focus groups, as well as "incremental" approaches that limit initial analysis in favor of continuing it once actual program implementation begins<sup>9</sup>.

The classic, more traditional approach for subsector analysis is a formal study, documented in publications such as a "Field Manual for Subsector Practitioners" produced by the GEMINI project<sup>10</sup>. If time and resources are available, in-depth studies can be very valuable as they provide a thorough analysis of the dynamics in a subsector. One of the disadvantages is that it is easy to get caught up in the intricacies of subsector mapping, statistics, etc., and lose sight of the final goal (i.e., identifying subsector constraints that are blocking SE growth and competitiveness, and the corresponding business services that can address those constraints). In-depth studies can also be time consuming and expensive. It is therefore important to keep the final goal in mind, and limit analysis to what is needed to achieve that goal.

For a variety of reasons, a more streamlined and/or participatory form of subsector analysis may be preferred. One way to do this is to reduce the amount of research, and then use focus groups and/or workshops with subsector representatives to validate and complement the information gathered. Workshops with subsector representatives are a cost effective means of sharing experiences and ideas among different kinds of enterprises and institutions operating within the same subsector. They can serve as a reality check, expose linkage possibilities, and foster ownership of the eventual interventions that are proposed. One of the disadvantages of this participatory approach is that it depends heavily on information provided by workshop or focus group participants and can be influenced by the particular mix of participants present at the workshop. For this reason, information gathered should be cross-checked against existing documentation and/or other subsector representatives.

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<sup>9</sup> "Beyond Credit, A Subsector Approach to Promoting Women's Enterprises", Martha Alter Chen (ed.), Aga Khan Foundation, Canada, Harvard Institute for International Development and UNIFEM, 1996.

<sup>10</sup> A Field Manual for Subsector Practitioners, Haggblade and M. Gamser, GEMINI, 1991.

Some organizations prefer to limit their initial subsector analysis to the bare minimum needed to complete their program design and begin implementation. These organizations utilize an "incremental" approach and opt to dive into the subsector with an initial facilitation activity<sup>11</sup>. This approach is based on the premise that the best way to analyze a subsector is to develop in-depth relationships with subsector representatives, and to learn from them in an incremental fashion. The disadvantage, however, is that the implementing organization may not know in advance what it is getting into, and whether in fact business services will be able to impact SEs in a cost effective manner. There is a danger, for example, of getting involved in saturated markets where little can be done.

A summary of the various approaches to subsector analysis is shown in Table 2 below.

**TABLE 2. APPROACHES TO SUBSECTOR ANALYSIS**

	<b>Studies</b>	<b>Participatory (workshops, FGDs, etc)</b>	<b>Dive-In (learn as you go)</b>
<b>Methodology</b>	<ul style="list-style-type: none"> <li>- Uses classic approach with consultants who spend several weeks interviewing key informants, reviewing statistics, etc</li> <li>- Information is used as program design tool</li> </ul>	<ul style="list-style-type: none"> <li>- Uses more streamlined approach, bringing together key informants/ subsector reps for workshops, focus groups, etc.</li> <li>- Information is used as program design tool</li> </ul>	<ul style="list-style-type: none"> <li>- Target groups are selected and support initiatives begin immediately</li> </ul>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>- Provides a strong analytical background to subsector issues, constraints and opportunities</li> <li>- Particularly appropriate for development of new products or markets</li> </ul>	<ul style="list-style-type: none"> <li>- Provides initial orientation to help select appropriate support initiatives</li> <li>- Fosters relationships with subsector representatives and sponsor organization</li> <li>- Less costly than in-depth analysis</li> </ul>	<ul style="list-style-type: none"> <li>- Avoids drawn out analysis (and can save costs)</li> <li>- Builds support initiatives on an in-depth understanding of target group needs and priorities</li> <li>- Adaptive to changing conditions</li> </ul>
<b>Dis-advantages</b>	<ul style="list-style-type: none"> <li>- Can be time consuming and expensive</li> <li>- Analysis can be excessive</li> <li>- Subsector reps are less represented in program design / can be agency centered and/or rigid</li> </ul>	<ul style="list-style-type: none"> <li>- Analysis can be subjective and dependant on the information provided by workshop or focus group participants and therefore requires validation</li> </ul>	<ul style="list-style-type: none"> <li>- Risk of getting involved in a subsector for which no promising support initiatives present themselves</li> </ul>

It should be noted that these approaches are not mutually exclusive. In fact, experience suggests that the best approach is a combination of all three. In such a scenario, one first carries out interviews with key informants and subsector representatives to identify constraints and needed business services. Later (one selected services have been assessed in more detail), a workshop is held with selected interviewees to validate/revise information and reflect upon potential interventions (see section 3.7). Once facilitation activities begin the implementing organization remains open to taking new directions as it learns more about the players and internal dynamics of the subsector.

<sup>11</sup> Chen, 1996.



A good starting point for conducting any analysis is to access existing studies, reports, or statistics that provide information on the targeted subsector. These can be found in government agencies, with donors, and with implementing organizations. It is also important to identify "key informants" who are particularly knowledgeable about the subsector as a whole.

### 3.2.2 Subsector Mapping

A subsector map presents, in graphical form, all the major actors in a targeted subsector. It presents the different supply channels that transform raw materials into finished products and then distribute those products to final consumers; and the different markets or market segments to which products are sold. For service subsectors, the map presents all of those involved in providing specific services. Draft subsector maps can be developed using information provided by key informants (individuals very knowledgeable about the subsector) and then later refined as more information is gathered. They are very useful for identifying subsector actors to interview.

Interviews should be conducted with at least a few representatives from each of the participants in the subsector - including both large and small enterprises along the different supply chains (the number interviewed will depend on the time and resources allocated to the subsector analysis activity). While conducting interviews, it is also possible to determine whether to invite the interviewee to participate in a workshop of subsector representatives to be held at a later date (if this approach is used). Information from interviews should be confirmed, to the extent possible, with other subsector representatives and/or with people who have studied the subsector.

#### **ILLUSTRATIVE CASE: Part 5 - Subsector Map (Green Beans for Export Subsector)**

Having selected the green beans for export subsector for analysis, initial interviews were held with key informants. This information was used to develop a map of the subsector, shown in Figure 3 below.

The main functions in the subsector are shown on the left side of the map (i.e., input supply, growing/production, brokering, exporting, transporting, and importing). At the top of the map are the final product markets (i.e., wholesale and supermarket retail markets). All of the players who fulfill specific functions are shown in the map, with lines to illustrate the linkages and relationships between them. One of the main questions that a subsector map can help answer is how products move along supply chains and flow through various channels to final markets.

