

Making business service markets work for the poor in rural areas

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Introduction

➤ Recent DFID study

- Draws from international peer group & secondary sources
- Significance of business services in rural areas
- Relevance to other development fields
agriculture, rural livelihoods, non-farm rural economy etc
- Implications for BDS market development approach
- <http://bdsknowledge.org>

➤ Main findings

- Business services often a critical part of rural development
- Emerging market development imperative in many fields
- Challenges to & opportunities for more innovative interventions

1: Significance of business services in rural areas?

- Business-service related issues are prominent
 - Info, know-how, links, access... in a range of rural contexts *particularly agro-food, natural resource sub-sectors & value chains*
 - Simple businesses trying to engage with a complex world
 - Services exist, but access/coverage is often patchy

EXAMPLE	Average return / animal		
S African wool subsector	Commercial farmers	\$12.6	Access to specific services is a key determinant: - <i>genetics, husbandry, productivity</i> - <i>herd management practices</i> - <i>grading, labelling, auction</i> - <i>intermediation, brokering</i> - <i>representation</i>
	Emerging farmers	\$3.1	
	Marginal farmers	\$0.54	

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Are business services “different” in rural areas?

- Diversity is defining characteristic
 - Very context-specific, reflecting rural constraints
eg consumer profile, transaction cost barriers, nature of economic activity

Observations	
Overlap with other services	<i>agricultural, infrastructure, telecoms, transport, consumer services</i>
Relatively basic services	<i>pest control, email/phone access, equipment leasing, irrigation maintenance, dispute resolution</i>
Micro/informal providers	<i>paravets, “barefoot trainers”, retailers & traders</i>
Subsector “access” services	<i>reflecting rural dependency on narrow range of economic activities</i>
Embedded services	<i>info, extension, upgrading & standards compliance in supply-chains</i>
Collective mechanisms	<i>delivery/consumption via groups, media etc</i>

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Diverse actors, services and interests...

- Rallis, India
 - Ag input supply company
 - Soybean, vegetables, fruit
 - Subscription-based services
 - regular agronomist visits, credit facilitation, input supply and crop procurement for market partners*
 - 2002: 725 farmers, 5,000 acres
- CARE, CNFA, Zimbabwe
 - Promoting ag suppliers & retailers as service providers
 - inputs, credit, technical advice to meet market specifications & quality standards*
- Drishtee, India
 - From e-governance project
 - Fee-based services Rs 5-25
 - info (auction prices, govt progs), copies of land records, applications/registrations, grievance redress, auction services*
 - 31 kiosks, 600 villages (*pop. 0.5m*)
 - Franchising expansion (*50,000 kiosks*)
 - Commercial bank support
- Mali & Nicaragua
 - Rural utility providers promoting BDS

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Information, know-how, links and access...business services!

- Service-related constraints often an element of economic weakness in rural contexts
 - Hence multitude of interventions in rural areas
- But services often neglected by interventions
 - As a result of their non-conformity or diversity
 - Tendency to intervene directly to achieve short term impact... rather than stimulating appropriate and sustainable indigenous solutions that can adapt and evolve over time
 - This omission—lack of sustainability—ultimately undermines development of rural commercial systems
 - eg in agro-food supply chain interventions*

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2: Business service market development and other fields?

- Discernible overlap
 - Focus on services for business/income generation
agriculture, forestry, rural tourism, handicrafts etc
service and market orientation trends in infrastructure & utilities
 - Service market development is an emerging concern
- Overlap has become more evident with increasing rural subsector focus in SED/BDS

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Stimulating private sector service provision in agriculture

EXAMPLE Ag extension reform in Mali

Stages	
1. Failing public sector provision	<i>Aimed to encourage more private sector provision</i>
2. Tried direct contracting	<i>Found to be too rigid, private providers saw government as customer... not farmers</i>
3. Introduced voucher-based scheme	<i>\$17 / village; info on services & providers; villagers select providers & pay balance</i>
4. Outreach in 1999	<i>1,850 villages advised on poultry disease – 2.5m vaccinations 1,250 villages advised on goat disease – 15,000 vaccinations</i>
5. Market development?	<i>Consumer sovereignty, provider-consumer accountability, flexibility Average provider earnings \$740 Diversification of provider activities</i>
6. Critical success factors?	<i>Paravets able to sell drugs/supplies alongside services Collective mechanism for info & coordination Govt defined role clearly: limited finance, regulation, basic training/accreditation, key public-interest messages</i>

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Similar experiences and conclusions: a market development imperative