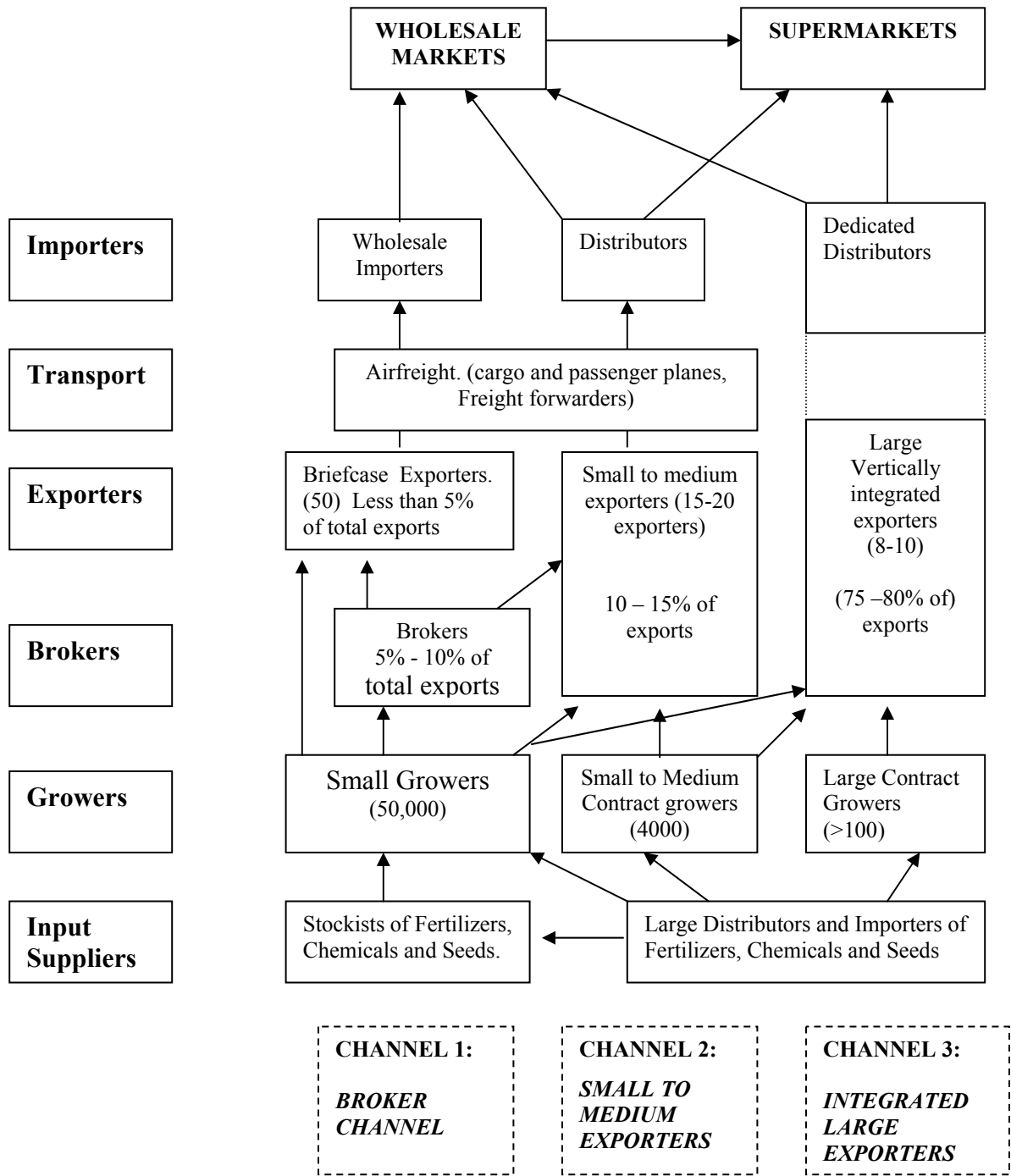
From Figure 3, three distinct product channels are evident: (1) briefcase/broker channel, (2) small to medium exporter channel, and (3) integrated large exporter channel. Each one has specific characteristics about the way that it operates, though there is some overlap between them. A brief summary of each channel is as follows:

Briefcase/broker channel – the small growers in this channel either sell to brokers or directly to small exporters. The brokers also sell to the small and medium exporters, though to a lesser extent. This channel is the weakest of the three channels, though it probably has the most actors in it. These briefcase exporters function only during the high season and are constantly looking for quality product since they do not have any regular growers.

Small and medium exporter channel – these small to medium exporters are almost all integrated backwards into the production, for at least some of their product sourcing. They provide a smaller range of products to the export market. Increasing cost and quality constraints make it uneconomical for them to deal with individual small growers, so they must work with either larger outgrower groups or larger individual farmers.

Integrated Large Exporter Channel – these exporters have integrated their operations both forwards and backwards. There are only about eight to ten firms that fall into this category, with varying degrees of integration. These large exporters have very strong market links and generally provide a fairly consistent amount of product over the course of the year.

**FIGURE 3. SUBSECTOR MAP: ILLUSTRATIVE CASE (GREEN BEANS FOR EXPORT)<sup>12</sup>**



### 3.3 Identification of Subsector Constraints / Opportunities

The identification of constraints and opportunities is not distinct from, but rather part of, subsector analysis. Using structured questionnaires, subsector constraints and opportunities can be identified during interviews with subsector participants. The preliminary questionnaire used in the SBS approach, “Questionnaire for Subsector Analysis / Business Service Identification” is

<sup>12</sup> Adapted from DFID report produced by Ebony Consulting International, September 2001

designed to identify constraints and opportunities faced by the players in the subsector (see Appendix 1).

Constraints are grouped into seven broad categories (see Table 3 below). These categories are used in the questionnaire as a guide to systematically look at all areas of constraint (and opportunity) that typically affect the success of a business. The constraints can then be validated as part of a subsector participant workshop, where additional constraints or issues can also be solicited.

**TABLE 3. CATEGORIES OF SUBSECTOR CONSTRAINTS / OPPORTUNITIES**

<b>CATEGORY</b>	<b>EXAMPLES</b>
<b>Technology/Product Development</b>	<ul style="list-style-type: none"> <li>– inappropriate or nonexistent tools/ machinery/ technologies,</li> <li>– lack of technical skills and production techniques to produce to buyer specification,</li> <li>– lack of information on product demand</li> </ul>
<b>Market Access</b>	<ul style="list-style-type: none"> <li>– lack of linkages to large buyers,</li> <li>– lack of marketing organizations or brokers,</li> <li>– lack of information on product demand,</li> <li>– lack of marketing techniques or methods,</li> <li>– lack of market outlets,</li> <li>– unmet market (opportunity),</li> <li>– high transportation costs</li> </ul>
<b>Input Supply</b>	<ul style="list-style-type: none"> <li>– poor quality of raw materials,</li> <li>– lack of suppliers,</li> <li>– existing suppliers have limited outreach</li> </ul>
<b>Management and Organization</b>	<ul style="list-style-type: none"> <li>– inability of producers to organize for economies of scale,</li> <li>– lack of specific training for various stakeholders in subsector (financial management, internal organization, production skills, etc.),</li> <li>– poor organization of large buyers or suppliers,</li> <li>– lack of communication and/or cooperation between different stakeholders</li> </ul>
<b>Policy</b>	<ul style="list-style-type: none"> <li>– import taxes that penalize local producers,</li> <li>– artificial price subsidies,</li> <li>– lack of regulations</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>– lack of supplier credit,</li> <li>– lack of access of commercial funding,</li> <li>– no alternatives to traditional bank lending,</li> <li>– inability to provide adequate collateral</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>– poor road, electricity, refrigeration facilities, telecommunications, etc.</li> </ul>

Small enterprises typically confront a variety of constraints. To grow, they may need to overcome several of these constraints at once. Constraints such as: 1) lack of skills in crop husbandry; 2) expensive irrigation equipment, and; 3) lack of respect for contracts between growers and buyers for example, might all be critical to increasing production and growth in an agricultural subsector. Yet it is often difficult to say that one is more important than another. These constraints might need to be addressed concurrently in order to have the desired impact on small-scale producers. It is frequently difficult, therefore to evaluate the relative importance of one constraint over another.

During the program design process, it may be determined that a single business service or service provider can address a variety of constraints. The SBS approach does not, therefore, attempt to prioritize constraints. Rather, it looks at each constraint and identifies a business service that could potentially address it. Prioritization comes later, at the service selection step. At that stage,

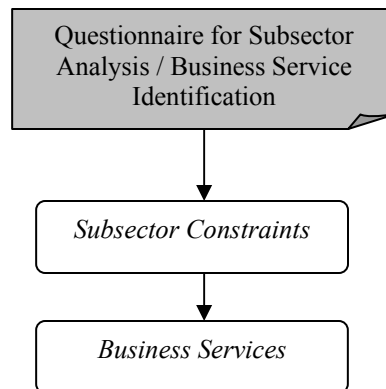
linked constraints can be reviewed to assess whether they could be addressed by the same business service.

### 3.4 Identification of Business Service(s)

In the SBS approach, the identification of business services is directly linked to the subsector constraints identified during subsector analysis. The primary tool for identifying these services is the "subsector analysis/business service identification" questionnaire described above. This questionnaire is designed to elicit information on the flow of products and services (market channels) and to identify subsector constraints. It is also designed to identify business services within the subsector that address those constraints.

Once a constraint is identified and noted during the interview process, the interviewer asks the SE if there are any services that currently, or could potentially, address that constraint. These services are noted. In this way, business services are identified in direct relation to subsector constraints (see Figure 4 below).

**FIGURE 4. FLOW OF INFORMATION FROM THE SUBSECTOR QUESTIONNAIRE**



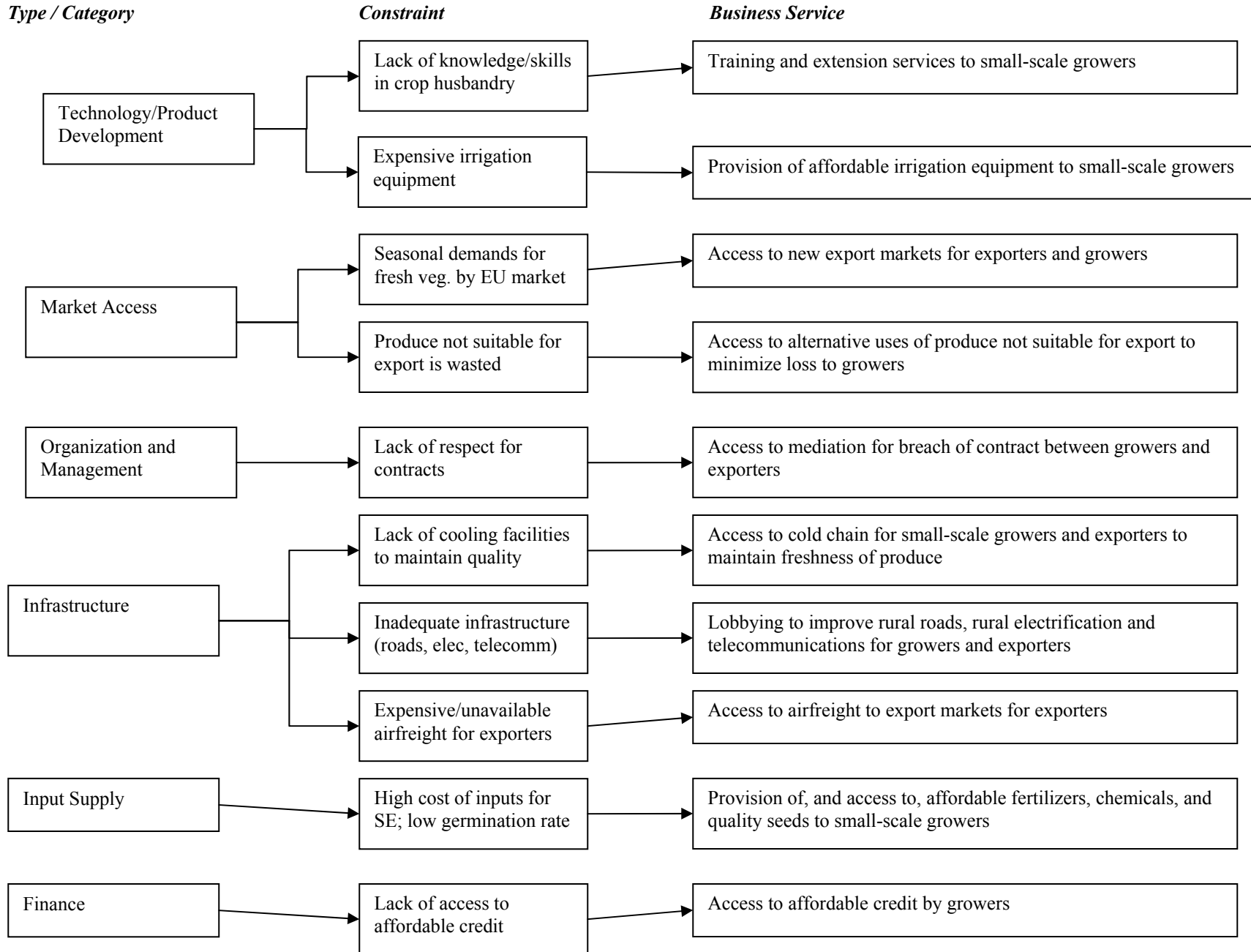
***ILLUSTRATIVE CASE: Part 6 - Identification of Subsector Constraints and Business Services***

During the subsector analysis of the green beans for export subsector, a variety of constraints were identified that were limiting SE production and income. Ten business services with the potential to address those constraints, as well as existing providers of those services, were also identified:

<b>Constraints</b>	<b>Business Service</b>	<b>Existing Service Providers</b>
High cost of inputs (seeds, pesticides and fertilizers) for small-scale growers. Low germination rates of seeds.	Provision of, and access to, affordable fertilizers, chemicals and quality seeds to small-scale growers.	Stockists Exporters Producer Organizations
Lack of knowledge and skills in crop husbandry by small-scale growers.	Training and extension services to small-scale growers.	Exporters Input Supply Companies Government NGOs
Expensive and sometimes unavailable airfreight for exporters.	Access to exporters of airfreight to export markets.	Cargo Airlines Charter Airlines Passenger Airlines Forwarding Agents
Expensive irrigation equipment	Provision of affordable irrigation equipment to small-scale growers.	Irrigation equipment suppliers.
Seasonal demands for fresh vegetables by the EU export market.	Access to new export markets for exporters and growers	Exporters Exporters Association
Produce not suitable for export going to waste.	Access to alternative uses of produce not suitable for export to minimize loss to growers	Exporters Research Institutions
Lack of access to affordable credit.	Access to growers of affordable credit	Micro-lending institutions Exporters
Lack of cooling facilities to maintain freshness of produce until it reaches the market.	Access to cold chain for small-scale growers and exporters to maintain freshness of the produce.	Growers Exporters
Inadequate infrastructure (roads, electricity, telecommunications)	Lobbying to improve rural roads, rural electrification and telecommunications for growers and exporters	Exporters Exporters Association Growers.
Lack of respect for contracts between growers and exporters.	Access to mediation for breach of contract between growers and exporters	Government agency

This information formed the basis of the business service assessments conducted in the next step of the SBS approach.