- Services seen as important, but...
- ... Disappointment with public service delivery
 - Problems with public interventions to date
 - Based on narrow analysis*
 - Unrealistic views of local systems, government & sustainability*
 - Unviable services and delivery mechanisms*
 - Inappropriate intervention approaches*
 - Views from the experts
 - "[Publicly-funded] services are routinely & justifiably criticised for their elite biases and their failures to work with the rural poor"¹*
 - "[Public] service delivery has become dependent on external aid and collapses when aid is withdrawn.. Increasing rather than reducing the dependency of marginalised communities"²*

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1: Christopolos; *Common Framework for Supporting Pro-poor Extension*; ODI (2002)

2: Katz; *Innovative Approaches to Financing Extension for Agriculture and Natural Resource Management*; LBL/SDC (2002)

Similar experiences and conclusions: a market development imperative

- Increasing recognition of need for a more systemic, market-oriented approach
 - Views from the experts (agriculture & livelihoods)
 - "The key operational dilemma... relates to the ability of public agencies accurately to identify, target and implement useful interventions in partnership with a range of other actors in ways that are non-distorting, market-oriented and capable of generating net benefits for the poor over the longer term"³*
 - "A more imaginative approach is needed, rooted in a stronger understanding of the importance and nature of institutional development in economic growth, with market development being one part of that institutional development."⁴*

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3: Joffe; *Stimulating Private Investment and Market Development for Agriculture*; OPM/DFID/WB (2003)

4: Dorward; *Critical Linkages: Livelihoods, Markets and Institutions*; Imperial College, Wye (2002)

Similar experiences and conclusions: a market development imperative

➤ Realism about the limits of intervention

- Greater pragmatism about what intervention can achieve
- Not neglecting marginalised groups, but differentiating business development from social or environmental protection
- Views from the experts

"Most rural Chinese will never be able to earn a living from the small plots of land they now farm and need to be freed to move from the countryside to the cities" ⁵

"The poor in these areas might be better served by policies relating to job information, identity cards, travel, accommodation, insurance and children's education which can improve the prospects for seasonal or permanent out-migration" ⁶

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5: UN, reported by BBC News/Business website (March 2004)

6: Deshingkar, *Farming and Market Exclusion in Andhra Pradesh and Madhya Pradesh*, (Forthcoming)

3. Implications for BDS market development approach?

➤ "Business services" as part of the economic picture in rural, marginalised areas

➤ More important: emerging focus on market development objectives & approaches

- "Making markets work for the poor", characterised by
 - Systemic views & objectives*
 - Careful understanding of institutional contexts*
 - Nuanced interpretation of different players*
 - Explicit view of sustainability from the outset*
 - Realistic, market-appropriate solutions consistent with local norms & resources*
 - Innovative, flexible interventions consistent with objectives*
- Opportunity for SED/BDS field to play an influential role

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The challenges

- **Market development synonymous with BDS?**
 - The term "BDS" is an obstacle to wider applicability
- **Gap between market development objectives & intervention practices**
 - **Right sizing:**
expectations, services & delivery mechanisms
"re-thinking the model" eg market information systems (FAO)
 - **Systemic objectives & approaches**
Particular implications for rural areas...multi-faceted, flexible interventions working with multiple partners... longer timeframes?

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Gap between objectives and current intervention thinking and practices

- **"Public good" starting point defers hard "right-sizing" decisions**
 - Ignores appropriateness & affordability issues
 - Rural services often overloaded with multiple objectives to address variety of constraints (basic education, environmental protection, health)
- **Continuing orientation towards organisations rather than systems**
 - Inappropriate, unviable services & providers from the outset
- **Heavy subsidies hinder real supplier-consumer relationships**
 - Undermine demand-responsive service provision: *"follow the money"* syndrome
- **Unclear view of future (who does what, who pays for what?)**
 - Failure to distinguish between "artificial" aid & local public funding
 - Unrealistic consideration of roles of different players in the market
- **Inflexible, cash-oriented & output-driven interventions (often via public/formal partners) unsuited to market development objectives**

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An agenda for change

- **Integrated PSD thinking & approaches**
 - Subsectors, services, policy & regulation, governance etc
 - Using market development framework for analysis & action
eg DFID Commark, Finmark, Propcom projects; Swisscontact Indonesia
- **Interaction across different fields**
 - Get out of our "boxes"... BDS, agriculture, finance, policy etc
- **Flexible intervention procedures, structures & practices...**
 - ... understanding, taking risks, innovating

Making markets work for the poor... leveraging market change to bring about broad-based, inclusive economic development