FIGURE 5. ILLUSTRATIVE CASE - GREEN BEANS FOR EXPORT: CONSTRAINT AND BUSINESS SERVICE IDENTIFICATION



### 3.5 Selection of Business Services for Assessment

During this step, the business services identified earlier are short-listed and prioritized in order to select those that will be subjected to more in-depth assessment. The short listing of business services can be done using an “attractiveness” matrix tool, similar to that used to short-list subsectors. This matrix ranks the *business services* against two major selection criteria: 1) potential for service to result in increased income of target group, and 2) potential for service to reach large numbers of consumers. Business services that fall within a pre-determined “attractive” range are given highest priority.

The matrix tool can help to create a short list of services but the ultimate determination of which business services to choose for further assessment will be a relatively subjective decision—based on a variety of factors including the priorities, goals, skills, and knowledge of the implementing organization. The type and breadth of business service assessment proposed will also determine the final number of services that can be subjected to further analysis. Generally, a range of three to five business services can be assessed through interviews and participant workshops over a one to two month period of time.

Before selecting services for further assessment it is important to distinguish between those that are “public services” and “private services”. Public services (e.g. most road construction, enforcement of laws, some research/extension, etc.) can be recognized for their importance, but are generally not assessed as the focus of the SBS approach is on private services that can be sustainable through transactions between private providers and consumers.

***ILLUSTRATIVE CASE: Part 7 - Ranking Business Services***

A focus group discussion with representatives in the green beans for export subsector was held to determine the relative importance of business services (and corresponding constraints). The attractiveness matrix below presents the results.

**Potential to Increase Incomes**

- access to cold chain for small-scale growers	- exporter access to airfreight for export markets	- training and extension services for small-scale growers
- access to irrigation equipment	- access to new markets for growers and exporters	- access to affordable inputs - access to affordable credit by growers
- access to mediation for breach of contracts	- access to alternative markets for non-exportable production	- lobby to improve roads and rural infrastructure

**Potential Number of Consumers**

As a result of this process three services were selected for more in-depth market assessments:

- ✓ training and extension services for small-scale growers
- ✓ access to affordable inputs
- ✓ exporter access to airfreight for export markets

### 3.6 Assessment of Business Services

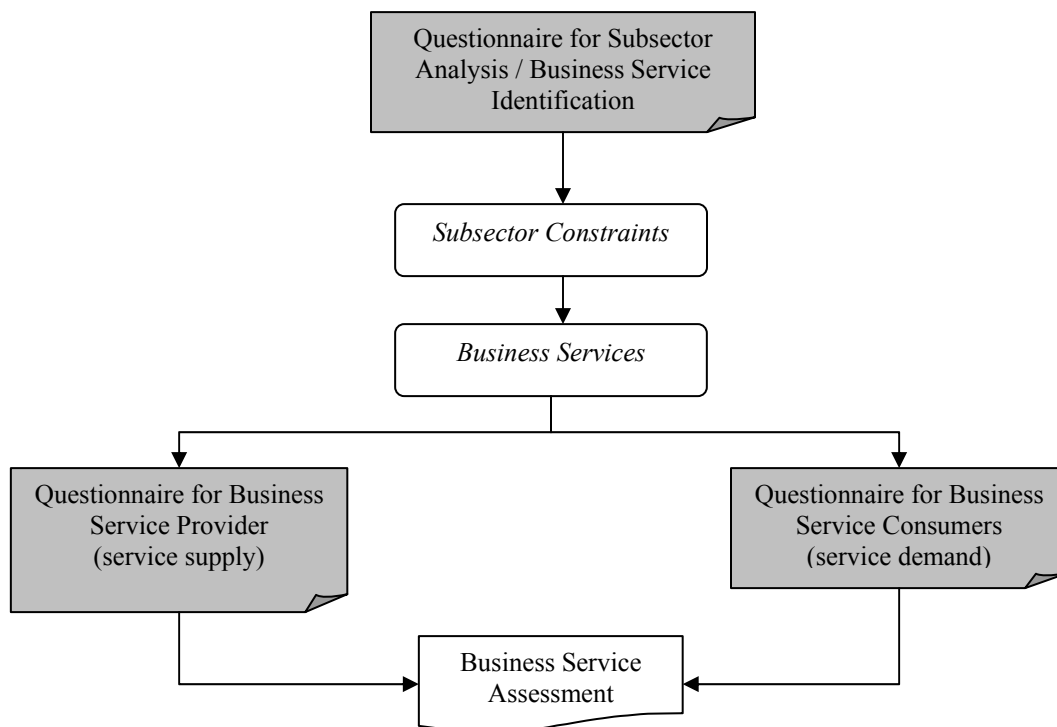
Once the business services to target are selected, they undergo a more rigorous assessment. Information and data on each targeted service are compiled and analyzed including:

- existing providers
- market size and penetration
- frequency of use
- demand and supply side constraints and opportunities
- satisfaction with service
- awareness of the service
- proposed providers(s) to target for interventions
- feasibility of the service (how costs for the service are covered)

The SBS approach uses questionnaires for business service consumers and business service providers (see Appendix 2) to gather this information. Once the initial "*Subsector Analysis / Business Service Identification*" questionnaire has been completed the interviewer then asks users about identified services using the "*Questionnaire for the Business Service Consumers (Demand Side)*." Providers of services are asked questions about identified services through the "*Questionnaire for Business Service Providers (Supply Side)*." These questionnaires get at both the demand and supply side of the targeted service. Once interviews with service consumers and providers are complete the questionnaires are combined and analyzed to produce a business service assessment report. Figure 6 below illustrates the process.

As previously mentioned, with the SBS approach much of the information for the service assessment is collected concurrently with the subsector analysis, thereby saving time and resources.

**FIGURE 6. FLOW OF INFORMATION FOR BUSINESS SERVICE ASSESSMENT**





Depending on availability of time and resources for program design, additional business service assessment tools can also be used to complement the questionnaire data. User Attitude Image (UAI)<sup>13</sup> and Focus Group Discussion (FGD) tools can be used, for example, to further assess issues related to current and potential usage, demand, and awareness of business services. The questionnaires used in the SBS approach include basic elements of a UAI, which should be sufficient, but additional market research could also be conducted.

### **3.6.1 Assessing the Feasibility of the Business Service**

Part of the business service assessment involves determining how the cost of the service will be covered. Two ways that the costs of providing business services to SEs can be sustained in the market are 1) charging fees for the service, and 2) "embedding" the service as part of a transaction.

In the first case, fees paid by the SEs cover the costs of providing the targeted services. In these cases, SEs transact with private service providers whose main activity is the provision of the service. Examples of these providers include consultants, trainers, and firms who offer management, technical, and/or logistical services, as well as suppliers who sell needed inputs or equipment to the SEs. They also include subsector specific, stand-alone service providers (illustrated in the dairy subsector, for example by providers of artificial insemination services, veterinarian services, etc).

In the second case, the providers of the service themselves cover the costs of the service to SEs. These providers provide services for "free" as part of their efforts to sell products to SEs (as in the case of input suppliers providing training in the use of the inputs they sell) or to ensure that the SEs produce a quality product that they can buy and successfully resell (as in the case of exporters training growers, or processors training milk suppliers). These free services are sometimes called "embedded" services, since they are part of the commercial transaction the SE has with the provider. Embedded services tend to be more prevalent when SEs are closely linked to other market actors in the supply chain, and when their ability to pay cash for services is limited. This is especially true in agriculturally-based subsectors.

There are many ways to promote/develop embedded services depending on the nature of the service and the relationships between provider and consumer. These include improving the capacity of the provider to deliver the service, illustrating the cost/benefit of the service to the provider, and demonstrating the importance of the service to the consumer. In some situations embedded services are provided by a "third-party". In this case, a service provider hires an independent consultant to provide services to SEs. For example, a vegetable exporter hires a pest management specialist to train growers who supply the exporter. In this case, there are two levels of service provider: one paying for the service (and thereby providing embedded services to SEs), and another providing the service directly to SEs. In these cases the issues facing both levels of providers need to be considered during business service assessment.

Both scenarios for covering the costs of services to SEs (i.e., stand-alone and embedded) are valid and fall within the realm of business development services to be promoted. One of the

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<sup>13</sup> More information on UAI can be found in "Applying Market Research Tools to the Design and Improvement of Business Development Services", Alexandra Overly Miehlebradt, GEMINI Technical Note, USAID/Microenterprise Best Practices, July 1999.

strengths of the SBS approach is its ability to identify both kinds of services (existing and potential) within a subsector and to identify appropriate means of promoting them.

To the extent possible, a business service assessment should determine whether the service will be sustainable in the market on its own, without donor subsidy. While a full business plan for the service would be ideal, this may not be possible during the service assessment stage. At a minimum, however, a rough calculation of the service's commercial feasibility should be conducted. This can be done, together with potential providers, through focus group discussions and other participatory methods.

Determining the commercial feasibility of a stand-alone service is more straightforward than for an embedded service. With an embedded service, the market performance of a provider's main activity or final product is explicitly tied to the sustained provision of the service. These service providers need to have strong sales of their final product in order to justify the provision of embedded services. Without adequate sales of these products they may not be interested in, nor have the means to support such services to SEs (for example, a dairy processor needs to have strong sales of milk in order to justify providing free training to dairy farmers).

Whether the service is embedded or not, additional costs will be incurred in the expansion of an existing service or the delivery of a new one. An appropriate return on investment will be the primary incentive for commercial providers to expand or adopt a business service. Thus, the assessment of an embedded business service must also include analysis of projected sales increases for a provider's main products. This will also be useful in convincing service providers to adopt or expand a business service for SEs.

***ILLUSTRATIVE CASE: Part 8 - Business Service Assessment Summary (Green Beans for Export Subsector)***

In the previous part of this case (Part 7) the business service entitled: ***Training and Extension Services to Small-scale Growers in Crop Husbandry*** was selected for more in-depth assessment. A summary extract of the ensuing assessment, is presented below.

**Training and Extension Services to Small-scale Growers in Crop Husbandry**

**Description of Service:** This service involves training in crop husbandry including the correct use of fertilizers, pesticides and chemicals – service providers train growers on how and when to apply fertilizers, chemicals and pesticides to improve productivity.

**Constraint Addressed by the Service:** Many growers of fresh vegetables for export lack crop husbandry skills which results in poor productivity and inappropriate use of chemicals and pesticides

**Existing Providers of Service**

- Exporters: Most exporters provide training and extension services to their contract growers.
- Government
- Local and International NGOs.
- Input suppliers

**Other Market Information**

- Currently, there are approximately 20,000 small-scale growers of green beans for export.
- 4,000 are contract growers
- Government and NGOs reach about 2,000 growers per year
- Services provided by exporters are offered for free as part of their transaction with the growers
- Exporters sometimes contract out the provision of training to growers to private consultants

**Constraints to the Provision and Use of the Service***Exporters and Input Supply Companies*

- Exporters report that they lack enough resources to reach all the contract growers selling to them.
- Physically reaching growers is difficult due to bad roads.
- Growers have limited resources to pay up front for the service
- Growers cannot leave their farms for long periods of time (limits service provision to short periods).
- Some exporters lack personnel with the skills to conduct this service
- Input supply companies lack enough resources and technical staff to conduct large scale demonstrations

*Government*

- Limited capacity to access non-contract growers.
- Extension services are almost non-existent due to lack of resources.

**Proposed Provider(s) to Target**

- Exporters (embedded services - costs covered by operational revenue)
- Input Supply Companies (embedded services - costs covered by operational revenue)
- Consulting firms or individuals (costs covered by fees paid by growers and/or by exporters)

In the SBS approach, market assessment information is presented to participants during a one-day workshop with subsector representatives. This enables them to validate the information and then propose interventions to address service market constraints (see Section 3.7 below).

**3.7 Identification of Facilitation Activities**

A one-day workshop with subsector actors (producers, input suppliers, intermediaries, exporters, etc.) is the principal tool used in the SBS approach to identify facilitation interventions for selected business services. The main objectives of the workshop are to: (i) validate the assessments of business services in the subsector, and (ii) propose interventions that will develop the market for those services.

The workshop typically starts with validation of the major subsector constraints and related business services within the targeted subsector. This is followed by additional validation of the business service assessment information, including supply and demand side constraints of the targeted services. The majority of the workshop time, however, is spent discussing and reviewing the actual interventions needed to develop the targeted business services. This has proven to be an invaluable tool to ground-truth preliminary findings of the subsector analysis and business service assessments, as well as to facilitate discussion and consensus on needed interventions. Because participants are representatives of the subsector itself, it promotes demand-led solutions.

Upon completion of the workshop, needed changes to the market assessment information can be made and workshop information on proposed interventions organized and refined. Interventions proposed to develop the market for each service are documented, with a proposed exit strategy for the facilitator of each intervention. All of this information is combined to complete the market assessment report of each of the targeted services.

Some basic parameters for proposed interventions must be set during the workshop to ensure more focused and meaningful participant dialogue:

- facilitation interventions must be *realistic and feasible*
- service providers must be sustainable through commercial market transactions
- strategy for implementing the proposed initiative must be clear
- must not focus on only one service provider in the market

The objective of interventions (facilitation activities) should be to develop markets for private, sustainable services to SEs. They should address the supply side of these markets by developing the capacity of private service providers to improve the products or services they offer to SEs. They should address the demand side of the market by making SEs aware of the services, and by finding innovative ways for SEs and service providers to finance the cost of the services.

In all cases facilitation activities should promote improved linkages between service providers and SE consumers. There are many techniques and approaches to the implementation of interventions—a full presentation of these goes beyond the scope of this paper.

***ILLUSTRATIVE CASE: Part 9 - Summary of Interventions Proposed during Workshop***

Once business service assessment interviews were completed (Part 8 of this case) selected subsector representatives and other service providers from the Green Bean for Export subsector were invited to a one-day workshop. During this workshop they first validated/revised the information collected by the design team and then proposed a variety of interventions that were needed to address the supply and demand side of targeted services. These included:

**Service: Training and Extension Services to Small-Scale Growers in Crop Husbandry**

- Develop standardized training materials that can be used by exporters in training contract growers
- Training of trainers for the exporters' staff, brokers and/or lead farmers.
- Develop database of resource people capable of providing technical training to growers
- Facilitate meetings between exporters and training resource people
- Develop and disseminate inventory of rural based sites (farm centers, etc.) for exporter-sponsored grower training
- Training of crop husbandry consultants in business planning, costing and pricing
- Develop capacity of input supply companies to use their network of distributors and stockists to expand training and demonstrations
- Training of distributors/stockists (in conjunction with input supply firms) in technical aspects of inputs they sell
- Develop the capacity of input supply associations to offer training to distributors and stockists.

**Service: Provision of Access to Affordable and Recommended Inputs for Small-Scale Growers**

- Promote supplier credit from input suppliers to exporters, who then supply inputs on credit to growers.
- Promote greater use of written contracts between growers and exporters
- Encourage input supply companies to offer smaller packages of inputs
- Information dissemination to growers on how they can seek redress from fraudulent stockists.
- Train producer groups in techniques of bulk buying to reduce prices.

**Service: Airfreight to Export Markets (service provided to exporters)**

- Work with airfreight forwarding agents to consolidate exporter shipments and facilitate the chartering of aircraft
- Promote coalition that will advocate for reduced airport service costs, landing fees, and taxes related to the export of fresh vegetables.
- Promote the development of improved loading facilities at the airport to reduce aircraft packing time

**3.8 Selection of Facilitation Activities**

Once a list of potential interventions has been established, each intervention can be reviewed in relation to specific criteria established by the implementing organization. This facilitates the selection of interventions to pursue during program implementation. Examples of possible intervention criteria include the:

- extent of its impact on SEs (leveraged effect);
- number of SEs that will benefit;
- cost effectiveness of the intervention (relationship between cost and impact);
- chances of the intervention resulting in sustainable business services;
- capacity of existing business service facilitators to implement or manage the interventions;
- time frame for completing the intervention;
- availability of resources (human and financial) and donor interest;
- synergy of interventions among various business services;
- ability to promote “win-win” relationships between SE and larger firms

The analysis of interventions is best done by a core group (no more than five people). Structured work sessions can be organized with the objective of narrowing down interventions to those that best meet the chosen criteria. Once this is done, additional information can be collected as necessary and a concept paper for implementation can be created.

In selecting interventions, it should be kept in mind that new interventions are likely to be identified once implementation begins. Interventions will need to be updated in an iterative fashion. New subsector constraints may be identified, resulting in the need for the development/expansion of additional business services that could require new facilitation activities. This argues for the existence of a business service facilitator that can provide ongoing subsector analysis, business service assessments, and intervention design. The facilitator will need to continually update research and respond to changes in the markets during implementation. This role can only be played by a facilitator that maintains a big picture view of the subsector. Specific interventions can be subcontracted out but it is best if a one facilitator can maintain a holistic, overall view.

Facilitators also need to be flexible and adaptive. They should be responsive to the changing needs of service providers, service consumers, and subsector markets. They need to be open to continual learning and should employ "action-learning" that reflects upon lessons being learned and then integrates those lessons into the on-going program. Before engaging in full scale implementation of interventions to promote a particular service, a business service facilitator

may want to first conduct a "concept-price sensitivity test" of the service to determine its feasibility. While this is easier with a stand-alone service, it could also be applied to embedded type services—though certain services such as market access or input supply could take a long time to test.

SBS programs do not need to limit themselves to one intervention, or to one subsector for that matter. In fact, it is often useful to have several interventions going on simultaneously. In that way, if a major barrier arises relative to one intervention, there are still others that can move forward. In some cases it is best to implement a variety of the interventions together, in order to maximize synergy and impact. Some of the interventions could be implemented in a relatively short period of time, while others may require greater time and resources. It is important to evaluate which interventions, or combination of interventions, will have the greatest impact and cost-effectiveness to sustain the provision of services to SEs.

It should be noted that business service facilitators do not need to be sustainable themselves. Their role is to implement interventions that result in sustainable services for SE and to provide synergies among different interventions taking place in the subsector. Finally, all interventions should include an exit strategy that describes how the business service facilitator will ensure that the services they are promoting will be sustainable in the market, without ongoing donor subsidy.

#### IV. DONOR COORDINATION

Donor coordination is critical to ensuring that the implementation of this approach (as well as any other business serviced market development approach) is not undermined. Problems will arise, for example, if one donor is promoting the development of private sector providers who sustain themselves through transactions with SEs, while other donors are offering direct subsidies to those same providers. Continued subsidy to unsustainable providers will also prevent some of these organizations from transitioning into business service facilitators.

Common definitions and principles, such as those presented below, can be helpful in promoting donor coordination:

*1. Business service providers must cover the costs of their services through transactions with enterprises*

The implication of this principle is that donors would not subsidize the direct provision of training or other services to SEs. A sustainable service provider would be one that is able to cover the costs of their services through fees paid by enterprises, or through their other transactions with them (case of embedded services). An organization that is "sustainable" through a wide network of donors and large clients would not count as a sustainable business service provider under this definition. Business service providers could only be funded directly in exceptional situations where the activity to be funded can be clearly differentiated from direct service provision.

*2. Local organizations need to determine if they are business service facilitators (targeting the donor market) or business service providers*

Local institutions need to be clear, in their proposals, whether they are business service providers or facilitators. The definition above would be used to help them situate themselves. In some

cases business service facilitators may want to provide direct services to SEs for a limited period of time (with a clear exit strategy) in order to stimulate demand for the service. They remain facilitators however (as their objective is not to sustain themselves through commercial provision of the service) and they should state this clearly. Donors should not fund organizations that claim to be both service providers and facilitators.

*3. Donors should only fund business service providers if the proposed funding is used specifically to build or expand capacity in providing their service (see #1 above)*

Clear parameters need to be established here to prevent a retreat to the old style of program where providers were heavily subsidized, and where market distortions were created.

*4. Facilitators should have a clear exit strategy from the beginning with benchmarks for pulling out of temporary service provision or ending facilitation activities.*

*6. Program activities should not be restricted to a limited number of providers*

In order to reduce the risk of market distortion, stifling of competition and problems with sole providers, donors should open up their programs to all interested providers. Criteria can be set for participation, but all should be eligible if they meet the criteria and accept the terms of collaboration.

## **V. CONCLUSION**

The SBS approach to business service program design presented in this paper is an attempt to provide practical tools to link subsector analysis with the development of sustainable business services. Bridging these two aspects of SE development can result in programs that address subsector constraints and opportunities in a sustainable fashion, thereby providing long-term benefit to SEs.

Many elements of the SBS approach are not new and have been used by practitioners in the past. The SBS approach provides a systematic process to apply some of the better SE development tools and methodologies. The ultimate objective is to identify, assess, and strengthen commercial business relationships and services that will result in increased SE profitability and competitiveness.

The authors would like to invite all readers to share their views on this paper, with the objective of refining and improving the approach. As mentioned in the introduction, the SBS approach is still evolving and not meant to be prescriptive. There are many different and valid approaches to the design and implementation of enterprise development programs—this is just one of them. As a work-in-progress, more testing and field implementation will be necessary.

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## **APPENDIX 1**

### **QUESTIONNAIRE USED IN SUBSECTOR ANALYSIS / BUSINESS SERVICE IDENTIFICATION**



The following presents a questionnaire used by AFE in undertaking subsector analysis/business service identification. This questionnaire, “**Questionnaire for Subsector Analysis / Business Service Identification**” is conducted with subsector participants at all levels of the supply chain, and is designed to:

- identify the primary actors in the subsector, their roles, and interrelationships
- identify market channels and trends within the subsector
- identify constraints and opportunities that are holding back growth and competitiveness
- identify business services and opportunities that can address subsector constraints

The information related to the constraints and opportunities is derived from asking question from seven categories:

1. Market Access
2. Technology and Product Development
3. Management and Organization
4. Input Supply
5. Finance
6. Policy
7. Operating Environment

The completion of this questionnaire is illustrated on the following pages.

Note: This questionnaire should be used as guide to those conducting interviews, rather than given to individuals to fill out on their own.

## Questionnaire for Subsector Analysis / Business Service Identification

Respondent: *Ella Smith*  
Location: *Southern District*

Date: 23 Oct. 2001  
Enumerator: *Todd and Njagi*  
Time in Business: *A.M*  
Acts/Prod/Svc: *Fresh Vegetables*

Telephone: *Not Available*  
Type of Business: *Small-scale*  
*Fresh Vegetable for Export grower*

Number of Employees: *Mother, 2 Sons*

### Describe your business operations:

*Ella Smith is a small-scale grower of French beans for export. She has a small farm of approximately one acre, half of it planted with French beans. The remaining portion is planted with tomatoes and maize. Ella says she would be ready to grow baby corn if an exporter requested her to do so*

Constraint/Opportunity	Services that Address Constraints/Opportunities
<p><b>MARKET ACCESS</b></p> <p>1. To whom do you sell your product?</p> <p><i>Ella is a contracted grower by the East African Growers (E.A.G). In most cases she is able to sell all the vegetables grown, but when EAK fails to buy all the beans, Ella is free to sell her produce to brokers or other interested buyers.</i></p> <p>2. Is there a strong demand for your product or service? (justify)</p> <p><i>There is seasonal demand for green beans in the export market. During winter months in Europe, i.e. November – March, the demand is strong and at times growers can't meet the demand. During the summer season which starts from April to October the demand for imported fresh vegetables in Europe is low and there is often an over supply from growers.</i></p> <p>Constraint/Opportunity</p> <ul style="list-style-type: none"> <li>- <i>Limited market access for fresh vegetables during the low season resulting in produce not sold going to waste.</i></li> </ul> <p>3. If demand is strong, what is preventing buyers from buying more or giving a better price?</p> <p><i>During the high season, importers buy more but the price does not change because there are many competitors (Other countries) willing to accept lower prices..</i></p> <p>Constraint/Opportunity</p> <p>4. How do you determine the price for your goods and services?</p> <p><i>Exporters determine the price of fresh vegetables for export. During the high season, farm-gate prices might be increased marginally. The grower does not know how much she/he will be paid until the exporter has sold the produce.</i></p> <p>Constraint/Opportunity</p> <p><i>Lack of information on export prices makes it difficult for the grower to negotiate prices with exporters resulting in less than optimal prices in some cases</i></p> <p>5. What do you do to promote the sale of your product or service?</p> <p><i>The grower relies on exporter to promote the produce to international buyers</i></p>	<p><i>Access to alternative markets for produce not exported.</i></p> <p><i>Access to information on export prices to growers</i></p>



Constraint/Opportunity	Services that Address Constraints/Opportunities
<p><b>MANAGEMENT/ ORGANIZATION</b></p> <p>1. Do you manage all aspects of your business? If no who manages what?</p> <p><i>My sons and I manage all aspects of the business. Mother manages finances. Sons manage the day to day running the farm and selling</i></p> <p>Constraint/Opportunity</p> <p><i>Lack of business records Limited farm records (some records are kept by exporter) This results in grower not being able know how the business is performing in terms of profits or loses.</i></p> <p>2. What can you do to better manage your business?</p> <p><i>I need training in business record keeping.</i></p> <p>3. What management skills would you like to acquire to enhance your business?</p> <p><i>I need skills on how to calculate costs and profitability of the business..</i></p> <p>Constraint/Opportunity</p> <p><i>Lack of business record keeping, skills including, costing and calculating profits.</i></p>	<p><b>Training on keeping business records and calculating profits.</b></p>
<p><b>INPUT SUPPLY</b></p> <p>1. What raw materials do you use?</p> <p><i>I use the following inputs, seeds, chemicals and fertilizer.</i></p> <p>2. Where do you obtain your raw materials or merchandise?</p> <ul style="list-style-type: none"> <li>- <i>Buy chemicals and fertilizers from local stockists.</i></li> <li>- <i>Sometimes I get seeds from Exporters</i></li> <li>- <i>Sometimes I grow my own seeds when I fail to get from exporters.</i></li> </ul> <p>3. Are there constraints to getting them? Explain.</p> <ul style="list-style-type: none"> <li>- <i>Own seeds are of low quality</i></li> <li>- <i>Difficult to pay cash for fertilizers, and chemicals and high quality seeds</i></li> </ul> <p>Constraint/Opportunity</p> <p><i>Lack of access to affordable and recommended chemicals, fertilizers and high quality seeds, resulting in low productivity and low incomes for the grower.</i></p> <p>4. Have you ever purchased raw materials together with other businesses? Explain.</p> <p><i>No. Every grower buys own fertilizers, chemicals and seeds individually.</i></p> <p>Constraint/Opportunity</p> <p><i>Lack of producer groups to purchase in bulk at discounted prices</i></p>	<p><b>Access to affordable and recommended fertilizers, chemicals and seeds.</b></p> <p><b>Access to bulk buying (economies of scale) in supply purchasing</b></p>

<b>Constraint/Opportunity</b>	<b>Services that Address Constraints/Opportunities</b>
<p><b>FINANCE</b></p> <p>1. Where do you go when you need money for your business?</p> <p>There is nowhere to go. Banks do not give small-scale growers credit.</p> <p>Constraint/Opportunity <i>Lack of access to credit for small-scale growers to purchase fertilizers, chemicals and seeds.</i></p> <p>2. What trading arrangements do you have with your buyers/ sellers (credit, transport, etc)? <i>Exporters collect vegetables and then pay later. Exporters provide seeds, TA, transport and packing materials (crates)</i></p> <p>Constraint/Opportunity <i>Cash flow problems while waiting to be paid by exporters making it difficult for producers to prepare budgets and cash flow statements.</i></p>	<p><i>Access to credit for purchasing inputs</i></p> <p><i>Training on cash flow management</i></p>
<p><b>POLICY</b></p> <p>1. Are there any policies or regulations that are beneficial to businesses like yours? <i>Farm inputs are tax free making them less expensive.</i></p> <p>2. Are there any that are constraints to businesses like yours? <i>Regulations regarding maximum residue levels which require more care in applying chemicals and pesticides.</i></p> <p>3. What policies or regulations do you think are needed to support businesses like yours? <i>The current policies and regulations supporting growers are good but need to be protected by all stakeholders..</i></p> <p>Constraint/Opportunity <i>Maintain current policies which minimize government involvement in the horticultural subsector.</i></p>	

Constraint/Opportunity	Services that Address Constraints/Opportunities
<p><b>OPERATING ENVIRONMENT</b></p> <p>1. What are the biggest constraints that your business (or those who buy from or sell to you) faces in areas such as roads, electricity, water, telephone, communication, warehouses, marketplaces, etc?</p> <p><i>Lack of electricity and sufficient water for irrigation</i></p> <p>Constraint/Opportunity</p> <p><i>Lack of electricity to build cold rooms for temporary storage of vegetables while waiting to be transported to the airport. As a result some produce gets spoiled leading to reduced incomes for the grower.</i></p> <p>2. In your view what can be done to address these problems?</p> <p><i>Provision of electricity in the rural areas, especially in areas where vegetables for export are grown.</i></p>	<p><i>Access to electricity in the rural areas</i></p>
<p><b>TRADE ASSOCIATIONS</b></p> <p>1. Do you belong to any network or trade association?</p> <p><i>Belongs to a group of growers contracted by East African Growers (large exporter) to grow French beans.</i></p> <p>2. What are the main functions and benefits of the association?</p> <p><i>The group receives seeds and TA from the exporter.</i></p> <p>Constraint/Opportunity</p> <p>There are many more growers willing to become part of the group of contract growers.</p>	
<p><b>Overall what would you say are the major constraints to running your business?</b></p> <p><i>Lack of access to credit to purchase inputs</i>  <i>High cost of irrigation equipment</i>  <i>Contracts between growers and exporters are not bidding.</i>  <i>Crop failure due to diseases and lack of adequate water.</i></p>	
<p>Other</p>	

## **APPENDIX 2**

### **QUESTIONNAIRES USED FOR BUSINESS SERVICE ASSESSMENTS (Consumers and Providers)**

Once subsector constraints and business service opportunities have been identified, AFE uses the following questionnaires to assess the market for specific services.

Users or potential users of the service are asked about the service through the use of the **“Questionnaire for BDS Consumers (Demand Side)”**. Providers of the service are asked about the service through the **“Questionnaire for BDS Providers (Supply Side)”** tool. In this way, the design team is able to assess the market for the identified service from the standpoints of both demand and supply.

The completion of these questionnaires is illustrated on the following pages.

Note: This questionnaire should be used as guide to those conducting interviews, rather than given to individuals to fill out on their own.



## QUESTIONNAIRE FOR BDS CONSUMERS (DEMAND SIDE)

Respondent: *Ella Smith*

Date: 23 Oct. 2001

Acts/Prod/Svc: *Fresh Vegetables*

Type of Business: *Small-scale FVE grower*

Location: *Southern District.*

**Service:** *Access to affordable and recommended fertilizers, chemicals and seeds*

Related Constraint: ***High cost of inputs, i.e. seeds, chemicals and fertilizers.***

Questions:

1. Who do you know who provides [*Access to affordable and recommended fertilizers, chemicals and seeds*]?

***Fertilizers and chemicals are sold by local stockists while seeds are provided on credit by East African Growers (a large exporter) with whom I have a contract to grow French beans. Most contracted growers get seeds from exporters.***

2. Have you acquired [*Access to affordable and recommended fertilizers, chemicals and seeds*]? If yes, from whom?

***I buy chemicals and fertilizer from a local stockist who is located in at the market center which is within walking distance from the farm.***

3. How often?

***When I can afford it, I buy chemicals twice and fertilizers once per planting season. When I can't afford to pay cash for the inputs I plant without them.***

4. What percentage of businesses like yours are aware of [*access to affordable and recommended fertilizers, chemicals and seeds.*]

***All growers of fresh vegetables for export are aware of the service but all do not know how to get them at good prices.***

5. Describe how you acquired the [*access to affordable and recommended fertilizers, chemicals and seeds.*]

***Whenever I need chemicals or fertilizer and I can afford them, I go to the stockist and buy them. The seeds are delivered to me by East African Growers with whom I enter into a contract to sell my produce exclusively to the company after harvest.***

6. How did you pay for [*Access to affordable and recommended fertilizers, chemicals and seeds.*]

***I buy chemicals and fertilizers in cash. The cost of seeds is deducted by the exporter at the time of paying for my produce.***

7. If for fee, what price was paid? Do you feel that this is a fair price given what you receive?

***The price of the inputs is high compared to the returns.***

8. Were you satisfied with the {*access to affordable and recommended fertilizers, chemicals and seeds*}?

Explain. How could the {*access to affordable and recommended fertilizers, chemicals and seeds.*} be improved?

***I am satisfied with availability of chemicals and fertilizers whenever I need them. However, it would be better if they were provided on credit to pay later after receiving payments from the exporter.***

9. Why haven't you accessed {*affordable and recommended fertilizers, chemicals and seeds*}?

***Often I do not have ready cash on hand to access the recommended fertilizers, chemicals and seeds.***

## QUESTIONNAIRE FOR BDS PROVIDERS (SUPPLY SIDE)

Respondent: *Dan Rodgers*  
Location: *Nairobi*  
Time in Business: *A.M*  
Telephone: *533477*

Date: *October 2001*  
Enumerator: *Todd & Njagi*  
Acts/Prod/Svc: *Selling of Seeds*  
Type of Business: *Seed Company*

**Service: .Access to affordable and recommended fertilizers, chemicals and seeds.**

Subsector Constraint: **High cost of inputs, i.e. seeds, pesticides and fertilizers for small-scale growers.**

1. How many provide [access to seeds] to [growers]? (get contact info)

***There are less than 10 large companies that provide seeds to growers directly, but there are hundreds of distributors and small-scale stockists who are located in all fresh vegetable growing areas.***

2. What small-scale growers (ss participant) do you provide [access to affordable and recommended seeds.] (service) to?

***We provide seeds to growers directly and also to exporters who in turn provide them to their contract growers.***

3. What constraints do you face in providing [access to affordable and recommended seeds} (service) to [small-scale growers](ss participant)?

- ***Small-scale growers not able to pay cash for seeds***
- ***Our seeds are sometimes mixed with low quality seeds and sold as high quality seeds.***

4. What support do you need to develop your capacity to address these constraints?

***Credit guarantee scheme for growers who wish to buy seeds directly from us.***  
***Capacity to package seeds in smaller containers to reduce risk of mixing by unscrupulous stockists.***  
***Capacity building of company's personnel to be able to train growers more effectively.***

5. Describe how you provide [access to affordable and recommended seeds] (service) to ***small-scale growers*** (ss participant)?

***We train growers on seed planting techniques, including seedbed preparation and transplanting before launching and selling any new seeds into the market. Training is provided to growers throughout the country.***

6. How do you cover your costs of providing *access to affordable and recommended seeds* (service) to ***small-scale growers*** (ss participant)?

***The company covers the cost of seeds through the normal financial transactions. The costs of training are, however covered as part of the company's operational costs. Training is viewed as necessary to promote the company's seeds to the growers.***

7. How many people do you think can use (and acquire/pay for) affordable and recommended seeds in the area you operate in?

***Most growers, especially the 50,000 small-scale growers of fresh vegetables for export would benefit from affordable high quality seeds and training to minimize low germination rates of poor quality seeds and thereby increasing their yields.***

## APPENDIX 3

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